

TABLE OF CONTENTS

Executive Summary.....	ES-1
Introduction.....	I-1
CHAPTER 1 2002 Market Structure Changes.....	1-1
1.1 New Market Power Mitigation Rules.....	1-1
1.1.1 <i>Market Mitigation Rules under West-wide Mitigation (Jan-Oct 2002)</i>	1-1
1.1.2 <i>Overview of November 1, 2002 Design Elements (Nov-Dec 2002)</i>	1-3
1.2 2002 Market Redesign (MDO2).....	1-7
1.2.1 <i>Overview of Phase IB Design Elements</i>	1-8
1.2.2 <i>Overview of Phase II Design Elements</i>	1-9
1.2.3 <i>Overview of Phase III Design Elements</i>	1-10
CHAPTER 2 New Generation and Long-Term Contracts	2-1
2.1 New Generation.....	2-1
2.1.1 <i>Retirements</i>	2-3
2.1.2 <i>Transmission Issues Associated with New Generation</i>	2-3
2.2 CERS Long-Term Power Purchase Agreements	2-4
2.2.1 <i>Contract Disputes</i>	2-8
2.2.2 <i>Contract Terminations</i>	2-8
2.2.3 <i>Contract Allocations among the Investor-Owned Utilities and Procurement Decisions in R.01-10-024</i>	2-9
CHAPTER 3 Summary of 2002 Market Performance.....	3-1
3.1 Supply and Demand Conditions	3-2
3.1.1 <i>Loads and Scheduling</i>	3-2
3.1.2 <i>Demand Response</i>	3-4
3.1.3 <i>Supply Conditions</i>	3-5
3.2 Energy and Ancillary Service Costs	3-6

3.3	Out-of-Market Purchases	3-11
3.3.1	<i>2002</i>	3-11
3.3.2	<i>Comparison to Previous Years</i>	3-12
3.3.3	<i>Graphical Comparison</i>	3-13
3.4	Market Power and Competitiveness.....	3-14
3.4.1	<i>Markup Indices and 12-Month Competitiveness Index.....</i>	3-14
3.4.2	<i>Changes to CMCP Methodology</i>	3-15
3.4.3	<i>Measuring Competitive Behavior through Bidding Practices: The Bid-Cost Markup for Real-time Energy</i>	3-16
3.4.4	<i>Revenue Adequacy of New Generation.....</i>	3-23

CHAPTER 4 Imbalance Energy Market Performance..... 4-1

4.1	Real-Time Market Performance	4-3
4.2	Price Caps	4-4
4.3	Bid Sufficiency	4-5

CHAPTER 5 Ancillary Service Markets..... 5-1

5.1.1	<i>Summary of 2002 A/S Market Performance</i>	5-2
5.2	Demand for Ancillary Services	5-4
5.2.1	<i>Overall Demand for Ancillary Services</i>	5-4
5.2.2	<i>Demand for Regulation Reserves.....</i>	5-6
5.2.3	<i>Demand for Operating Reserve</i>	5-7
5.2.4	<i>Demand for Replacement Reserves.....</i>	5-8
5.3	Supply of Ancillary Service	5-9
5.3.1	<i>Overall Supply for Ancillary Services.....</i>	5-9
5.3.2	<i>Supply of Regulation Service.....</i>	5-10
5.3.3	<i>Supply of Operating Reserve and Replacement Reserve.....</i>	5-13
5.4	Conclusion	5-17

CHAPTER 6 Congestion Management Market.....	6-1
6.1 Summary of 2002 Inter-zonal Congestion Management Market.....	6-1
6.1.1 Overview	6-1
6.1.2 <i>Inter-zonal Congestion Frequency Magnitude</i>	6-1
6.1.3 <i>Inter-zonal Congestion Usage Charge and Revenues</i>	6-4
6.1.4 <i>Special Topic</i>	6-8
6.2 Overview of FTR Market Performance.....	6-12
6.2.1 <i>2002 and 2003 FTR Auction results</i>	6-12
6.2.2 <i>Concentration of FTR Ownership and Control</i>	6-14
6.2.3 <i>2002 FTR Market Performance</i>	6-14
CHAPTER 7 Local Area Reliability.....	7-1
7.1 Re-Dispatch Costs.....	7-1
7.1.1 <i>Incremental Energy Dispatches</i>	7-1
7.1.2 <i>Decremental Energy Dispatches</i>	7-1
7.2 Locational Market Power	7-4
7.2.1 <i>Potential Market Power Approach (PMP)</i>	7-4
7.3 Reliability Must Run.....	7-5
7.3.1 <i>Estimating Intra-Zonal RMR Costs</i>	7-6
CHAPTER 8 Issues Under Review and Investigation.....	8-1
8.1 Enron Scheduling and Trading Practices	8-1
8.2 Locational Market Power Analysis.....	8-6
8.2.1 <i>Overview</i>	8-6
8.2.2 <i>The “Dec Game”</i>	8-7
8.3 FERC Refund Proceedings	8-9
8.4 Support to Regulatory, Oversight and Enforcement Agencies.....	8-10
8.5 Economic Justification of Transmission	8-10
8.5.1 <i>Introduction</i>	8-10

8.5.2	<i>Major Challenges and Solutions</i>	8-10
8.5.3	<i>Key Modeling Methods</i>	8-12
8.5.4	<i>Conclusion</i>	8-16
8.6	Market Surveillance Committee (MSC)	8-17
8.6.1	<i>The Current Members</i>	8-17
8.6.2	<i>Accomplishments</i>	8-18
8.6.3	<i>MSC Opinions</i>	8-18
8.6.4	<i>MD02 Market Design</i>	8-20
8.6.5	<i>Transmission Methodology</i>	8-21
8.6.6	<i>MSC Meetings</i>	8-21
8.6.7	<i>Other MSC Activities</i>	8-21
CHAPTER 9	Seams Issues	9-1
9.1.1	<i>Market Monitoring Work Group</i>	9-1
9.1.2	<i>Congestion Management Alignment Work Group</i>	9-2
9.1.3	<i>Transmission Planning Work Group</i>	9-2
9.1.4	<i>Common Systems Interface Coordination Work Group</i>	9-2
9.1.5	<i>Pricing Reciprocity</i>	9-3