



## **Compliance Review 2010**

February 4, 2011

The Market Surveillance Administrator is an independent enforcement agency that protects and promotes the fair, efficient and openly competitive operation of Alberta's wholesale electricity markets and its retail electricity and natural gas markets. The MSA also works to ensure that market participants comply with the Alberta Reliability Standards and the Independent System Operator's rules.

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## Executive Summary

- In 2010 the MSA consulted with stakeholders to develop and implement a revised compliance process for both ISO rules and Alberta Reliability Standards matters.
- Greater self reporting prompted an increase in ISO rules matters addressed from 101 in 2009 to 141 in 2010.
- Despite increasing files reviewed in 2010, process refinements contributed to a significant reduction in average time to resolution of compliance matters.
- The MSA issued a record financial penalty to a single market participant comprised of 332 notices of specified penalty totaling \$655,000.
- The MSA issued 46 other notices of specified penalty totaling \$75,000. No notices of specified penalty issued in 2010 were disputed or remained unpaid.
- The AUC approved 7 MSA negotiated settlements applicable to ISO rules compliance in 2010 totaling \$26,000.
- The MSA addressed an additional 27 Alberta Reliability Standards matters in 2010, including the submission of mitigation plans in 19 cases.
- The MSA entered into a Services Agreement with WECC regarding monitoring of AESO for compliance with Reliability Standards.

## 1 Introduction

The mandate of the Market Surveillance Administrator (“MSA”) includes enforcement with respect to both ISO rules and Alberta Reliability Standards (“ARS”). The MSA works alongside the Alberta Electric System Operator (“AESO”), and the Alberta Utilities Commission (“AUC or Commission”) through interrelated processes beginning with compliance monitoring, following with the enforcement of non-compliance issues revealed through active monitoring and self reporting, and finally concluding with the adjudication or final resolution of matters, which together support and promote compliance with market rules and standards toward a well functioning market.

This report summarizes MSA compliance related activities during 2010 including various metrics readers should find informative regarding the range of compliance matters addressed and their outcomes. Through the year, compliance reporting appears in the MSA quarterly reports.

This report is organized as follows:

Section 2 provides an overview of key developments affecting compliance enforcement during 2010.

Section 3 provides a description of ISO rules compliance matters dealt with in 2010.

Section 4 provides a description of Alberta Reliability Standards matters dealt with in 2010.

Section 5 provides an outlook for 2011 MSA compliance priorities.

## 2 Overview

### 2.1 OVERVIEW – PROCESS REFINEMENTS

A key objective for the MSA in 2010 was to implement process efficiencies in order to effectively manage with current resources, both existing ISO rules compliance responsibilities and new compliance responsibilities regarding Alberta Reliability Standards. Towards this objective, a new MSA compliance process was developed in consultation with stakeholders during 2010. A final process document was published on August 11, 2010 and on October 25, 2010 consequential amendments were made to recognize the effective status of AUC Rule 027.

The approach taken was to provide incentives for participants to develop their own effective compliance programs and to self report suspected contraventions. In this regard, incentives include assured forbearance if stated criteria are satisfied, otherwise, favourable treatment if not all criteria are satisfied. The MSA has received questions of clarification on the interpretation of “favourable treatment”. In the MSA’s view, favourable treatment encompasses s. 4(3) of AUC Rule 019 which reduces a specified penalty otherwise applicable by 50 percent. In addition, favourable treatment means that a self reported matter will receive greater consideration for forbearance relative to a suspected contravention referred to the MSA by the compliance monitor. While forbearance is assured if stated criteria are satisfied, it cannot be assured otherwise.

Standard forms were developed and made available for purposes of self reporting to the MSA, for submission and status reporting of mitigation plans, and for the MSA’s issuance of specified penalty notices. Of the self reports received by the MSA during 2010 the majority utilized the standard form. The MSA has not been prescriptive in requiring use of the standard form, however, it is strongly encouraged as it assists participants in providing all relevant information regarding the matter and facilitates efficient review and evaluation by the MSA. In some cases, participants have provided a description of the event in the standard form and have appended a letter with further details. This should usually not be necessary but is encouraged in cases where there is a complex fact pattern requiring additional background information or supporting data.

The MSA has not been prescriptive in respect of who may submit a self report on behalf of an organization, however, s. 4.8.1 of the MSA Compliance Process notes that mitigation plans are to be signed by an authorized representative (i.e. Officer or Legal Counsel). While for practical purposes, it may be appropriate for organizations to assign authority for self reporting suspected compliance issues to a corporate compliance group or operations personnel, the MSA requires that mitigation plans be signed by a Corporate Officer or Legal Counsel given that a mitigation plan constitutes an undertaking of the organization.

