

Memorandum

To: ISO Board of Governors
From: Frank A. Wolak, Chairman, ISO Market Surveillance Committee
Date: February 3, 2009
Re: *Market Surveillance Committee Activities from December 1, 2008 to January 16, 2009*

This memorandum does not require Board action.

The Market Surveillance Committee (MSC) has been involved in three types of activities since December 1, 2008. The first is concerned with assisting the Department of Market Monitoring (DMM) with refining their market monitoring protocols and reviewing the results of market simulations in preparation for the start of the Market Redesign and Technology Upgrade (MRTU). The second is working with the ISO staff and stakeholders on the process of designing the standard resource adequacy capacity product. The third is participating in stakeholder activities related to the implementation of the MRTU, specifically the design of the residual unit commitment (RUC) market.

Meeting with Department of Market Monitoring

The MSC held an executive session meeting with the DMM on January 12, 2009, to review the results of the structured market simulations performed by the ISO for trade days December 9-12, 2008. Because this review included a discussion of individual market participant bidding and scheduling behavior, it was held in executive session. The major focus of this meeting was the performance of the hour-ahead scheduling process (HASP) and real-time (RT) market runs, because these results were not available during the executive session meetings with the DMM during November of 2008. For most of the trade days, the DMM and MSC were able to determine the underlying cause of the observed prices in the HASP and RT markets. However, there were some issues raised in the discussion of these market outcomes that the DMM and ISO staff planned to follow up on. Overall, the structured simulation results are encouraging for an April 1, 2009 go-live date for MRTU. However, on December 12, when the real-time load was 5% more than the day-ahead forecast, there were a number of HASP and RT pricing periods with extremely high prices in excess of \$2,000/MWh. These pricing results emphasize the importance of scheduling as accurately as possible in the day-ahead market by all market participants. All three MSC members found this meeting extremely informative and are very grateful to the DMM staff for their efforts.

Joint Stakeholder/MSC Meeting on the Standard Resource Adequacy Capacity Product

The MSC is also working on preparing an opinion on the ISO's Standard Resource Adequacy Capacity Product proposal (SCP) that was released on January 8, 2009, for the March 2009 ISO Board meeting. To this end, the MSC participated in a joint stakeholder/MSC meeting on December 11, 2008, to discuss

the ISO staff's SCP proposal at that time with stakeholders. Several issues arose during that meeting that the ISO staff subsequently addressed in its current proposal.

Residual Unit Commitment (RUC) and MRTU Implementation

During the December 11, 2008, joint stakeholder and MSC meeting, a number of stakeholders expressed concerns with the functioning of the residual unit commitment market. One primary concern was the extreme prices that occurred in the market simulations as a result of accepting high RUC energy offers from non-resource adequacy generation units in place of zero RUC energy offers from resource adequacy units that would require paying the start-up and no-load cost of the resource adequacy generation unit. During the joint stakeholder and MSC meeting, and in follow up discussions with stakeholders, the MSC considered various alternatives to the current RUC market, both as a short-term contingency plan and a long-term change in the RUC process. The informal conclusion of the MSC from its analysis of the structured simulation outcomes is that the current RUC mechanism is not a reason to delay an April 1 go-live for MRTU, but the ISO should have in place a contingency plan in case some unintended adverse consequences of the current RUC design arise. Moreover, because of the many changes in the ISO's resource adequacy procurement process, backstop capacity procurement process and exception dispatch mechanism, the ISO should consider initiating a stakeholder process to integrate the key features of the RUC product into this new procurement paradigm.