



Compliance Review 2012

February 20, 2013

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

The Market Surveillance Administrator (“MSA”) is satisfied that the compliance process is working quite well in promoting compliance with ISO rules and reliability standards as evidenced by the trend in self-reporting, although the process for Alberta Reliability Standards matters continues to evolve.

While the MSA does not mandate the form of participants’ compliance programs, the MSA considers whether participants/entities are addressing the root cause of issues in its assessment of compliance matters to determine whether issues constitute a recurring problem.

The MSA addressed nearly 470 compliance matters during 2012 relating to both ISO rules and Alberta Reliability Standards. Robust self-reporting underpinned the continued growth in ISO rule matters addressed from 248 in 2011 to 420 in 2012. Self-reports accounted for 352 of the ISO rule matters addressed in 2012.

The MSA issued 64 notices of specified penalty in relation to ISO rule matters, equating to \$107,250 in financial penalties. Of the 64 specified penalties issued relating to ISO rule matters, none were disputed or remained unpaid. During 2012, none of the ISO rules or Alberta Reliability Standards files addressed required an administrative process for resolution.

The MSA addressed 48 Alberta Reliability Standards matters in 2012, 34 of which were issued a notification of either conditional or unconditional forbearance on the basis of self-reporting and appropriate mitigation. A further seven matters were deemed non-breaches.

The first issuance of a specified penalty in relation to non-compliance with an Alberta Reliability Standard was seen in 2012. The MSA issued seven notices of specified penalty in relation to Alberta Reliability Standards compliance in 2012, equating to \$35,000 in financial penalties. Of the seven specified penalties issued, none were disputed or remained unpaid.

The MSA requested amendments to AUC Rule 019; subsequently, revisions were made effective on January 8, 2013 and again on February 1, 2013 following an AUC consultation process.

1. Introduction

The MSA's mandate includes enforcement with respect to both ISO rules and Alberta Reliability Standards. The MSA initiates enforcement action as appropriate in relation to referred and self-reported non-compliance with ISO rules or Alberta Reliability Standards and works cooperatively with the Alberta Electric System Operator ("AESO") and the Alberta Utilities Commission ("AUC" or "Commission"), given their respective mandates of monitoring and adjudication. The AESO has a mandate to monitor market participants / registered entities in respect of their compliance with the rules and reliability standards. Suspected non-compliance discovered through monitoring activities is referred to the MSA for possible enforcement action. Participants can also report events of non-compliance. Finally, the AUC is the adjudicator for the final resolution of compliance matters. AUC Rules facilitate an expedited process of enforcement through specified penalties. While such penalties are issued at the discretion of the MSA, participants have recourse to dispute specified penalties before the AUC.

Penalties may be necessary and appropriate in certain circumstances to remind participants of their obligations and to promote good compliance practices, however, the MSA is committed to working with participants in a cooperative fashion to resolve their compliance issues. Where non-compliance stems from a lack of clarity in language or expectations, the MSA has and will continue working to correct these situations.

This report is prepared as part of the MSA's ongoing commitment to transparency and to assist market participants and stakeholders in achieving a culture of compliance. The report summarizes MSA compliance-related activities during 2012, including metrics readers should find useful regarding the range of compliance matters addressed and their outcomes. Through the year, interim compliance reporting and commentary appears in the MSA quarterly reports.

This report is organized as follows:

- Section 2 provides an overview of key developments affecting compliance enforcement during 2012.
- Section 3 provides a description of ISO rule compliance matters dealt with in 2012.
- Section 4 provides a description of Alberta Reliability Standards compliance matters dealt with in 2012.

2. Statutory Developments

A push toward completion of the AESO's Transition of Authoritative Documents (TOAD) project in 2012 along with ongoing review and approval of new Alberta Reliability Standards prompted changes relevant to compliance enforcement that are expected to take effect in early 2013.

2.1 AUC Rule 027

In Bulletin 2012-15, the AUC initiated a consultation process in respect of its Rule 027 (Specified Penalties for Contravention of Reliability Standards). Bulletin 2012-15 invited stakeholder comment on AUC-proposed changes to Rule 027 – primarily penalty table changes to recognize new reliability standards approved as effective in Alberta since Rule 027 became effective as well as updates to other existing standards resulting in the approval of new standard versions. Table 2.1 summarizes the AUC's proposed amendments to the Rule 027 penalty tables:

Table 2.1: Proposed Amendments to AUC Rule 027

Penalty Table Category	Standard Version Updates	Standard Additions
Category 1	PRC-004-AB1-1; PRC-004-WECC-AB1-1; PRC-021-AB1-1	PRC-004-AB1-1 (R4); PRC-018-AB-1
Category 2	none	BAL-004-AB-1 (R1); BAL-004-WECC-AB-1
Category 3	PRC-001-AB1-1; PRC-004-AB1-1 (R1)	BAL-002-AB-1 (R2-R6); BAL-STD-002-AB-0; EOP-001-AB-2b (R2-R10); IRO-001-AB1.1
Category 4	none	none
Category 5	EOP-004-AB1-1; FAC-003-AB1-1; TOP-005-AB1-1	none
Category 6	FAC-501-WECC-AB1-1	FAC-010-AB-2.1 (R1, R3-R6)
Category 7	none	BAL-004-AB-1 (R2)
Category 8	CIP-001-AB1-1	none
Category 9	EOP-003-AB1-1; FAC-003-AB1-1 (R1-R2)	BAL-002-AB-1 (R1); EOP-001-AB-2b (R1); FAC-010-AB-2.1 (R2)

The MSA did not submit comments in respect of this consultation process. Several stakeholders suggested that Rule 027 should clarify that the MSA has discretion over whether or not to issue a notice of specified penalty for contravention of a reliability standard. In the MSA's view, the language of Rule 027 is clear. Section 3(1) of the rule aligns with AUCA s. 52(1) indicating that the MSA may issue a notice of specified penalty; thus, the MSA has discretion over whether or not to issue a notice of specified penalty. In addition, other enactments grant forbearance powers to the MSA to forbear where deemed appropriate.

