

## Quarterly report for Market Surveillance 1 April to 16 August 2011

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Market Surveillance has prepared for the separation of the market surveillance function of Nord Pool Spot AS and NASDAQ OMX Oslo ASA. The separation became effective from 17 August 2011 without any disruptions in operations and services provided to the market. The new contact details can be found in [exchange information no. 42/2011](#) (Nord Pool Spot AS) and [exchange information no. 40/11](#) (NASDAQ OMX Oslo ASA).

In the future, the two surveillance units will issue separate quarterly reports, and this report therefore includes the period up until 16 August. However, statistics in this report regarding reporting of non-exchange trades includes values only from the first and second quarter.

### **Investigations and findings**

In the period from 1 April to 16 August 2011, Market Surveillance has conducted 57 investigations involving written requests to members. This number does not include investigations regarding cancellations and delays in the reporting of Over-The-Counter (OTC) trades. Any breaches of the Market Conduct Rules are described in the sections below.

### **Sanctions**

On 27 October 2010, a member submitted an erroneous order in the Elspot market. Following the incident 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 has investigated possible breaches of the Market Conduct Rules in connection with this incident and has written a recommendation to the Disciplinary Committee of NASDAQ OMX Oslo ASA and the board of Nord Pool Spot.

Nord Pool Spot has concluded that the incident constitutes market manipulation, cf. Market Conduct Rules section 4.1, and that the member has acted with negligence in respect of the technical error which caused the incident. Nord Pool Spot has not found any evidence that the member acted with intent or had any illegitimate purpose by the erroneous nominations. In accordance with the recommendation from Market Surveillance, Nord Pool Spot has issued a violation charge of NOK 250,000 for market manipulation. The recommendation from Market Surveillance can be found [here](#). The decision from Nord Pool Spot was published in [exchange information no. 37/2011](#).

NASDAQ OMX Oslo ASA has reached a similar conclusion, please see [exchange information no. 38/11](#), with respect to market manipulation in the financial market. NASDAQ OMX Oslo ASA has furthermore concluded that the member was in an insider position in relation to three different exchange transactions entered into in the Nordic power derivatives market, and that the member thus has breached the

prohibition against insider trading. The transactions were made after the erroneous nominations were discovered, but prior to the information about the errors becoming

public. NASDAQ OMX Oslo ASA has therefore issued a violation charge of NOK 400,000 where NOK 250,000 of the violation charge is made conditional with reference to the reaction from Nord Pool Spot relating to the same incident.

### **Erroneous Elspot nominations**

- On 18 and 19 April 2011, a member submitted an erroneous order in the Elspot market purchasing on average about 130 MWh/h less than they intended to. A UMM was published informing the market of the incident. Due to the low volume it is the view of Market Surveillance that the incident was not likely to have a significant impact on prices and Market Surveillance has not found any breach of the Market Conduct Rules. The member has informed Market Surveillance that they have improved their routines for the Elspot nomination following the incident.
- On the 25 May 2011, a member failed to include a purchase order between 700-1,200 MWh/h to the Elspot market. Despite the size of the order and potential impact on the price, the incident does not represent market manipulation as no order was placed by the member on this day. Market Surveillance has investigated the incident and has thus not found any breach of the Market Conduct Rules. Market Surveillance has advised the member to implement sufficient control routines for the Elspot nomination in order to avoid similar incidents in the future.
- On 6 June 2011, a member submitted an erroneous order in the Elspot market purchasing on average about 152 MWh/h more than they intended to. A UMM was published informing the market of the incident. Due to the low volume it is the view of Market Surveillance that the incident was not likely to have a significant impact on prices. Market Surveillance has thus not found any breach of the Market Conduct Rules. Market Surveillance has advised the member to implement sufficient control routines for the Elspot nomination in order to avoid similar incidents in the future.

