

Quarterly report for Market Surveillance 1 January to 31 March 2011

Investigations and findings

In the first quarter of 2011, Market Surveillance has conducted 30 investigations involving written requests to members. This number does not include investigations regarding the reporting of over-the-counter (OTC) trades. Any breaches of the Market Conduct Rules are described in the sections below.

Erroneous Elspot nominations

- On 27 October 2010, one member submitted an erroneous order in the Elspot market. The member published an urgent market message (UMM) stating that they sold approximately 4 000 MWh/h more than intended and they were expecting an imbalance of 500 MW for delivery on 28 October 2010. Market Surveillance is investigating possible breaches on the Market Conduct Rules in connection with this incident.
- On 6 January 2011, a member submitted an erroneous order in the Elspot market purchasing on average about 110 MWh/h more than they intended to. A UMM was published informing the market of the incident. Market Surveillance has not found any evidence of misconduct.
- On 9 January 2011, a member submitted an erroneous order in the Elspot market purchasing on average 455 MWh/h more than they intended to. A UMM was published informing the market of the incident. Market Surveillance has not found any evidence of misconduct.

Market manipulation – Good business conduct

Market Surveillance has investigated possible breaches on the Market Conduct Rules in connection with the high Elspot prices in December 2009 and January and February 2010. Market Surveillance has not found any reason to issue any sanction for breaching the Market Conduct Rules.

Prohibition of insider trading – Disclosure requirements

Market Surveillance has investigated possible breaches on the disclosure requirements and/or prohibition of insider trading in the period. These are summarised below:

- Based on investigations done by Market Surveillance, Nord Pool Spot AS has on 16 February 2011 issued a written warning for breaches of the disclosure requirements and the prohibition against insider trading as set out in the Market Conduct Rules section 3.4 and 3.5 cf. 3.1 and section 2.3. When considering the type of sanction, the fact that the disclosure of information was severely delayed and that the insider trading was conducted over an extensive time period were deemed as aggravating circumstances while it was deemed mitigating that the information was not considered to have a significant effect on the prices in the Elspot market. The sanction was published in exchange information no. 12/2011.

- On one occasion a member has been given a Statement of Breach for violating section 3.1 of the Market Conduct Rules by not disclosing information via UMM.
- On four occasions members have been given a Statement of Breach of section 3.4 of the Market Conduct Rules for not disclosing correct information regarding production outages.
- On three occasions members have been given a Statement of Breach for violating section 3.5 of the Market Conduct Rules by not disclosing information within 60 minutes.
- On six occasions members have been given a Statement of Breach for violating section 2.3 of the Market Conduct Rules by trading in the physical market while holding inside information. When determining the type of reaction the volume, the time period and the likely effect on prices have been considered.

Reporting of non-exchange trades

The percentage of delays in reporting of OTC trades was 0.4 % in the first quarter of 2011, down from 0.6 % in the fourth quarter of 2010. The percentage of incorrectly reported OTC trades was 0.4 % in the first quarter of 2011, down from 0.8 % in the fourth quarter of 2010. Looking at figures from 2008 and onwards there is an improvement in the ratios for individual brokers. Market Surveillance believes that these results have been achieved by close dialogue with the brokers and through relevant amendments done to improve their reporting ratios.

Input from members

Market Surveillance has received the following input from members in this period:

- Market Surveillance was notified of a trader entering orders in EUADEC-11 deviating significantly from the market price. Market Surveillance contacted the trader in order to understand the background for the order. Market Surveillance has not found any evidence of misconduct.
- A member contacted Market Surveillance regarding an ask price entered a few seconds prior to the closing of a contract resulting in changing the best price. Market Surveillance contacted the member in order to understand the background for the order. Market Surveillance has not found any evidence of misconduct.
- One member questioned a block order trade matched in Elbas. The member offered a block order at the best bid price, but a block order with a different volume at a higher price was matched between two other members. Market Surveillance has not found any evidence of misconduct.
- A member informed Market Surveillance that information published by a transmission system operator (TSO) in UMMs was not consistent with information

on the TSO's web site. Market Surveillance has not found any evidence of misconduct.

- On 15 February, an outage occurred at a nuclear power plant. The information was available via real-time data from information providers before the information was published in a UMM. Market Surveillance was contacted by several members questioning whether this was inside information. Market Surveillance has concluded that this information is not inside information as it is considered to be publicly available.
- A member contacted Market Surveillance questioning whether information regarding the future closure of German nuclear power plants could represent insider information in the Nordic electricity market prior to being published. The information cannot be considered to be inside information as it is not covered by the disclosure requirements (Market Conduct Rules section 3.1 Nord Pool Spot and section 4.1 NASDAQ OMX Oslo) and will thus not represent inside information that members would expect to receive in accordance with accepted market practice (Market Conduct Rules section 2.1 Nord Pool Spot and section 3.1 NASDAQ OMX Oslo).
- A nuclear power plant erroneously published two UMMs stating that two blocks were unavailable. In the remarks field the nuclear power plant informed in Swedish that the UMM was related to a rehearsal. The UMMs were cancelled two hours after they were published. Several members contacted Market Surveillance questioning the content and validity of the UMMs. Market Surveillance has concluded that the incident does not represent a breach of the Market Conduct Rules, but has advised the nuclear power plant to ensure that similar incidents do not occur in the future.
- A member contacted Market Surveillance regarding a reduction in capacity that was not published in a UMM. Market Surveillance contacted the TSO and a UMM was published. Market Surveillance is still investigating the case.

Other areas

Market Surveillance has contributed to giving inputs to the authorities in the Nordic countries regarding the proposed new EU Regulation on Energy Market Integrity and Transparency (REMIT). Market Surveillance has in particular focused on trying to adapt the proposed prohibition of insider trading so that members holding inside information are not excluded from trading in the daily auction or in the balancing market, as such prohibitions may have unfortunate effects both for the price formation and the security of supply.

On 1 November 2011, Svenska Kraftnät will subdivide the Swedish power market into four bidding areas. According to the disclosure requirements, members at Nord Pool Spot and NASDAQ OMX Commodities must state the bidding area when publishing information in a UMM. Market Surveillance has worked with other departments in order to introduce the four bidding areas and to advise members on how to disclose information correctly in UMMs prior to 1 November 2011. The four bidding areas became available in the UMM application from 15 March 2011.

In one case a TSO allocated capacities in a way not corresponding to the normal procedures for allocating capacities. The TSO increased the export capacity on an interconnector on request of the neighbouring TSO. Capacities to other areas also restricted due to the same event were not increased correspondingly as per normal procedures. The incident did not represent a breach with the Market Conduct Rules, but market surveillance has forwarded information regarding the incident to the Norwegian Water Resources and Energy Directorate.