2.2 AUC Rule 019

In December, the AESO filed on an expedited basis a prominent collection of new ISO rules with the AUC for approval¹. The set of new rules, also described as the "core market rules changes", were filed with an effective date of January 8, 2013. In the MSA's view, the rules included in this filing were largely a re-organization of authoritative content taken from prevailing market rules. However, due to the changes, a significant proportion of AUC Rule 019 would have been rendered ineffective for expedited rules enforcement, i.e., issuance of specified penalties. Accordingly, the MSA filed a request with the AUC to amend the Rule 019 penalty tables, also on an expedited basis, in order to concurrently reflect the core market rules changes and assure continuity in the MSA's ability to efficiently enforce market rules. Consequently, on December 21, 2012 the AUC issued Bulletin 2012-20 indicating that the AUC would proceed with the MSA's proposed changes relating to the core market rules filing effective January 8, 2013. However, stakeholders were given the opportunity to comment on these and other proposed changes. No objections were indicated in the submitted stakeholder comments, so the AUC issued Bulletin 2013-4 in which the AUC confirmed the earlier changes noted in Bulletin 2012-20. The Bulletin also included the addition of 201.2, 201.3, 202.5, 301.2, 505.3, and 505.4 into the category 1 penalty table.

Effective February 1, 2013, the changes to the AUC Rule 019 penalty tables from the version prevailing at the end of 2012 are summarized in Table 2.2 below:

Table 1.2: Recent Amendments to AUC Rule 019

Penalty Table Category	ISO Rule Deletions	ISO Rule Additions
Category 1	1.8, 3.2, 3.3, 3.4, 6.2.3, 6.3.8, OPP 003.2, OPP 102	201.2, 201.3, 201.4, 201.7, 202.5, 301.2, 505.3, 505.4
Category 2	3.5.2, 3.5.3, 3.5.4, 3.5.5, 6.2.2, 6.3.5	202.4, 203.1, 203.3, 204.1, 204.3, 502.4
Category 3	6.6	203.4

¹ AUC Application No. 1609092

3. ISO Rules Enforcement

3.1 Activity Levels

The MSA addressed a total of 420 ISO rules related compliance files in 2012, all of which were dealt with through non-administrative means. This conveys firstly that the MSA found no self-reported or referred ISO rule compliance matters to warrant the pursuit of a substantial administrative penalty. Secondly, of the files resulting in enforcement action, none were disputed or necessitated a negotiated settlement. On the basis of regulatory efficiency, settlement agreements² are a useful resolution mechanism in matters of enforcement where the ISO rule at issue is not included in the AUC Rule 019 penalty tables, but where there is no basis for a penalty beyond the range established by the AUC for specified penalties. In such cases, settlements are more process-intensive for both the MSA and participants relative to the expedited process provided by specified penalties. At the end of 2012, an additional 59 files to the 420 files completed, remained under review. While 15 of these 59 files were opened in relation to a late December AESO referral containing several suspected contraventions, the continued substantial growth in compliance workflow was a factor in a growing number of matters carried forward at year-end.

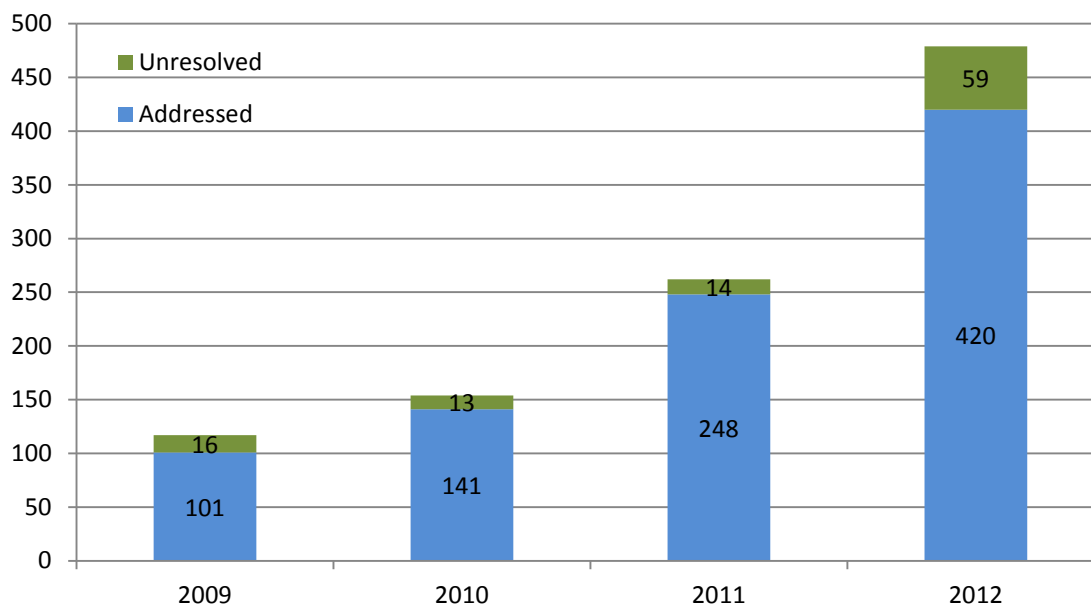
Of the 420 files addressed during 2012, 64 resulted in the issuance of a notice of specified penalty. The remaining 356 files resulted in a notification of forbearance. While a greater number of specified penalties were issued on a year over year basis, the quantity of specified penalties issued relative to the number of files addressed was very similar to 2011 results.

