

Dynamic Assessment of Path Competitiveness

B.F. Hobbs

Member, CAISO MSC

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Assessing LMPM

Objective of LMPM: To prevent significant exercise of local market power, without overmitigation and without suppressing scarcity price signals

Ideal: No false positives or negatives

	<i>In reality, mark-ups:</i>	
<u>LMPM;</u>	<u>Do not raise local prices</u>	<u>Raise local prices</u>
Does not mitigate:	True -	False - : Prices higher
Mitigates:	False + : No price effects	True +

Thus, “False-” more worrisome than “False+”

Assessing Impact of LMPM Changes

For competitive path-based LMPM, this is difficult:

Δ Path definition procedure

→ Δ Path designations

→ Δ Bids

→ Δ Prices

However, if:

- Set of noncompetitive paths only expanded
 - “False-” won’t be more common
- Set of noncompetitive paths only shrunk
 - “False-” won’t be less common
- Ambiguous effects on set of noncompetitive paths:
 - Unclear effect on “False-”

Cf. “Conduct & Impact” Test; C&I has clearer effect

Possible (but costly) Study

Simulate effects of comp path rules upon designations & P's

- A first step: for conditions considered in quarterly competitive path study, does RSI-based screen result in similar or different designations?
- Comparison to “competitive baseline” run could identify frequency & impacts of “False –” of existing and proposed LMPM systems

Could answer questions such as:

- How much protection against market power-based mark-ups does the present & proposed LMPM system afford?
- How often does mitigation actually affect prices?
 - Frequency of “False +”, and impacts (if any)
- Effects of particular features of proposals
 - E.g., Threshold for noncompetitive path price component