With regard to Alberta Reliability Standards enforcement, the MSA entered into a services agreement with the Western Electricity Coordination Council (WECC), a U.S. based reliability organization, to assist the MSA with compliance monitoring of the AESO. While the AESO is the designated compliance monitor for all other registered entities, WECC takes on this role under the auspices of the MSA, with respect to the AESO itself. This arrangement allows effective monitoring and enforcement at a lower cost than alternative models.

The MSA has observed significant efforts by many participants in developing compliance programs and effective tools to support them. Among these efforts, numerous participants collaborated to form the Alberta Compliance Discussion Council (ACDC) – a compliance forum for sharing of views and best practices. Activity levels show that self reported matters exceeded referred compliance matters in 2010. In terms of efficiency, the MSA was able to process a greater number of files on a more timely basis (section 3.2) relative to 2009. For all of these reasons, the MSA views the implemented process refinements overall as having been effective.

## **2.2 OVERVIEW – STATUTORY CHANGES**

Refinements to AUC Rule 019 and the approval of AUC Rule 027 during 2010 should also bolster process efficiency going forward. AUC Rule 019 defines the process by which the MSA can issue a specified penalty for contravention of ISO rules. In 2009, the AUC began a consultation process with stakeholders that continued into early 2010 and concluded with AUC approval of a revised rule on March 23, 2010 (effective May 1, 2010). Among the changes, further ISO rules were added to the Category 1 and 2 penalty tables, and the Category 3 penalty table applicable only to ISO rule 6.6, was streamlined by implementing fixed penalty amounts in place of a variable penalty determination based on contravention magnitude and duration.

In the MSA's view, the further addition of ISO rules to the specified penalty tables by the AUC is a positive step. In cases where a minimal (i.e. \$500) penalty is deemed appropriate, specified penalties provide a mechanism to process such matters in an expedited manner rather than in all cases, pursuing the contravention through an administrative proceeding in order to achieve the same outcome. In other cases, while the rule at issue may be eligible for a specified penalty, the MSA can instead pursue the matter before the AUC if the MSA believes a more substantial penalty is warranted.

The MSA also saw as beneficial, changes in how notices of specified penalty are directed to participants. In practice, the MSA found it cumbersome to direct specified penalties to the highest levels of organizations however, the revised rule now directs specified penalties to the senior executive of the applicable business unit for first, second, and third contraventions within a 12 month period, and only to the most senior executive of the market participant for fourth and subsequent contraventions within a 12 month period.

AUC Rule 027 defines a comparable specified penalties framework to AUC Rule 019 as applicable to Alberta Reliability Standards. Approval of AUC Rule 027 on October 8, 2010 (for effect on November 1, 2010), followed an AUC stakeholder consultation process initiated in January 2010. In parallel to AUC Rule 019, AUC Rule 027 defines categories of effective reliability standards and applicable penalties for each. To date, the MSA has not issued a specified penalty for contravention of an Alberta reliability standard.

In its Bulletin 2010-31, the AUC outlined a process for requesting updates to the penalty tables in AUC Rule 019 and AUC Rule 027. The process contemplates that Stakeholders will advise the Commission in writing that an update is required. The Commission will consider and if necessary, consult with stakeholders on the implications of the proposed change. The outlined process is applicable to the addition of new or amended ISO rules and Alberta Reliability Standards to the penalty tables and to the removal of existing ISO rules and Alberta Reliability Standards from the penalty tables.

## 3 ISO rules Enforcement

### 3.1 ACTIVITY LEVELS – ISO RULES ENFORCEMENT

In 2010 the MSA addressed a total of 141 files, either through non administrative or administrative means. An additional 13 files remained under review at the end of 2010. Of the 125 files dealt with through non administrative means during 2010, 46 resulted in a notice of specified penalty<sup>1</sup> and 79 files resulted in forbearance. The issuance of fewer specified penalties in 2010 relative to files reviewed can be attributed to the substantial increase in self reported matters<sup>2</sup>. Ten of the remaining files were addressed through administrative means resulting in 7 AUC approved administrative settlements in respect of ISO rules compliance.<sup>3</sup> The other 6 files were initially flagged for administrative penalty but were ultimately resolved with the issuance of 332 notices of specified penalty. Due to the unique nature of these files, they are excluded from the statistical reporting unless noted otherwise. No participants disputed or failed to pay a notice of specified penalty in 2010.

For comparison purposes, of the 101 files addressed in 2009, 57 files resulted in a notice of specified penalty with the remaining 35 resulting in forbearance with 16 files being pursued for administrative penalties. Figure 1 shows a comparison of addressed files during 2009 and 2010.

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<sup>1</sup> For purposes of this document specified penalties are distinguished from administrative penalties issued by the AUC.

<sup>2</sup> The MSA compliance process assures forbearance where self reported matters satisfy stated criteria.

<sup>3</sup> One of the 7 administrative matters addressed 3 MSA files, and another of the 7 administrative matters addressed 2 MSA files.