- On 10 and 11 July 2011, a member failed to submit its order for the Elspot market purchasing on average about 300 MWh/h too little. The member published a UMM 2 days after the incident. The member has been given a Statement of Breach of the Market Conduct Rules section 3.5 for disclosing the information to the market more than 60 minutes after the incident. Market Surveillance has advised the member to implement sufficient control routines for the Elspot nomination in order to avoid similar incidents going forward. Market Surveillance has decided not to pursue this matter any further, but the breach of the Market Conduct Rules may be taken into account should there be any breaches in the future.

### **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:

- On five occasions members have been given a Statement of Breach for violating section 3.4 of the Market Conduct Rules by not disclosing correct information regarding production outages. It is the view of Market Surveillance that the breaches did not have a significant effect on the price formation. Market Surveillance has decided not to pursue these matters any further, but the breach of the Market Conduct Rules may be taken into account should there be any breaches in the future.
- A TSO was given a Statement of Breach for violating section 3.5 in the Market Conduct Rules for updating time of the event stop in a UMM more than one year after it had ended. However, the TSO disclosed this information on its web site when it occurred, and it is thus the view of Market Surveillance that the information was publicly known. Market Surveillance has therefore not recommended any sanctions based on this incident. Market Surveillance has advised the TSO to implement sufficient routines in order to avoid similar incidents going forward. Market Surveillance has decided not to pursue these matters any further, but the breach of the Market Conduct Rules may be taken into account should there be any breaches in the future.
- On two separate occasions, a TSO was given a Statement of Breach for violating the Market Conduct Rules section 3.5 for informing about a cancellation of a maintenance event more than 24 hours after the event was supposed to have started. Market Surveillance has advised the TSO to implement sufficient routines in order to avoid similar incidents going forward. Market Surveillance has decided not to pursue these matters any further, but the breach of the Market Conduct Rules may be taken into account should there be any breaches in the future.
- A member was given a Statement of Breach for violating section 3.5 of the Market Conduct Rules for publishing a UMM informing about an unplanned outage 9 hours after the unplanned outage occurred. It was the view of the Market Surveillance that the change in available capacity was not likely to affect

prices significantly given the market conditions prevailing at the time of the event, and a sanction was thus not recommended. Market Surveillance has advised the TSO to implement sufficient routines in order to avoid similar incidents in the future.

- On eight separate 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. For all these incidents, the delay in disclosure or change in available capacity (or both) was relatively small. It is therefore the view of the Market Surveillance that the breaches did not have significant effect on the price formation. Market Surveillance has advised the members to implement sufficient routines in order to avoid similar incidents going forward. Market Surveillance has decided not to pursue these matters any further, but the breach of the Market Conduct Rules may be taken into account should there be any breaches in the future.
- On one occasion a member has been given a Statement of Breach for violating section 2.3 of the Market Conduct Rules by trading in the Elbas 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. Market Surveillance has advised the member to implement sufficient routines in order to avoid trading when holding inside information going forward. Market Surveillance has decided not to pursue this matter any further, but the breach of the Market Conduct Rules may be taken into account should there be any breaches in the future.

### **Reporting of non-exchange trades**

The percentage of delays in reporting of OTC trades was 0.75% in the second quarter of 2011, up from 0.41% in the first quarter of 2011. The percentage of incorrectly reported OTC trades was 0.68% in the second quarter of 2011, up from 0.4% in the first quarter of 2011. Market Surveillance believes that one of the main reasons for these results stems from the fact that there are a number of new and inexperienced members reporting bilateral trades. Thus, the results will most likely decrease when the members have adapted to the reporting system.

### **Input from members**

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

- A member contacted Market Surveillance regarding a reduction in transmission capacity that was not published in a UMM. Market Surveillance contacted the TSO and a UMM was published stating that the capacity had been reduced by a mistake. Market Surveillance did not find that the incident represents a breach of the Market Conduct Rules. This case has been sent to the Norwegian Water Resources and Energy Directorate (NVE) for their information.