For comparison purposes, in 2011, 248 files were addressed with 35 files resulting in the MSA issuing a notice of specified penalty, two files led to an administrative settlement, and two files were resolved through alternate means.

While not explicit in its published Compliance Process document, the MSA has generally targeted (and participants have been accustomed to) resolution of self-reported ISO rule matters within 30 days. Given ongoing growth in workflow, this target will be more difficult to maintain on a consistent basis; however, the MSA will make every effort to process matters expeditiously.

² Section 44 (1) of the AUCA grants that the MSA may negotiate a settlement to resolve any matter that relates to the mandate of the MSA.

Figure 3.1: ISO Rule Compliance Matters Addressed



The growth in compliance matters addressed is clearly demonstrated in Figure 3.1; however, it is important to view the trend in the proper context. Growth in the number of matters considered *per se* is not necessarily a negative indication relative to the state of compliance with market rules. To the contrary, in both 2011 and 2012, 83% of matters addressed were self-disclosed which demonstrates vigilance on behalf of participants to proactively identify suspected contraventions through self-monitoring. A more meaningful indication of the state of compliance is the number of matters referred since this represents compliance events that remained undetected by participants and/or events that participants were not inclined to self-report. As shown in Figure 3.2, 68 of the 420 matters addressed in 2012 resulted from an AESO referral. In comparison to the last two years, this is up modestly relative to total files addressed, with the leading driver being two referrals that revealed recurring problems with respect to two different rules. To a lesser extent, the increase can be attributed to a broadening of active monitoring; for example, compliance auditing of ISO Rule 9.1.5. While self-monitoring and self-reporting affirm that participants are being vigilant in identifying and reporting matters, in some cases they may not be going further to address the root cause. Hence, a useful indicator in this regard is the level of enforcement action taken either on an administrative or non-administrative basis in cases that were self-reported. In 2012, 21 of the 352 (5.9%) self-reported matters addressed received a notice of specified penalty, which is a step change from outcomes through the last two years. In 2011, five of 206 (2.4%) self-reported matters addressed were issued a notice of specified penalty by the MSA. Recent outcomes are consistent with feedback provided in the MSA's compliance stakeholder meeting held in Q1/12 that forbearance is not appropriate in circumstances indicative of a recurring problem and that anticipation of human error is a key feature of credible compliance programs.

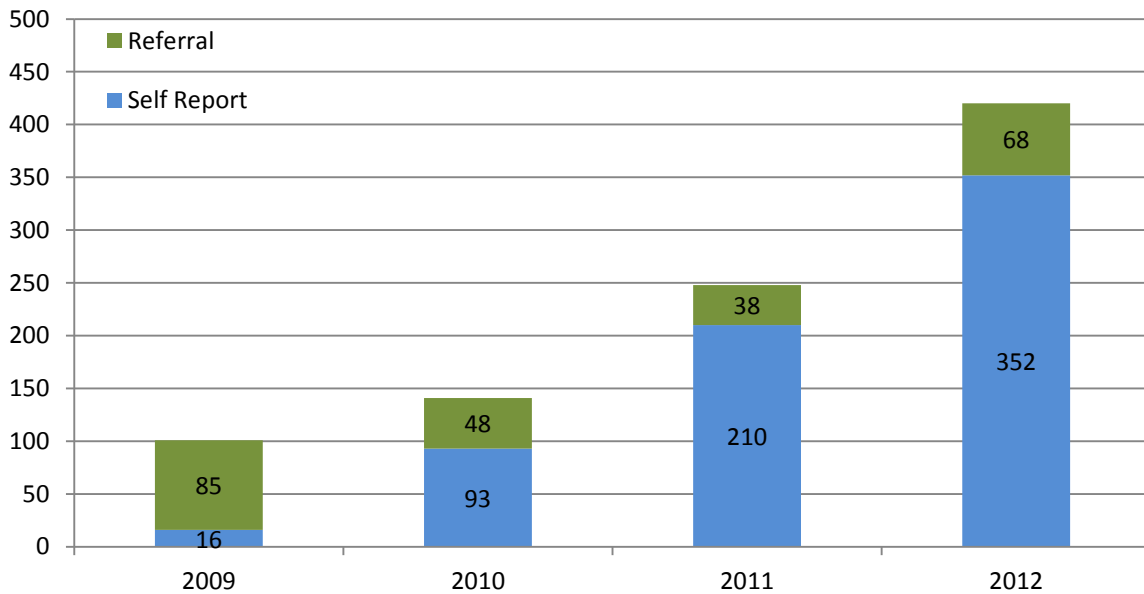
Figure 3.2: ISO Rule Self-Reports vs. AESO Referrals

Figure 3.3 provides a segmentation of rules compliance outcomes by ISO rule. In 2012, 23 different ISO rules (including OPPs) were addressed either through referral or self-report, compared to 17 in 2011 and 8 in 2010. Part of the increase seen in 2012 can be attributed to the migration of pre-existing rule content into the new ISO rules format via the TOAD initiative. As is typically the case, however, the bulk of matters addressed were concentrated within a few rules – namely 6.6, 3.5.3, 6.3.3, 6.5.3, and OPP 102 during 2012. This is not surprising given that these relate to the submission of offers and restatements as well as responding to dispatches and directives.