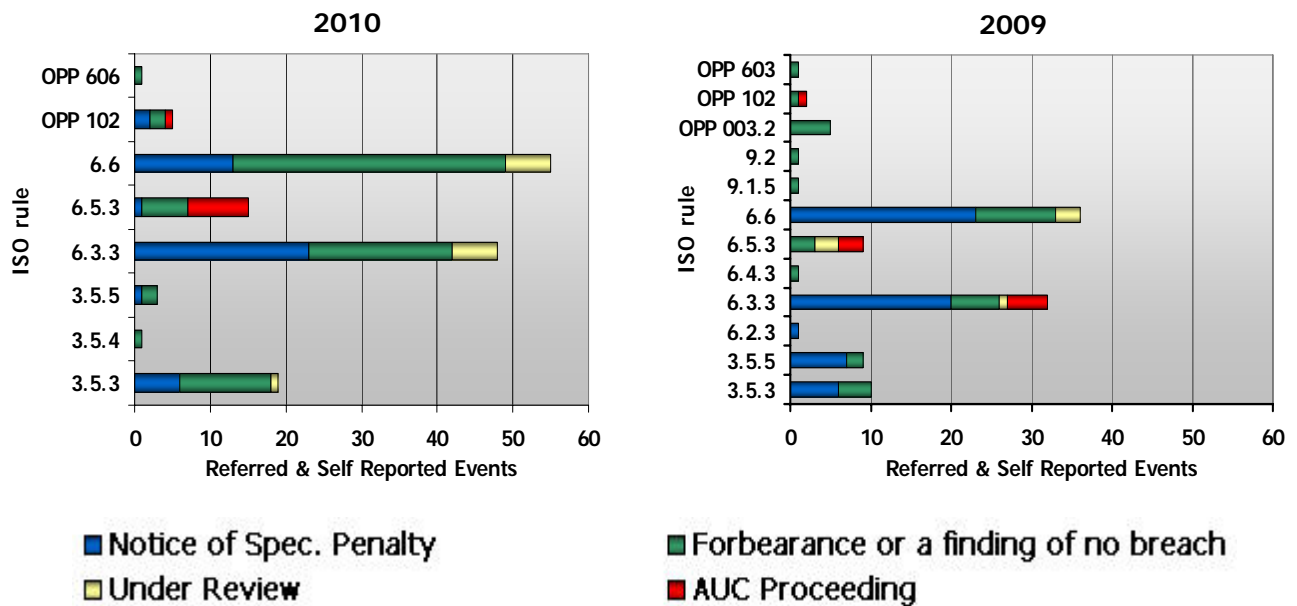


Figure 1 – Comparison of Addressed ISO Rule Files



Figure 2 provides a break down by rule of the MSA’s ISO rules compliance activities during 2009 and 2010. In 2009, a modest number of events related to rules not routinely contravened while in 2010, the MSA saw fewer such matters.

Figure 2 - Compliance Files by ISO rule as of the end of 2010 and 2009



The monitoring of ISO rules continues to be a collaborative process between the AESO and the MSA. Previously, the majority of suspected ISO rule contraventions were referred to the MSA from the AESO. However this year, due to the MSA’s self reporting initiative, a new trend has emerged. During 2010 the preponderance of files were self reported by market participants. The MSA may also identify and pursue rule contraventions from its own internal market monitoring activities and co-ordinates with AESO compliance monitoring in any such cases to avoid duplication of effort.

Market participants should be aware that discrepancies will result from the different ways in which the AESO and MSA track compliance matters and construct compliance metrics that are not solely due to the existence of self reports. When the MSA receives a referral or a self report the MSA assigns a file number. A single referral or self report may include a number of suspected contraventions. Should a referral / self report result in more than one contravention being assessed the MSA will assign a separate file number for each (for use on the applicable notice of specified penalty).

Table 1 provides a breakdown by contravention month for all ISO rules compliance matters processed or remaining under review at the end of 2010. Contravention dates for the 46 notices of specified penalty for 2010 ranged from August 2009 through to September 2010. Twenty-three of these contraventions applied to ISO rule 6.3.3, while another 13 applied to ISO 6.6. All of the notices of specified penalty issued during Q4/10 related to matters referred to the MSA by the AESO.

