

# Market Surveillance Committee (MSC) Activities

By

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Chairman

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of the California ISO

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# Opinion on MRTU Conceptual Filing

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- Issues addressed in the opinion
  - Load Aggregation Point (LAP) clearing of demand bids
  - Hour Ahead Scheduling Process (HASP)
  - Managing Market Power



# LAP Clearing and HASP

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- LAP clearing of demand bids
  - Addresses equity concerns of Locational Marginal Pricing (LMP)
  - Long-term solution should also address market efficiency concerns
- Coordinate HASP process with long-term solution to intertie bidding problem



# Managing Market Power

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- Use forward contracts for energy and ancillary services to manage system-wide market power
- Barriers to entry at certain locations in California endows certain suppliers with substantial local market power
  - A prospective (LMPM) mechanism is necessary to ensure just and reasonable prices for energy and ancillary services from these suppliers



# Ad Hoc Bid Adders

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- Mitigated bid should be best estimate of least-cost variable cost of supplying energy from that unit
- Do not include adders in mitigated bids
  - Results in an inefficient dispatch
  - Overuses generation units facing competition
  - Creates incentive for generation units to be mitigated
- Recover fixed costs through forward contracts for energy and ancillary services with LSEs
  - Not through bid adders that distort LMPs



# Setting Level of Bid Cap

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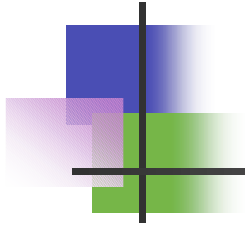
- Unless CPUC exposes consumers to real-time price risk, raising bid caps will have limited benefits
  - If California LSEs continue to forward contract for energy and ancillary services at existing levels
- Decision to raise bid caps should not be based on assessment of competitiveness of market, because system conditions can change
  - Decision should be based on level protection from short-term price risk
- Before raising bid caps, ISO should have minimum requirements verified by CPUC on
  - Fraction of load subject to real-time price risk
  - Fraction load covered by forward contracts



# System-wide AMP

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- Automated Mitigation Procedure (AMP) designed to control system-wide market power
  - At current level of bid cap in California AMP has limited value
  - Very likely to do more harm than good for consumers
- AMP makes it costly to bid low
  - Limits frequency of very high prices at the cost of higher prices in the vast majority of hours of the year
  - Net effect may be to increase average spot prices
- Forward contracting for energy in advance is a superior strategy for limiting ability of suppliers to raise short-term prices



**Questions?**