Figure 3.3: 2012 Compliance Matters Addressed by ISO Rule

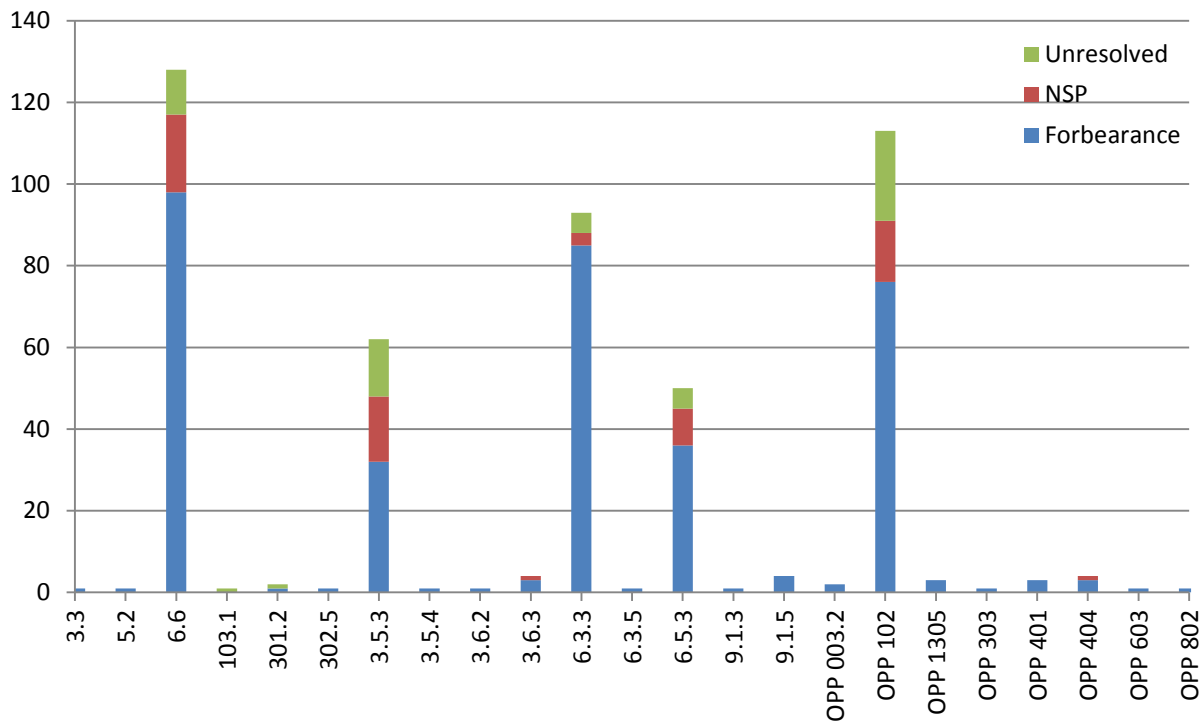


Table 3.1 provides a breakdown by contravention month for all ISO rule compliance matters addressed or remaining under review at the end of 2012. Contravention dates for the 64 notices of specified penalty issued in 2012 ranged from June 2011 to September 2012. The indicated lag can be attributed to the fact that the majority of specified penalties are issued in cases of a referral as opposed to self-reported matters and that the process of referral is an extended process involving information requests and responses as well as other aspects of data verification and analysis. In reference to Rule 9.1 matters, contravention month is less applicable as compliance is better described as process-based than event specific; accordingly, for the purposes of Table 3.1, these matters are reflected by the month in which they were received by the MSA.

Table 2.1: Compliance Matters Addressed by Month of Contravention

	Rule	2011					2012												Total		
		Jun.	Jul.	Aug.	Sept	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept	Oct.		Nov.	Dec.
Forbearance	3.3																1				1
	5.2																1				1
	6.6						1	4	5	7	6	5	11	13	4	17	7	15	3	98	
	103.1																		1	1	
	301.2																		1	1	
	302.5										1									1	
	3.5.3						1	2	3		1	4	6		5	1	3	6		32	
	3.5.4															1				1	
	3.6.2																1			1	
	3.6.3										1		1	1						3	
	6.3.3							3	7	1	12	15	11	9	6	4	5	10	2	85	
	6.3.5															1				1	
	6.5.3	1					2		4	1	2	3	2	2	6	3	5	5		36	
	9.1.3								1											1	
	9.1.5													1					1	2	4
	OPP 003.2								1										1		2
	OPP 102		5	3	5	1	3	7	6	7	5	4		14	4	3	6	1	1	1	76
OPP 1305								1								1			3		
OPP 303															1				1		
OPP 401												2			1				3		
OPP 404						1							2						3		
OPP 603												1							1		
OPP 802															1				1		
Total		1	5	3	5	1	8	18	26	16	28	31	34	42	28	31	28	39	9	3	356
NSP	6.6			1	2				3	2			1	1	1	5	1	2			19
	3.5.3			1	1	3	1	2		1	2		1	2	1	1					16
	3.6.3								1												1
	6.3.3									2			1								3
	6.5.3						3					1	2		2	1					9
OPP 102		4	2	2		2			1				4								15
OPP 404						1															1
Total		4	4	3	5	7	2	4	6	2	1	5	7	4	6	2	2				64
Unresolved	6.6													1					6	4	11
	103.1																		1		1
	301.2																		1		1
	3.5.3												10					4			14
	6.3.3																3	2			5
	6.5.3																4	1			5
OPP 102													21					1			22
Total													31	1				11	12	4	59

Among the 64 notices of specified penalty issued during 2012, none were disputed and all have been paid (totalling \$107,250). Table 3.2 provides a detailed summary of specified penalties issued in 2012. While no administrative handling of matters was required in 2012, the MSA believes amendments broadening the applicability of AUC Rule 019 are a related factor contributing to regulatory efficiency for both stakeholders and the MSA during 2012, such that non-serious matters can be addressed in an expedited manner.