**Table 1: 2010 Compliance Files by Month of Contravention**

	Rule	2009					2010											Total		
		Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov		Dec	
Under Review	6.6													1				5	6	
	3.5.3																		0	
	3.5.5																		0	
	6.3.3																	6	6	
	6.5.3																	1	1	
	OPP 102																			0
	OPP 606																			0
<b>Total</b>																			<b>13</b>	
NSP	6.6		4	1		1	3	1	2		1								13	
	3.5.3					1		2	1		1		1						6	
	3.5.5			1															1	
	6.3.3	2	1		1	5		1		2	6	1	2	2					23	
	6.5.3												1						1	
	OPP 102													2					2	
	OPP 606																			
<b>Total</b>	<b>2</b>	<b>5</b>	<b>2</b>	<b>1</b>	<b>7</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>8</b>	<b>1</b>	<b>4</b>	<b>2</b>	<b>2</b>				<b>46</b>		
Forbearance	6.6					3		2	6	1	2	2	2	7	4	7			36	
	3.5.3									4	1	2	2	1	2				12	
	3.5.4														1				1	
	3.5.5							1					1						2	
	6.3.3							1	2	2	2		1	3	1	5	2		19	
	6.5.3	1							1		1			1		2			6	
	OPP 102									1							1		2	
OPP 606								1										1		
<b>Total</b>	<b>1</b>	<b>1</b>			<b>3</b>		<b>4</b>	<b>10</b>	<b>4</b>	<b>9</b>	<b>3</b>	<b>3</b>	<b>6</b>	<b>10</b>	<b>7</b>	<b>16</b>	<b>3</b>	<b>79</b>		

Table 2 provides additional detail for each notice of specified penalty issued. As of the end of 2010, all 46 notices of specified penalty noted in section 1 had been paid (totaling \$75,000). In addition, during Q3/10, the MSA issued a record financial penalty to a single market participant comprised of 332 notices of specified penalty (totaling \$655,000); this penalty is included within Table 2. In addition to specified penalties outcomes, Table 2 also summarizes the outcomes of matters resolved through an administrative proceeding (financial penalties totaling \$ 26,000) during 2010.

**Table 2 - Notices of Specified Penalty and Administrative Penalties Issued in 2010 for Contravention of ISO Rules**

Market Participant	Rule	Number of Breaches	Total Specified Penalties	Total Administrative Penalties
AirLiquide Canada Inc.	6.6	1	\$ 1,500	
Altogas Limited Partnership (Decision 2010-540)	6.5.3	3		\$ 2,000
ATCO Power Canada Ltd. (Decisions 2010-330 & 2010-337)	6.5.3	3		\$ 1,500
ASTC Power Partnership (Decision 2010-150)	6.5.3	1		\$ 500
Canadian Gas & Electric Inc.	6.6	1	\$ 1,500	
Canadian Hydro Developers Inc.	6.6	1	\$ 1,500	
Canadian Natural Resources Ltd.	6.6	2	\$ 4,000	
Capital Power Marketing L.P.	6.3.3	2	\$ 1,500	
Cargill Energy Trading Canada	6.3.3	4	\$ 3,500	
Cenovus Energy Inc.	3.5.3	1	\$ 500	
Dow Chemical Canada	6.6	1	\$ 1,500	
ENMAX Energy Marketing Inc.	6.3.3	1	\$ 250	
ENMAX PPA Management Inc.	6.6	1	\$ 1,500	
Irrigation Canal Power Cooperative Ltd.	3.5.3	1	\$ 500	
The Manitoba Hydro-Electric Board	6.3.3	1	\$ 500	
MEG Energy Corp.	3.5.3	3	\$ 4,500	
Morgan Stanley	6.3.3	5	\$ 15,000	
Nexen Inc. / EnCana Corporation	3.5.5	1	\$ 2,000	
NorthPoint Energy Solutions	6.3.3	332	\$ 655,000	
Powerex Corp.	6.3.3	4	\$ 10,000	
Sempra Energy Trading LLC	6.3.3	2	\$ 2,000	
Syncrude Canada Ltd.	6.6	3	\$ 9,000	
Syncrude Canada Ltd. (Decision 2010-502)	OPP 102	43		\$ 21,500
Talisman Energy Inc.	6.6	1	\$ 2,000	
Talisman Energy Inc.	OPP 102	2	\$ 1,500	
TransAlta Energy Marketing Corporation	6.3.3	3	\$ 6,000	
TransAlta Energy Marketing Corporation (Decision 2010-476)	6.5.3	1		\$ 500
TransAlta Generation Partnership	3.5.3	1	\$ 250	
TransAlta Generation Partnership (Decision 2010-474)	6.5.3	2	\$ 500	\$ 500
TransCanada Energy Ltd.	6.6	2	\$ 3,000	
TransCanada Energy Sales Ltd.	6.3.3	1	\$ 1,000	
<b>Total</b>		<b>430</b>	<b>\$ 730,000</b>	<b>\$ 26,500</b>

### 3.2 PERFORMANCE MEASURES - 2010 COMPLIANCE ACTIVITIES

Suspected contraventions of ISO rules typically follow the MSA's expedited process provided that the ISO rule at issue is eligible for a specified penalty in AUC Rule 019. In cases where the ISO rule at issue is not

eligible for a specified penalty or when the MSA believes a matter is more appropriately addressed through an administrative process, an extended review process is applied leading either to a negotiated settlement or to an application for hearing before the AUC. In either circumstance, the outcome is at the discretion of the AUC.

