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MSA GUIDELINE

MSA Guideline: Intertie Conduct

14 July, 2008

MARKET SURVEILLANCE
ADMINISTRATOR

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1 INTRODUCTION

This guideline has been made in relation to powers given to the MSA under Section 39(4) of the *Alberta Utilities Commission Act*. MSA guidelines are established to support the *fair, efficient and openly competitive* operation of the electricity and natural gas markets. Guidelines must be made public. In establishing guidelines the MSA follows its published Stakeholder Consultation Process.

1.1 Guidelines are not market rules

Guidelines are not market rules but should be interpreted as representing the MSA views. Market participants not following MSA guidelines may find themselves under scrutiny for failing to support the *fair efficient and openly competitive* operation of the market. In making a decision under Section 56 of the *Alberta Utilities Commission Act* the Commission may take into consideration any guidelines made by the MSA.

1.2 Participants seeking further clarification

Participants seeking further clarification on MSA guidelines should contact the MSA. The MSA may issue additional clarification on a pre-existing guideline through a notice or, if a material change to the existing guidelines is warranted, seek to address this through its public Stakeholder Consultation Process.¹

1.3 Conduct suspected to be contrary to MSA guidelines or fair, efficient and open competition

Market participants suspecting conduct has occurred that is contrary to MSA guidelines or is otherwise not supportive of a *fair, efficient and openly competitive* market should bring that conduct to the attention of the MSA. The procedure for making a formal complaint or referral is described in the MSA's Investigation Procedures.

1.4 Application of this guideline

This guideline applies only to 'electricity market participants' as defined in the *Alberta Utilities Commission Act*. For the remainder of this guideline, references to 'market participants' should be interpreted as meaning 'electricity market participants'.

¹ Section 8(1) of the Market Surveillance Regulation requires that the MSA must consult with participants on any new guidelines it develops or any existing guideline it decides to change materially.

2 MSA GUIDELINE

Section 6 of the *Electric Utilities Act* requires that market participant conduct supports the *fair, efficient and openly competitive operation* of the market. In meeting this requirement when considering importing or exporting the MSA believes market participants should adhere to the following guideline:

- 1) **Market participants should not engage in:**
 - i) **transactions for which the primary benefit is derived from altering market price; and**
 - ii) **the systematic or regular use of uneconomic flows on an intertie that results in a material impact on pool price and/or the *fair, efficient and openly competitive* operation of the market.**
- 2) **Market participants considering an import / export should have a reasonable expectation at the time the transaction is entered into that the transaction as a whole will be economic.**
- 3) **The MSA expects:**
 - a) **market participants' import and export activity should normally be economic versus the next best market alternative (by opportunity cost). Market participants should make reasonable efforts to seek more economic alternatives to importing or exporting, including but not limited to:**
 - (i) **Contacting potential bilateral counterparties; or**
 - (ii) **Posting on an exchange.**
 - b) **market participants' import and export activity should, absent transmission constraints, normally close (rather than widen) arbitrage opportunities.**
- 4) **Market participants should retain records sufficient to establish:**
 - a) **the time and extent of efforts made in examining market alternatives.**
 - b) **the participant's expectations of price at the time the transaction was entered into.**
 - c) **the extent to which 'seams' issues (such as the costs of abrogating a contract in an adjacent market) factor into a market participant's choices on intertie flow.**

A portfolio strategy which relies upon manipulation of pool price to be successful is not legitimate, and undermines the fairness and efficiency of the market.

The MSA views all manipulative activity, whether the result of uneconomic flows on the intertie or from other sources (including in-province generation or load), as harmful to fair, efficient and open competition.

The MSA provides the following specific examples relating to intertie conduct:

- a) Example of conduct contrary to FEOC: A market participant arranges their portfolio to be systematically short/long and then boosts the value of that portfolio by using uneconomic imports/exports to manipulate pool price down/up - the volumes of import/export settle at a loss while the value of the participant's overall portfolio is enhanced. Manipulation of pool price is not considered a legitimate strategy for addressing a portfolio issue, howsoever created.
- b) Example of conduct contrary to FEOC: Market participant A enters into a trade with Market Participant B on the expectation or condition that there will be a physical import / export flow on the intertie. The conduct may be inconsistent with the *fair, efficient and openly competitive* operation of the market if either participant is engaging in uneconomic activity in order to gain from the manipulation of the pool price.

Market participants whose expectations change are free to amend or counterflow a prior transaction but must comply with all market rules.

Import and export transactions that appear uneconomic on an ex-post basis are likely to be the subject of MSA scrutiny.

In making this guideline the MSA acknowledges:

- Some uneconomic activity may result due to inadvertence. A market participant claiming inadvertence is unlikely to convince the MSA where there is evidence of regular or systematic uneconomic activity.
- Efficient intertie activity, at best, will arbitrage adjacent markets to within the costs of transmission.
- The complexity of intertie transactions warrants the MSA examining apparently uneconomic flows on a case by case basis.

3 EXPIRATION OF GUIDELINE

This guideline replaces guidance given to market participants in a Notice to: Market Participants Re: Intertie Conduct, dated July 28, 2005.

4 COMING INTO FORCE

This guideline comes into force on **14 July, 2008**

Notice issued by
MARKET SURVEILLANCE ADMINISTRATOR

Per: _____
Martin J. Merritt,
Market Surveillance Administrator.