Table 3.2: Specified Penalties Issued in 2012 for Contravention of ISO Rules

Market Participant	ISO Rule							Total
	6.6	3.5.3	3.6.3	6.3.3	6.5.3	OPP 102	OPP 404	
Alberta-Pacific Forest Industries		\$500						\$500
AltaGas Ltd.	\$4,000	\$1,500			\$1,250			\$6,750
ASTC Power Partnership	\$750	\$500						\$1,250
ATCO Power (Poplar/Rainbow)		\$500			\$500			\$1,000
Balancing Pool					\$500			\$500
BowArk Energy Ltd					\$500	\$500		\$1,000
Canadian Forest Products Ltd.		\$500						\$500
Cancarb Limited		\$500						\$500
Cenovus Energy Inc	\$1,500					\$500		\$2,000
DMI Ltd.	\$1,500	\$500						\$2,000
Dow Chemical Canada					\$500			\$500
Grande Prairie Generation Inc.	\$4,000						\$500	\$4,500
Keyera Partnership			\$250					\$250
MEG Energy Corp.	\$2,500	\$5,000						\$7,500
Milner Power Limited Partnership	\$1,500	\$2,000				\$17,000		\$20,500
Northstone Power Corporation						\$500		\$500
Powerex Corp.	\$20,250	\$1,000						\$21,250
Rainbow Energy Marketing Corporation				\$2,000		\$27,000		\$29,000
Suncor Energy Inc.		\$250						\$250
Syncrude Canada Ltd	\$2,000					\$2,000		\$4,000
Talisman Energy Canada (Edson)						\$500		\$500
TransCanada Energy Ltd.	\$1,500	\$500		\$250	\$250			\$2,500
Total	\$39,500	\$13,250	\$250	\$2,250	\$3,500	\$48,000	\$500	\$107,250

3.2 Performance Measures – 2012 Compliance Activities

In 2012, all ISO rule compliance matters were processed via the MSA's expedited process; however, ongoing growth in matters considered was reflected in modestly slowing turnover on a year over year basis. Table 3.3 provides a detailed breakdown of file processing by ISO rule. Compliance matters resulting in a notification of forbearance were resolved in 61 days on average from the date of the event, which compares to 44 days in 2011. Much of the difference, however, can be attributed to the period from event date to the date of referral (or self-report) as the period from referral (or self-report) to closure letter increased by just 1.6 days (24.4 vs. 22.8) on average. For compliance matters resulting in issuance of a notice of specified penalty, the initial reporting period was only slightly longer as compared to 2011 results and the period from referral (or self-report) to issuance of notice was, on average, 1.7 days longer in 2012 vs. 2011 (37 vs. 35.3). Given the small number of compliance matters associated with some rules during 2012, relative differences should be interpreted with caution. Rule 9.1 related matters have been excluded due to the nature of the contravention being process-based rather than event-based, and the different compliance process that is applied.

Table 3.3: 2012 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
3.3	N/A	31.0	31.0	N/A	17.0	17.0	N/A	48.0	48.0
5.2	N/A	30.0	30.0	N/A	8.0	8.0	N/A	38.0	38.0
6.6	88.4	26.5	36.6	20.2	21.4	21.2	108.5	47.9	57.8
301.2	N/A	14.0	14.0	N/A	25.0	25.0	N/A	39.0	39.0
302.5	N/A	59.0	59.0	N/A	55.0	55.0	N/A	114.0	114.0
3.5.3	135.4	38.9	71.1	25.4	23.4	24.1	160.8	62.3	95.2
3.5.4	N/A	8.0	8.0	N/A	19.0	19.0	N/A	27.0	27.0
3.6.2	N/A	27.0	27.0	N/A	38.0	38.0	N/A	65.0	65.0
3.6.3	N/A	11.0	8.3	46.0	16.3	23.8	46.0	27.3	32.0
6.3.3	119.7	16.0	19.5	25.7	19.4	19.6	145.3	35.4	39.1
6.3.5	N/A	3.0	3.0	N/A	19.0	19.0	N/A	22.0	22.0
6.5.3	73.3	25.0	34.7	30.0	27.4	27.9	103.3	52.4	62.6
OPP 003.2	N/A	20.5	20.5	N/A	30.0	30.0	N/A	50.5	50.5
OPP 102	125.8	80.5	88.0	77.2	31.8	39.3	203.0	112.3	127.2
OPP 1305	N/A	26.7	26.7	N/A	30.0	30.0	N/A	56.7	56.7
OPP 303	N/A	80.0	80.0	N/A	74.0	74.0	N/A	154.0	154.0
OPP 401	N/A	15.7	15.7	N/A	20.0	20.0	N/A	35.7	35.7
OPP 404	161.0	9.0	47.0	28.0	39.0	36.3	189.0	48.0	83.3
OPP 603	N/A	30.0	30.0	N/A	11.0	11.0	N/A	41.0	41.0
OPP 802	N/A	142.0	142.0	N/A	16.0	16.0	N/A	158.0	158.0
Average	108.0	36.7	47.7	37.0	24.4	26.3	145.0	61.0	74.0

3.3 2012 Compliance Trends

A shift in compliance outcomes was seen in 2012, particularly in relation to ISO Rule 6.3.3 and OPP 102. ISO Rule 6.3.3 was the recipient of far fewer specified penalties as compared to previous years, whereas with OPP 102 significantly more enforcement activity occurred due to participant issues in maintaining compliance with this rule.