During 2010, for matters following the expedited process for specified penalties, the processing of a suspected contravention concluded on average within 76 days (date of the event to the date of letter issuance of either a specified penalty or a forbearance letter). That total is broken down into an average of approximately 52 days from the date of the event to the date of referral by the AESO (or date of self report) (vs. 83 days in 2009) and 24 days from the time the MSA received a referral from the AESO (or self report) to the date of issuance (vs. 50 days in 2009).

The difference between the average (mean) and median time for addressing a file was larger in 2010 compared to 2009, (76 days vs. 42 days, compared to 133 days vs. 139 days in 2009). This change can be attributed to the MSA's efforts to ensure the majority of self reported events reached completion within 30 days of receipt. In 2010, 78% of all self reported matters were resolved by the MSA within 30 days of receipt, as compared to 24% in 2009 resulting in a substantial improvement in timeliness.

On average, compliance matters resulting in the issuance of a notice of specified penalty (132 days) took approximately 13 weeks longer than matters concluding with a notification of forbearance (44 days). Most of this difference is attributable to the turn around time of self reports.

Table 3 provides a more detailed breakdown of 2010 processing metrics categorized by ISO rule. As noted previously, the 332 notices of specified penalty issued in Q3/10 are excluded from the timeliness statistics. Furthermore, administrative penalty settlements are also excluded. Given the small number instances of potential breaches for some rules during 2010, differences should be interpreted with caution. The MSA does believe there are significant learning economies for complex rules (i.e. the typical processing time for the MSA diminishes the more breaches we see of a given type) but this is not obvious even in the disaggregated statistics presented below.

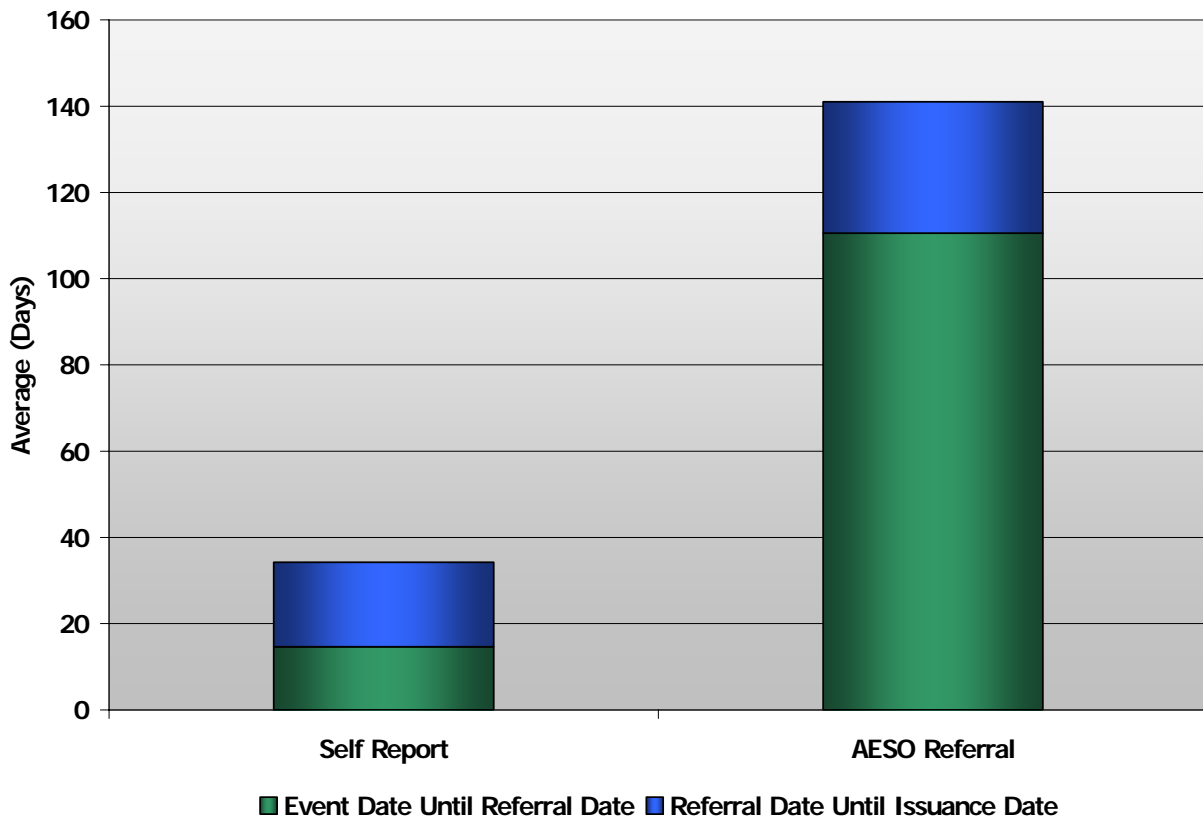
**Table 3 - Timeliness of Compliance Event Resolution (Average Days)**

