

Memorandum

To: ISO Board of Governors
From: Benjamin F. Hobbs, Chair, ISO Market Surveillance Committee
Date: July 6, 2011
Re: **Briefing on MSC Activities from May 1, 2011 to June 24, 2011**

This memorandum does not require Board action.

Over the past two months, the Market Surveillance Committee has focused on the proposed changes to the current local market power mitigation procedures under the new market. Summarized below are some of the issues that the MSC has been considering during the preparation of a MSC Opinion on local market power mitigation. In addition to analyses of the local market power mitigation proposals, the MSC also had discussions with ISO staff about the market design issues implied by recent increases in the real-time imbalance energy offset. Those discussions are in preparation for a possible MSC opinion to be submitted prior to the August Board meeting.

The Federal Energy Regulatory Commission has mandated changes to the California ISO's local market power mitigation procedures to accommodate demand bids, MSC members have been consulted by ISO staff, interacting with stakeholders, and have written a draft opinion regarding two draft ISO proposals for changing local market power mitigation and competitive path assessment procedures:¹

- (1) The local market power mitigation proposal would trigger energy bid mitigation decisions in the day-ahead, hour ahead, and real-time markets based upon the presence of a positive local market power component attributable to non-competitive transmission constraints (or paths). This component is calculated from a single pre-market run. This would replace the present local market power mitigation procedure which requires two runs before the actual market run: a run with just competitive transmission constraints enforced followed by a run with all-constraints enforced.
- (2) Replacement of the two pre-market local market power mitigation runs with a single run would make it possible to dynamically identify non-competitive paths based on daily and hourly market conditions. This competitive path assessment proposal would replace the competitive path assessment approach of designating path competitiveness based on quarterly studies.

¹ "Local Market Power Mitigation Enhancements, Draft Final Proposal," California ISO, May 6, 2011, and "Draft Final Proposal – Dynamic Competitive Path Assessment," California ISO, Department of Market Monitoring, May 23, 2011,

These proposals have been reviewed in a number of informal phone calls and written communications between MSC members and ISO staff. MSC members have made a number of informal suggestions for studies by ISO staff to better understand the proposals. Previously, possible revisions of the ISO local market power mitigation and competitive path assessment procedures along with preliminary versions of these proposals have been discussed at MSC meetings on October 15, 2009, January 22, March 19, June 4, October 8, 2010, and April 29, 2011. We also submitted a report requested by FERC on the performance of the local market power mitigation mechanism during the first year of the new market.²

The MSC is presently developing a formal opinion on the local market power mitigation proposals which will be included in the materials provided to the Board prior to the July 2011 Board meeting. The opinion will make recommendations concerning several issues. Some of these include the following:

- (1) *Definition of the slack bus that will be used to define “competitive” prices at each node.* Generating units selected for mitigation by the new local market power mitigation procedure will have their bid reduced to the maximum of that competitive price and the generator’s default energy bid. It is important to select a slack bus location that will not be influenced by the exercise of market power. We will also consider the merits of alternative proposals for calculating competitive prices offered by stakeholders.
- (2) *The competitive path assessment for real-time pre-dispatch will also be the basis of mitigation for the real-time dispatch.* Because of possible changes in loads, generator availability, and network conditions, patterns of congestion might change between real-time pre-dispatch and real-time dispatch. This means that there will be instances in which non-competitive constraints will be congested in 5-minute real-time dispatch that potentially present opportunities to exercise local market power, but will not be designated as non-competitive because congestion has not occurred in the real-time pre-dispatch competitive path assessment.
- (3) *Treatment of ramp rate limitations and other constraints in the competitive path analysis.* The question is whether actions by potentially pivotal suppliers (who create a “demand” for counterflow on transmission constraints) and other suppliers (who would provide “supply” of counterflow that replaces withdrawn counterflow by potentially pivotal suppliers) should be limited by ramp rates in the hour-ahead scheduling process and real-time runs. Another constraint that might present a practical limitation to actions in real-time by potential pivotal suppliers would be their day-ahead schedules.

Further analyses of the effectiveness and precision of mitigation. We will suggest certain additional studies as well as continued monitoring aimed at understanding how well local market power mitigation performs in mitigating local market power without mitigating unnecessarily when such market power is not a danger.

² F.A. Wolak, J. Bushnell, and B.F. Hobbs, "Report on the Performance of the California ISO's Local Market, Power Mitigation Mechanism During the First Year", Market Surveillance Committee of the California ISO, May 28, 2010, Submitted to the Federal Energy Regulatory Commission, www.caiso.com/27a4/27a4df0514630.pdf.