3.3.1 OPP 102

The MSA's enforcement activities in respect of OPP 102³ concern participants' acknowledgment of ADaMS dispatch instructions within a prescribed timeframe. While specific expectations are set out in Table 1 of OPP 003.2, s. 4.2 of OPP 102 contains the requirement that participants must respond to ADaMS energy market dispatches within the required time as described in OPP 003.2. During 2012, the MSA issued 15 notices of specified penalty in relation to OPP 102 for a total of \$48,000 in financial penalties or nearly half of the ISO rule-related financial penalties issued. The total dollar value of penalties is high relative to the number of penalties issued given that two participants had recurring issues with timed-out dispatches and received sequential specified penalties. In both cases, the participant took the matter seriously and invested significant efforts to investigate the problem and identify contributing technical issues. The MSA and AESO also worked with the participants involved in an effort to identify contributing factors. One outcome from these efforts was the implementation of a change to ADaMS allowing participants to more easily identify a timed-out dispatch instruction such that issues can be promptly identified to reduce the chance of an ongoing problem and to facilitate self-reporting.

3.3.2 ISO Rule 6.6

During 2012, the MSA issued 19 notices of specified penalty in relation to ISO Rule 6.6⁴ for a total of \$39,500 in financial penalties. This is up noticeably from 2011 in which seven notices of specified penalty were issued; however, in 2012 one participant experienced recurring issues at one of its generation assets resulting in a sequence of specified penalties with escalating financial penalties in accordance with AUC Rule 019. In this case, the non-compliance events were self-reported; however, the nature of the contraventions was deemed to be a recurring problem where specified penalties were applicable.

3.3.3 ISO Rule 6.3.3

ISO Rule 6.3.3-related matters were the recipients of three notices of specified penalty in 2012, down substantially from the 17 notices of specified penalty issued in 2011. The MSA is of the view that this change is attributed in part to better awareness of the rule requirements among participants active on the intertie together with broader implementation of compliance monitoring tools by participants, but also some attrition in intertie activity during 2012.

3.3.4 ISO Rule 9.1.5

In 2012, the MSA received the first referrals from the formal audit program introduced by the AESO in 2011 in respect of ISO Rule 9.1.5 (Transmission Facility Projects - Project Procurement). Of the previously noted 420 files closed in 2012, four files related to ISO Rule 9.1.5 with all four matters having an outcome

³ OPP 102 was withdrawn concurrent with the January 8, 2013 effective date of the "core market rules". Requirements relating to timely response to dispatch instructions are now located in ISO rules section 201.7.

⁴ ISO rule 6.6 was also withdrawn concurrent with the January 8, 2013 effective date of the "core market rules". Authoritative content from rule 6.6 is now located in ISO rules section 203.4.

of forbearance. Among the issues identified were instances where a contract was awarded to a supplier other than the one submitting the lowest price, fully compliant bid. The rule contemplates that this may be commercially reasonable in certain circumstances; however, section 9.1.5.6(a) sets out requirements that must be observed. A second issue noted was the distinction of project inputs as either project material or engineering services given the corresponding requirement to competitively procure project materials. In relation to this issue, the MSA is of the view that there is a lack of clarity in relation to this distinction. Until otherwise determined through the current stakeholder consultation pertaining to ISO Rule 9.1, the MSA is supportive of the view expressed by some in industry that the *Engineering and Geoscience Professions Act* provides helpful guidance toward a working definition of “Engineering Services” in the context of ISO Rule 9.1.5 compliance. For additional guidance on compliance with ISO Rule 9.1.5, the AESO published an Information Document⁵ during 2012.

⁵ Information Document # 2012-003(R) Transmission Facility Projects

4. Alberta Reliability Standards Enforcement

In 2011, the following six standards were approved by the AUC with effective dates in 2012: BAL-002-AB-1, BAL-STD-002-AB-0, BAL-004-AB-1, BAL-004-WECC-AB-1, FAC-010-AB-2.1, and FAC-014-AB-2. Review and approval of additional NERC standards continued during 2012. IRO-001-AB-1.1 was both approved and made effective in 2012, whereas COM-001-AB-1.1, COMM-002-AB-2a, PRC-018-AB-1, VAR-001-AB-1a, VAR-002-AB-1.1b, VAR-002-WECC-AB-1, and VAR-501-WECC-AB-1 were all approved during 2012 and made effective in 2013. Finally, EOP-001-AB-2b was approved during 2012 and made effective in 2014. As of 2012's year-end, 49 reliability standards have been approved as applicable in Alberta – 18 of which are applicable⁶ to registered entities other than the AESO and 45 of which are applicable to the AESO itself. Thus far in 2013, two additional standards (MOD-010&012-AB-0 and PRC-023-2) were approved as applicable in Alberta, both of which apply to the ISO as well as other entities. MOD-010&012-AB-0 takes effect in early 2014 while sub-sets of the PRC-023-2 requirements phase in annually in April of 2014, 2015 and 2016.

4.1 Monitoring and Enforcement for Registered Entities

The AESO is the compliance monitor with respect to registered entities in Alberta and carries out its compliance monitoring mandate in accordance with ISO Rule 103.12 and its Compliance Monitoring Program (CMP)⁷ developed in consultation with stakeholders. In conjunction with its mandate and CMP, compliance monitoring activities including scheduled reliability compliance audits could result in a referral to the MSA if non-compliance with an applicable standard is evident. However, registered entities can self-report suspected non-compliance directly to the MSA (as described more fully in the MSA Compliance Process), and, if reported promptly and effectively mitigated, have the prospect of forbearance or at minimum, more favourable treatment relative to a referral.