	Event Date to Referral Date [A]			Referral Date to Issuance Date [B]			Event Date to Issuance Date [C] = [A] + [B]		
	NSP	Forbearance	All files	NSP	Forbearance	All files	NSP	Forbearance	All files
<b>3.5.3</b>	71.3	10.5	30.8	34.2	19.1	24.1	105.5	29.6	54.9
<b>3.5.4</b>	N/A	4.0	4.0	N/A	14.0	14.0	N/A	18.0	18.0
<b>3.5.5</b>	132.0	3.0	46.0	15.0	89.0	64.3	147.0	92.0	110.3
<b>6.3.3</b>	118.7	13.7	71.2	26.8	13.5	20.8	145.5	27.3	92.0
<b>6.5.3</b>	103.0	46.2	54.3	45.0	36.2	37.4	148.0	82.3	91.7
<b>6.6</b>	88.8	28.6	44.6	35.5	18.2	22.8	124.2	46.8	67.3
<b>OPP 102</b>	79.5	6.0	42.8	14.0	15.0	14.7	54.2	21.0	41.0
<b>OPP 606</b>	N/A	110.0	110.0	N/A	30.0	30.0	N/A	140.0	140.0
<b>Average</b>	<b>102.3</b>	<b>23.1</b>	<b>52.2</b>	<b>29.8</b>	<b>20.4</b>	<b>23.8</b>	<b>132.1</b>	<b>43.5</b>	<b>76.1</b>

The metrics shown in Table 3 include both referrals from the AESO and self reports received directly from market participants. Of the 87 self reports processed in 2010, 85 resulted in a forbearance letter and 2 resulted in notices of specified penalty. Of the two self reported matters receiving a specified penalty, one was reported prior to the MSA's self-reporting initiative while the other did not satisfy the MSA's stated criteria assuring forbearance. Self reports of rules compliance matters were distributed across 18 market

participants<sup>4</sup>. The proportion of self reported compliance matters in 2010 was a significant factor in timelier resolutions. The average length of time for the file to be received by the MSA after the date of contravention was 15 days for a self report as opposed to 111 days for a referral from the AESO (all files averaged approximately 52 days as per Table 2). This difference is a function of the AESO referral process which includes a number of steps (defined in ISO rule 12) that are not part of a self report. This typically includes an initial screening process, preliminary assessment, and time for information request and response. Figure 3 compares the timeliness of self reports to referrals in 2010. Time taken to bring a matter to resolution is dependant upon the complexity of the suspected contravention, how the matter is received, and the applicable process.

**Figure 3: Timeliness of Self Reports vs. Referrals**



### 3.3 2010 COMPLIANCE TRENDS

As was the case in 2009, approximately three quarters of the notices of specified penalty issued in 2010 concerned two ISO rules: rule 6.6, and rule 6.3.3. Given this we think it appropriate to provide some further insights on the types of contravention seen in these two areas.

<sup>4</sup> For purposes of this calculation, self reports were aggregated by organization.

### 3.3.1 ISO rule 6.3.3

ISO rule 6.3.3 - Interconnection Dispatching, describes the conduct expected of importers and exporters when scheduling and offering (bidding) an import (export). Excluding the extraordinary issuance of the 332 notices of specified penalty, the MSA issued 23 notices of specified penalty for contravention of ISO rule 6.3.3 in 2010 and extended forbearance in 19 other cases. Of the 23 notices of specified penalty issued in 2010, 59 percent were issued for contraventions where the sum of e-tag quantities did not correspond to the Available Capability (AC) declared at T-2 for the import or export asset. The remaining 41 percent were issued for contraventions where the AC was restated up or down within the T-2 window. Of the 332 notices of specified penalty issued to one participant in Q3/10 all were contraventions of ISO rule 6.3.3 where the AC was restated within the T-2 window.

Contraventions typically follow one of three fact patterns:

- The e-tag quantities do not correspond to the AC declared at T-2 for the import or export asset.
- The AC is restated up in volume within T-2 without direction from the system controller.
- The AC is restated down within T-2 without an acceptable operation reason.

### 3.3.2 ISO rule 6.6

ISO rule 6.6 - Pool Participant Non-Compliance with Energy Market Dispatches, was revised during 2009. The revised rule, effective September 1, 2009, added complexity to compliance monitoring, and contributed at least initially, to the time taken to consider suspected contraventions.

