

Market Surveillance Panel Report on the Bruce Power Unit G6 Outage March – August 2002

January 13, 2003

In late September 2002, the Market Surveillance Panel (“Panel”) received a request that it conduct an investigation into the extended forced outage at Bruce Power which occurred during the summer of 2002. The request questioned whether “those few who knew there would be a prolonged, significant operational impact would have been in a position to profit in the market, and possibly influence prices.”

The *Electricity Act, 1998*, allows any person to request an investigation be conducted. The market rules (Chapter 3, Section 3) set out procedures to be followed should the Panel decide to launch an investigation, either in response to a request or on its own initiative. Due to the intrusive nature of investigations the Panel has decided that it will exercise its discretion to launch an investigation only if, after a careful examination of all available information, it has reasonable grounds to believe that inappropriate market conduct has taken place. The first step in this process is for the Panel to request the Market Assessment Unit (MAU) to examine all available information related to the behaviour in question to determine whether there is a reasonable prospect that inappropriate market conduct has occurred.

Based on the MAU’s review of the circumstances in this case, the Panel has concluded that it will not commence an investigation. This report is therefore submitted to the Chair of the IMO Board in accordance with Section 3.4.13 of the Market Rules (Chapter 3, section 3). This report contains no confidential information and the view of the MSP is that it be published on the IMO website unless the IMO Board decides, by majority vote, that it should not be. (Section 3.5.5).

In conducting its review, the MAU considered the availability of IMO outage information and examined the potential for profit by Bruce Power or other market participants as a

result of the outage. The MAU found that although other market participants did profit from the reduction of baseload capacity, this was due to the general shortage of supply in a very tight Ontario marketplace and not due to any inappropriate conduct on the part of Bruce Power. In particular, the MAU found that information about the outage that occurred as a result of the delay in the return of the G6 unit was made available to all market participants by the IMO in a timely way. Further, the MAU found that Bruce Power did not profit from withholding the unit.

The unit G6 outage at Bruce Power was scheduled in accordance with the IMO outage process set out in the market rules and related manuals. The unit was on a planned maintenance outage that began in March and was to conclude in early July. As a result of damage that occurred during maintenance in June, the unit was forced out of service until August 25. There is no evidence to suggest that it was anything other than a consequence of this damage that caused the forced extension to the planned outage. A series of IMO reports on system adequacy and status provide up-to-date aggregate information on total outages and are published on a daily, weekly and quarterly basis. The MAU's review of these reports demonstrated that the forced extended outage of unit G6 was included. In fact, information regarding it was reflected in aggregate statistics published the day after the IMO received notice from Bruce Power. Further, by observing the effect on pre-dispatch and real time prices, market participants would have been able to corroborate the information contained in the outage statistics. The MAU concluded Bruce Power followed proper procedures in notifying the IMO of the unit G6 outage status at all times. Most importantly, all market participants had equal access to the outage information and pre-dispatch price signals.

In assessing whether Bruce Power manipulated the market by withholding capacity, thereby unfairly profiting from the extended forced outage, the MAU examined Bruce Power's three sources of sales revenue: (1) bilateral contracts; (2) energy sales; and (3) operating reserve sales through the IMO-administered markets. The MAU then examined three alternative methodologies to assess whether Bruce Power would have made more revenue by withholding the unit from the marketplace during that latter part

of July and into August, or whether it would have made more revenue if all units had been operating. These three methodologies involved:

- Calculating a breakeven price at which Bruce Power would have been indifferent between running the unit and withholding it and assessing whether this price was realistic in light of market developments;
- Assuming that forward prices for late July and August were generally reflective of market expectations, calculating the price Bruce Power would have had to expect to receive in the market in order to profit from withholding unit G6 and assessing whether this price was realistic in light of market expectations and developments; and
- Simulating what prices would have been if unit G6 had been available and what the result would have been for Bruce Power's revenue position.

All three methodologies reached the same conclusion: that Bruce Power would have made more money by running unit G6 during July and August than by having it out of service. The MAU concluded that there is no evidence to suggest that Bruce Power manipulated the market or unfairly profited as a result of the outage.

The MAU also considered the profit opportunities available to others as a result of insider information. However, a review of published over-the-counter market prices shows declining future prices over the relevant period, which is not consistent with a hypothesis of advanced knowledge.

In summary:

- Prices were higher as a result of the forced extended outage than they would have been with the unit in service, but prices in Ontario will always be higher during significant outages because of the existing tight supply conditions in the province;
- Bruce Power satisfied all requirements in notifying the IMO about the unit's outage and this information in turn was reflected in the series of public reports on total outages;

- Bruce Power's profit was less than it would have been had the outage not taken place and there is no evidence to suggest that others profited through advance knowledge of the forced extension of the outage;
- After reviewing all the available, relevant evidence there is no information to suggest that any party may have engaged in inappropriate market conduct within the meaning of section 3.1.1.1, Chapter 3 of the market rules.