4.2 Monitoring and Enforcement for AESO

The MSA has oversight responsibilities for compliance of registered entities as well as the AESO. As noted above, the bulk of reliability standards effective in Alberta are applicable to the AESO given the scope of its responsibilities as an ISO and Balancing Authority, and consequently, its mandate to maintaining system stability and reliability. The MSA is assisted by WECC in monitoring the AESO for compliance with Alberta Reliability Standards. As an overall framework for this approach, the MSA and WECC follow the AESO's own CMP, but reserve the right to deviate as deemed appropriate. In conjunction with the CMP, the MSA and WECC annually develop an implementation plan setting out the scope of monitoring including intended deviations from the AESO's CMP. During Q4/12, the MSA and WECC jointly developed an implementation plan for 2013 which was issued to the AESO in January. In accordance with the Implementation Plan, the AESO self-certifies compliance with applicable standards in cycle 2 of the self-certification schedule included in the AESO's CMP. The next compliance audit of the AESO is tentatively scheduled for 2014.

4.3 Activity Levels - ARS

Of the 51 ARS-related compliance matters noted in the MSA's 2011 compliance review, 10 matters remained under review at the end of 2011 and were carried forward into 2012. In addition to these

⁶ Applicability is based upon functional entity type as described in the AESO Functional Model and Criteria for Registration.

⁷ See http://www.aeso.ca/downloads/ARS_CMP_Final_v1.1.pdf

matters, the MSA opened 55 new files during 2012. During 2012, 48 of these 65 matters were addressed. An additional three matters that had received conditional forbearance in prior periods were re-opened during 2012 and in two of those matters a notice of specified penalty was issued – in one case due to failure to complete an accepted mitigation plan and in the other case, an AESO referral contained audit findings that called into question the basis of the conditional forbearance. Notices of specified penalty issued in relation to these matters pertained to PRC-001-AB-1 (R1) and CIP-001-AB-1 (R3). The remaining re-opened matter related to the resolution of a registered entity application to the AESO seeking exemption for certain facilities. The exemption was not granted; however, no enforcement action was taken. An additional five notices of specified penalty were issued in respect of the aforementioned 48 matters closed during 2012 – all of which pertained to PRC-001-AB-1 (R1 in three cases, R1 and R2 in one case, and R6 in one case). For additional clarification, while Figure 4.1 indicates that seven matters were concluded by a notice of specified penalty, three of those matters were concluded with the issuance of a single notice of specified penalty. Hence, of the seven notices of specified penalty issued in 2012, two pertained to the re-opened matters discussed above and five notices pertained to the 48 matters addressed during 2012. As noted in Figure 4.1, of the 65 active matters carried into or opened during 2012, 17 remained under review and were carried forward into 2013.

Figure 4.1: Reliability Standards Outcomes 2012

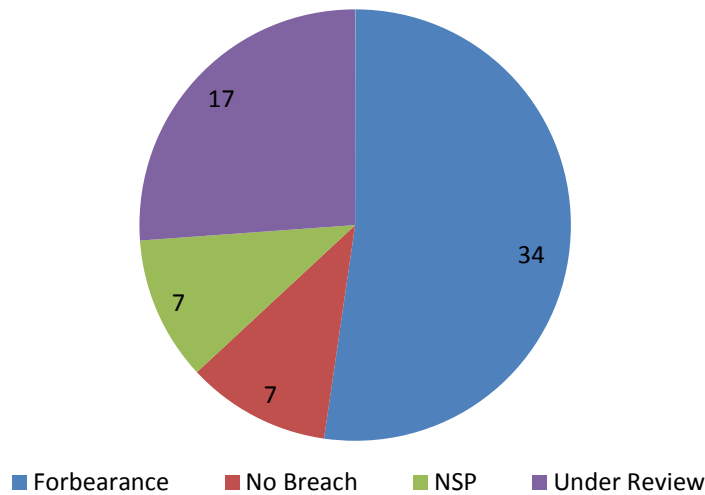


Figure 4.2 provides a detailed segmentation of outcomes by standard for the 65 reliability standards-related files noted above. As the preceding demonstrates, there is added complexity to the processing and tracking of reliability matters relative to ISO rule matters due to the interplay and timing differences between self-reporting and the ARS compliance audit and referral process. Accordingly, the MSA is working toward better co-ordination with the AESO to achieve a more efficient process.

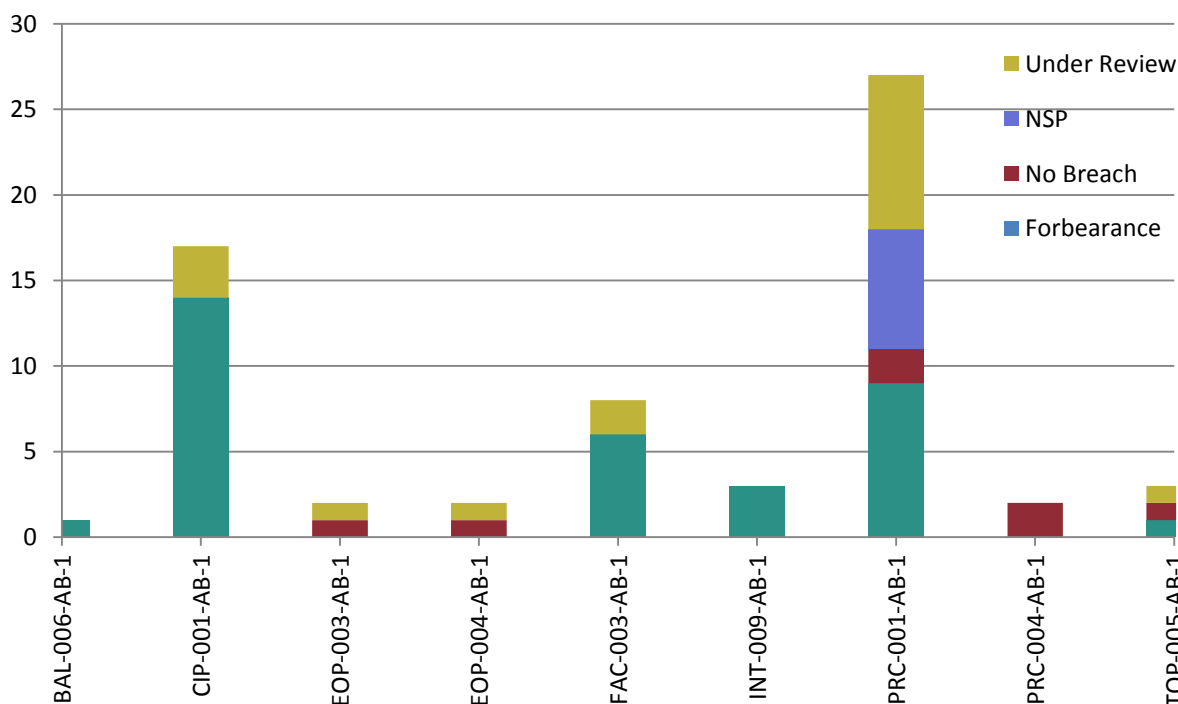
Figure 4.2: 2012 ARS Compliance Matters by Standard