During 2010, the MSA issued 13 notices of specified penalty for ISO rule 6.6 contraventions. 46 percent of these contraventions resulted from generating outside the allowable dispatch variance (ADV) in steady state (rule 6.6.2). An additional 39 percent of the instances resulted from failure to move toward the new dispatch level within 10 minutes (rule 6.6.3). The remaining 15 percent were for not ramping with the required parameters (rule 6.6.3). In addition to the 13 matters resulting in issuance of specified penalties during 2010, the MSA extended forbearance in 35 other instances concerning ISO rule 6.6. These 35 forbearances were all self reported to the MSA.

## 3.4 ADMINISTRATIVE PROCEEDINGS

During 2010 the AUC rendered 7 decisions approving negotiated settlements between the MSA and various market participants regarding ISO rules compliance matters. These applications were filed as per s. 44 of the *Alberta Utilities Commission Act* ("AUCA").

Six out of the 7 approved settlements related to ISO rule 6.5.3 – Ancillary Service Expectations. These matters were dealt with through administrative means solely because a specified penalty was not defined for this rule. As none of the 6 matters relating to rule 6.5.3 were deemed by the MSA to warrant a penalty different from prevailing specified penalties for other rules, settlements of these matters were negotiated on the basis that an administrative penalty equivalent to a category 2 specified penalty, in each case, was appropriate. The one remaining matter concerned multiple breaches of a rule identified in the AUC penalty matrix.

One of the 7 approved settlements was initially returned to the MSA based upon the AUC declining to grant a request for confidentiality. This matter was subsequently refiled without the request for confidentiality and approval was granted. One additional matter was also initially filed with a request for confidentiality. This request was also declined and returned; however, it was dealt with by other means.

The basis of these requests for confidentiality was that the settlement agreement contained privileged content. Accordingly, the MSA requested they not be filed on the public record unless approved by the Commission, and, in the event the Commission did not grant the requested confidentiality, the MSA requested the Commission grant leave for the MSA to withdraw the confidential materials. These matters prompted an AUC consultation on settlement agreements filed by the MSA to consider whether there is a basis for settlement privilege until a settlement is approved. Submissions from market participants and the MSA are available on the Market Consultations section of the AUC website. The MSA looks forward to clearer guidance concerning confidentiality in regards to negotiated settlements.

## 4 Alberta Reliability Standards Enforcement

With enactment of the *Electric Statutes Amendment Act* in 2009 and related changes to Sections 39, 51, and 52 of the AUCA, the MSA gained responsibility for compliance enforcement of Alberta Reliability Standards. As at the end of 2010, the AUC has approved 34 reliability standards as applicable in Alberta - 10 of which are applicable to registered entities other than the AESO and 33 of which are applicable to the AESO itself.

### 4.1 MONITORING AND ENFORCEMENT FOR REGISTERED ENTITIES

Participants subject to any Alberta Reliability Standards register with the AESO as Registered Entities according to the AESO Functional Model. The AESO is the compliance monitor with respect to registered entities and carries out its compliance monitoring mandate via ISO rule 12 and the AESO Compliance Monitoring Plan (CMP). The CMP describes the monitoring approach including how suspected contraventions of ARS will be referred to the MSA.

### 4.2 MONITORING AND ENFORCEMENT FOR AESO

The MSA is responsible for enforcement regarding compliance with Alberta Reliability Standards by the AESO as well as Registered Entities. While compliance monitoring of Registered Entities is conducted by the AESO through its functional model and related processes, compliance monitoring of the AESO will be carried out by the MSA with assistance of WECC<sup>5</sup>.

During 2010, the MSA and WECC jointly developed an implementation plan for reliability standards monitoring of the AESO. The implementation plan directs that the AESO will self certify compliance to the ARS it is subject to in accordance with Cycle 2 of the self certification calendar contained in the AESO CMP. The implementation plan also anticipates a reliability standards audit of the AESO conducted by WECC in Q4, 2011. To the extent WECC and the MSA deem appropriate, the compliance monitoring program applied to the AESO will align with the AESO-developed CMP, however, WECC and the MSA reserve the discretion to deviate from the CMP as the MSA deems appropriate.

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<sup>5</sup> The MSA and WECC formalized this arrangement in a Services Agreement dated April, 2010.

### 4.3 ACTIVITY LEVELS - ARS

2010 was a challenging year in which the AESO expended significant efforts to develop and refine its functional model and related compliance processes and in so doing, consulting with stakeholders on several occasions. As such no referrals flowed from AESO to the MSA this year. All 27 matters dealt with in 2010 were self reports concerning 7 Alberta Reliability Standards (ARS). Thirteen of the 27 self reports concerned ARS CIP-001-AB-1: Sabotage Reporting. The majority of the self reports regarding this CIP standard reported that existing written procedures required revision in order to be compliant with the standard. Many entities had pieces of the relevant procedures in place. Table 3 illustrates the break down of the self reports by ARS.

