



## Memorandum

To: Finance Committee

From: Kellan Fluckiger, Chief Operations Officer  
William J. Regan Jr., Chief Financial Officer  
Ziad Alaywan, Director of Market Operations

CC: ISO Board of Governors, ISO Officers

Date: March 10, 2000

Re: Adjustment bid on Inter-SC Trades

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This memorandum requires Board Action

### EXECUTIVE SUMMARY

Market Redesign 2000 identifies the next generation of major changes to the ISO Markets to further improve market efficiency and system reliability. This priority list of Market Redesign elements builds on the modifications made with Ancillary Service Redesign in 1999 and sets an integrated plan for staged implementation through 2000 and possibly into 2001. The Market Redesign 2000 process has included extensive involvement by stakeholders, whose feedback and suggestions added elements for consideration, and significantly helped in forming this recommendation.

In October, the Board approved the following Market Redesign elements in priority order:

1. Reduce large uninstructed deviations (10-Minute Dispatch and Settlement)
2. Participating Loads
3. Adjustment Bids on Inter-SC Trade/Multiple Market Separation
4. Non-Firm transmission product
5. Import Regulation
6. Intra-zonal Congestion Management Reform

### Adjustment bid on Inter-SC Trade

Currently, Market Participants have the ability to submit Adjustment bids on generators, loads, Import and Export. Market Participants have expressed a strong desire to allow Adjustment bids on trades between Scheduling Coordinators. Adjustment bids are a mechanism that SC's could use to adjust their trade to hedge against congestion.

Implementing Adjustment bids on Inter-SC Trade will allow SC's to hedge against congestion cost by indicating their willingness to increase or decrease their trades based on congestion cost. This will also increase the number of trades which should allow for more efficient operation of the Market.

## Cost Benefits

Adjustment bid on Inter-SC trade will likely increase the number of Adjustment bids, increase participation in the congestion market, reduce congestion cost to the end user of the congested path, and reduce energy cost in the congested zone.

The 1999 Inter-zonal cost was approximately \$74 million. While it is difficult to estimate the direct impact of the addition of this feature, it is important to note that market participants have expressed a very strong desire to have this feature in their portfolio of trading tools. They have also indicated that they believe that it will save the market significant money by increasing efficiency and providing an avenue for trades that do not take place today. The ISO also believes that it could add significantly to the efficiency of the market. If the implementation of Adjustment bid on Inter-SC trade resulted in a modest decrease of congestion costs of only 10%, this would save the market \$7.4 million annually.

Another significant benefit is the reduction of energy cost in the congested zone. Again, estimates are difficult and involve many assumptions and therefore we have not attempted to quantify this benefit.

## Project Implementation Schedule

Management believes that it is possible to deploy this new feature to the Market in August 2000.

## Project Impacts

The estimated impacts of the project is as follows:

Adjustment bid on Inter SC trade

- Project Cost - \$1.9 Million
- Estimated annual O&M costs - none

## Stakeholder Views

It is important to recall the Market Redesign 2000 process of the last quarter of 1999. In October and November of 1999, the Board voted on a package of market redesign elements for the year 2000. Inter-SC adjustment bids was one of the elements approved at that time. It was the most important change for many market participants. Notwithstanding the large support base for this feature, there is a group of stakeholders who believe that the Inter-SC trade adjustment bid feature should be implemented with portfolio bidding. As you will recall, there was considerable discussion in the October and November meetings regarding whether or not to implement Inter-SC trade adjustment bids with or without portfolio bidding.

The discussion centered mainly on the fact that portfolio bidding was viewed as a change that would take at least 18 months and could not be implemented for 2000. Because of this timing issue, it was decided at that time to implement inter-SC-trade adjustment bids as a stand-alone feature, even though it was possible that the implementation methodology could change a year later if portfolio bidding features were added to the market.

The reason for this decision was that many stakeholders viewed the benefits of Inter-SC trade adjustment bids as so significant that it would be worth some amount of throw-away code in order to have the feature for the intervening year. A similar argument was raised by a majority of stakeholders in the present case.

With the FERC order to redesign congestion management, ISO staff believed that it was prudent to delay the Inter-SC trade adjustment bid implementation pending the outcome of the congestion reform. However, at the most recent Market Issues Forum meeting of March 8, the market participants again expressed that from their point of view, potential efficiency gains far outweigh the costs of potential changes later which might come out of the congestion reform process. Management agrees and would recommend moving ahead with the feature as it would have been implemented for summer of 2000.

#### MANAGEMENT RECOMMENDATION

Management recommends approving the Adjustment bid on Inter-SC Trade project.

Therefore, Management proposes the following motion:

MOVED, that the committee recommend that the Board approve the following project:  
Adjustment bid on Inter-SC Trades for \$1.9 Million