Table 4.1 provides a breakdown of specified penalties issued during 2012 by registered entity and by reliability standard. Given their wide applicability, the majority of ARS matters during 2012 related to CIP-001-AB-1 and PRC-001-AB-1 and hence, these standards attracted the specified penalties that were issued this year. This concentration is also attributed to the number of entities registered as TFOs who have been subject to compliance audits to date.

Table 4.1: Specified Penalties Issued in 2012 for Contravention of Reliability Standards

Registered Entity	Alberta Reliability Standard		
	CIP-001-AB-1	PRC-001-AB-1	Total
Altalink, L.P.		\$5,000	\$5,000
Canadian Hydro Developers Inc.		\$5,000	\$5,000
Canadian Natural Resources Ltd.		\$3,750	\$3,750
TransAlta Corporation		\$3,750	\$3,750
TransAlta Generation Partnership		\$5,000	\$5,000
Syncrude Canada Ltd	\$7,500	\$5,000	\$12,500
Total	\$7,500	\$27,500	\$35,000

Performance measures in terms of file processing metrics are not presented for reliability matters addressed since the MSA believes they are less meaningful in this context for the reason that resolution times are frequently impacted by factors that are important and yet not directly related to process

efficiency including, but not limited to, mitigation plans, and in some cases extensions granted to mitigation plans under justifiable circumstances.

4.4 2012 Compliance Trends

As discussed in further detail below, attaining and demonstrating compliance with training-related requirements has been an issue emerging from both self-reporting and referrals. Registered entities are well-served to review their approach not only on training but on the retention of records to demonstrate that applicable training was delivered to the applicable personnel.

4.4.1 PRC-001-AB-1

As noted in section 4.3, six of seven ARS-related notices of specified penalty issued in 2012 pertained to PRC-001-AB-1. In relation to R1, an issue identified in compliance audit activities and referred to the MSA during 2012 was that training materials presented as evidence for compliance were generic and did not meet the specific requirement of ensuring familiarity with protection systems applied in the entity's area. For compliance monitoring and enforcement purposes, the expectation is broader in that registered entities subject to this standard should demonstrate through their evidence an awareness of the protection systems installed in their area, as well as protection systems that may be external to their area but whose operation would affect the operation of their facilities.

4.4.2 CIP-001-AB-1

The MSA issued one notice of specified penalty during 2012 in relation to this standard, although as indicated in Figure 4.2, CIP-001-AB-1 contributed several compliance matters. The remainder were either addressed by forbearance or were unresolved at the end of 2012. Most matters stemmed from a lack of records or other evidence to demonstrate training requirements were satisfied.

4.4.3 Completion of Mitigation Plans

As stated in the MSA's Compliance Process document, the MSA is supportive of the role of mitigation plans and believes they can be an effective compliment, and in some cases a substitute for, financial sanctions. Accordingly, the MSA may extend forbearance on the basis of an entity carrying out an accepted mitigation plan. In cases where it is evident that an entity has not fulfilled its obligations pertaining to an accepted mitigation plan, the MSA is likely to proceed with additional enforcement action.

5. Outlook

The MSA anticipates a near-term revision of its Compliance Process document in order to update references to the AESO compliance monitoring rule (formerly ISO Rule 12; now ISO Rule 103.12 effective December 14, 2012). Given cumulative growth to date in compliance workflow, turnaround times will be more challenging to maintain in 2013. The MSA will assess its resourcing during 2013 with a view to making any necessary adjustments for 2014. The MSA remains committed to working cooperatively with the AESO and industry toward our joint objective of ensuring an effective and reliable wholesale electricity sector in Alberta.

References

AESO

ISO Rules

<http://www.aeso.ca/rulesprocedures/18592.html>

Alberta Reliability Standards

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

AESO Reliability Standards Compliance Monitoring Program

http://aeso.ca/downloads/ARS_CMP_Final_v1.1.pdf

Transition of Authoritative Documents Project

<http://www.aeso.ca/rulesprocedures/15981.html>

Information Documents

<http://www.aeso.ca/rulesprocedures/19083.html>

Alberta Utilities Commission

AUC Rules

<http://www.auc.ab.ca/acts-regulations-and-auc-rules/rules/Pages/default.aspx>

Legislation

Alberta Utilities Commission Act

http://www.qp.alberta.ca/574.cfm?page=A37P2.cfm&leg_type=Acts&isbncln=9780779751396

MSA

MSA Compliance Process

<http://albertamsa.ca/uploads/pdf/Archive/2012/Compliance%20Process%20062512.pdf>

MSA WECC Services Agreement

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

MSA Quarterly Reports

<http://albertamsa.ca/index.php?page=quarterly-reports>



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.