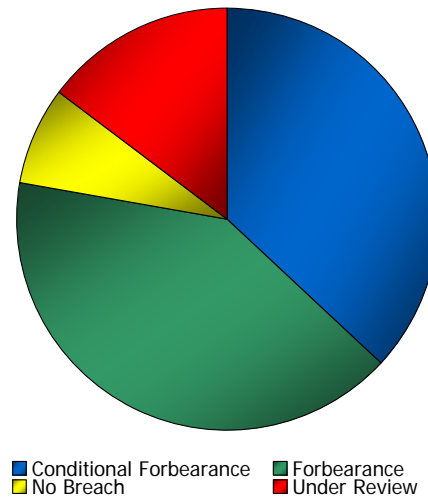
**Table 3: Alberta Reliability Standard Self Reports by Standard as of the end of 2010**

Alberta Reliability Standard	Count
CIP-001-AB-1	13
EOP-003-AB-1	2
EOP-004-AB-1	2
FAC-003-AB-1	4
PRC-001-AB-1	3
PRC-004-WECC-AB-1	1
TOP-005-AB-1	2
<b>Total</b>	<b>27</b>

All self reported ARS events in 2010 had one of three outcomes:

- Conditional forbearance pending completion of an a mitigation plan accepted by the MSA
- Forbearance
- Finding of no breach



**Figure 4: Alberta Reliability Standard Self Report Outcomes**

Mitigation plans were submitted for 19 of the 27 matters, 6 of these mitigation plans had been completed at the time of the self report. Ten of the 27 events received conditional forbearance pending the completion of a mitigation plan. In addition, four matters were still under review, 10 matters received forbearance with no conditions while two matters received a finding of no breach. Regarding findings of no breach, in one matter, the self report related to an event driven standard requirement and no event had occurred. In the second matter the self report related to a standard requirement triggered by an AESO request. In this case the AESO made no request. The quality of mitigation plans submitted to the MSA ranged from exceptional to inadequate but was considered high on average. In the small number of cases where a submitted plan was considered inadequate, the MSA provided feedback to the party and in each case, the plan was accepted upon re-submittal.

## 5 Outlook

In 2011, the MSA expects the flow of compliance matters to grow in view of a more established compliance monitoring framework around the Alberta Reliability Standards including expected auditing of registered entities by the AESO which may identify suspected contraventions and hence referrals to the MSA. As well, with the AESO scheduled for self certification in Q2/11, and scheduled for a reliability standards audit in Q4/11, additional matters may flow to the MSA for consideration. However, the MSA aims to maintain timely resolution of compliance matters reported or referred.

The MSA further expects during 2011 to develop a strategic enforcement plan. Such a plan is expected to better articulate the MSA's enforcement focus toward ensuring the most critical rules are attracting appropriate scrutiny and problematic rules are identified and addressed.

The MSA looks forward to working with stakeholders in 2011 toward our joint objective of ensuring an effective and reliable wholesale electricity sector in Alberta.

## References

### **AESO**

Alberta Reliability Standards

<http://www.aeso.ca/rulesprocedures/17004.html>

ISO rules

<http://www.aeso.ca/rulesprocedures/9050.html>

### **Alberta Utilities Commission**

AUC Consultation on Market Surveillance Administrator Settlement Agreements

<http://www.auc.ab.ca/market-oversight/market-consultations/Pages/default.aspx>

### **Legislation**

Alberta Utilities Commission Act

[http://www.qp.alberta.ca/574.cfm?page=A37P2.cfm&leg\\_type=Acts&isbncln=9780779751396](http://www.qp.alberta.ca/574.cfm?page=A37P2.cfm&leg_type=Acts&isbncln=9780779751396)

Electric Statutes Amendment Act (2009)

[http://www.qp.alberta.ca/546.cfm?page=CH44\\_09.CFM&leg\\_type=fall](http://www.qp.alberta.ca/546.cfm?page=CH44_09.CFM&leg_type=fall)

### **MSA**

MSA Compliance Process

<http://albertamsa.ca/uploads/pdf/Compliance/Compliance%20Process%20102510.pdf>

MSA Compliance Review 2009

[http://www.albertamsa.ca/files/2009\\_Compliance\\_Review\\_012910%281%29.pdf](http://www.albertamsa.ca/files/2009_Compliance_Review_012910%281%29.pdf)

MSA WECC Services Agreement

<http://albertamsa.ca/index.php?page=notice-re-msa-wecc-services-agreement---monitoring---reliability-standards-compliance>





The Market Surveillance Administrator is an independent enforcement agency that protects and promotes the fair, efficient and openly competitive operation of Alberta's wholesale electricity markets and its retail electricity and natural gas markets. The MSA also works to ensure that market participants comply with the Alberta Reliability Standards and the Independent System Operator's rules.