- A member contacted Market Surveillance regarding a fire that occurred at a nuclear power plant prolonging a planned outage. The information was published in a press release before it was published in a UMM. Market Surveillance has concluded that the incident does not represent a breach of the Market Conduct Rules, but has advised the nuclear power plant in the future to make simultaneous disclosure in a UMM.
- Market Surveillance was notified by several members questioning reported OTC transaction prices in ENOYR-12 that were deviating from the market price. Market Surveillance is investigating this case.
- Market Surveillance was notified about a TSO suddenly removing all initial capacities on an interconnection in Elbas without finding a corresponding UMM about any outage. Market Surveillance contacted the TSO and did not find any evidence of misconduct. However, Market Surveillance will consider whether there is a need for changes in the Market Conduct Rules or “Disclosure Guidelines for Urgent Market Messages” in this area to ensure that important information is sent to the market.
- A member contacted Market Surveillance regarding an order of 24 MW in the contract ENOYR-13. The member suspected that the order was entered with intension of “flashing” volume. Market Surveillance has investigated the incident and found that the member placed two orders by mistake, each order of 24 MW, instead of one order of 24 MW. One of the orders was deleted, resulting in an active order of 24 MW. Market Surveillance concluded that the incident had no price effect and that the incident did not represent a breach of the Market Conduct Rules.
- Market Surveillance was notified about a reduction in production capacity that was not published in a UMM. A UMM informing about reduced capacity due to maintenance was later published. Market Surveillance investigated the incident and concluded that the incident did not represent a breach of the Market Conduct Rules as the information is not covered by the disclosure requirements (Market Conduct Rules section 3.1 Nord Pool Spot and section 4.1 NASDAQ OMX Oslo).
- Market Surveillance received a question regarding a UMM-series about a planned outage at a power plant that was difficult to read. Market Surveillance did not find any breach of the Market Conduct Rules.
- Market Surveillance received a tip informing that on 16 June 2011 net commercial power flows seemed to have moved from Estonia towards Latvia even though the Estonian market settled at higher prices than the Lithuanian market. Market Surveillance has investigated the bids submitted in the Estonian Export Area (ELE) for delivery day 16 June 2011, but did not find any evidence of breaches with the Market Conduct Rules.
- Market Surveillance was contacted about unusual high prices in one of the Elspot areas at the time of a planned reduction in available transmission capacity into

the area. Prior to the outage of capacity there had been export on the relevant interconnection. Market Surveillance is still investigating this case.

- Market Surveillance was notified that a power plant in Finland was not producing on 11 July 2011 even though prices in some hours exceeded 70 €/MWh. Market Surveillance has investigated the bids submitted to the Elspot market by the owner of the power plant and has not found any evidence of breach of the Market Conduct Rules.
- Market Surveillance was contacted by a member in connection with a UMM published by a TSO regarding a planned maintenance event. The member questioned why they had not published more specific information about available capacity for the planned outage. Market Surveillance did not find that the incident represented a breach of the Market Conduct Rules, but made the TSO in question aware of the member's question and asked them to consider giving more precise information in the future.
- Market Surveillance was contacted by two members in connection with a UMM concerning cross-border capacity between several areas. The members pointed out that the informational content of the UMM was not well captured by the "Transmission overview"-area on Nord Pool Spot's web site. Market Surveillance will ensure that these comments are treated in connection with the project of developing a new UMM-application, as described in more detail below.

### **Other areas**

As stated in [exchange information no. 23/2011](#), Market Surveillance at Nord Pool Spot is participating in a project to improve the application for sending and publishing UMMs. Senders and readers of UMMs have been invited to provide their suggestions for new functionalities of the UMM application and how the information published in UMMs is displayed on the web site of NPS. This has been done in order to secure that customer demand is met as well as securing that a modern and efficient information tool is provided to the market. Moreover, a focus group for the project consisting of different users of UMMs has been set up and this group will give feedback on the functionalities of the application as well as testing the new application.