

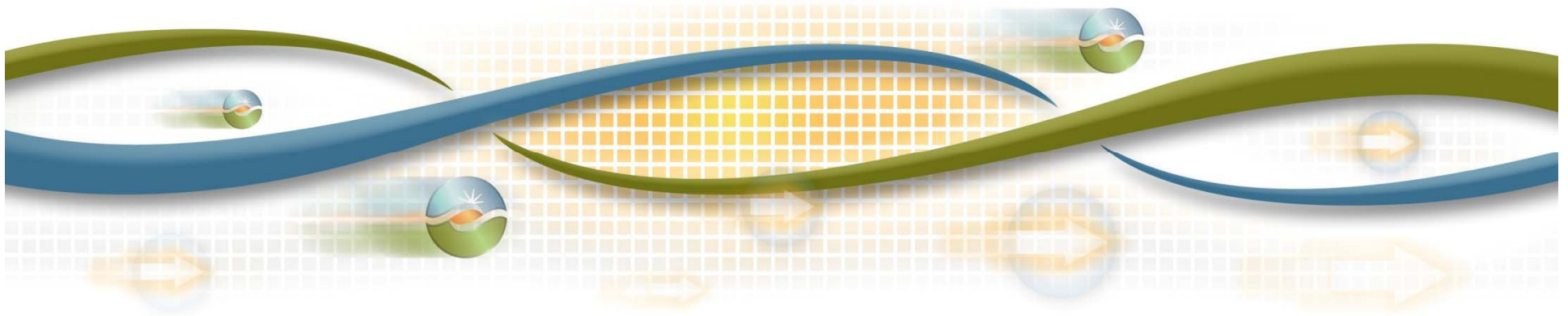


California ISO
Shaping a Renewed Future

Post-Emergency Bid Cost Recovery Filing Review

Market Surveillance Committee meeting
December 8, 2011

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Overview

- Emergency filing made in March and June
 - Adverse market behavior identified
 - Participants using strategies to expand bid cost recovery uplift payments
 - Changes made to the ISO tariff so that rules mitigate these strategies

March 25 emergency filing

(FERC docket no. ER11-3149-000)

- Issue: ISO identified the use of a bidding strategy that expanded bid cost recovery beyond competitive market outcomes
 - Resources bid in day-ahead market in a manner that forces the market to commit the resource at maximum capacity; bid in the real-time to force the ISO to decrement the resource to minimum load
 - MEAF goes to zero when resources are dec'ed in real-time; results in under-accounting of day-ahead market revenue and over payment of bid cost recovery

June 22 emergency filing

(FERC docket no. ER11-3856-000)

- Three issues:

1. A scenario in which a resource supplies negative bids in DA, high MLC, and RT bidding strategy to overstate bid costs and thereby increase the likelihood of uplift
2. A scenario in which uses (1) across trade-dates to maximize BCR from full downward ramp
 - a) Also possible across hours within a day by forcing ramping energy using self-schedules
3. Exceptional dispatch instructions being issues to address stranded ancillary service (A/S) and residual unit commitment (RUC) capacity

The ISO committed to a stakeholder process to solicit stakeholder feedback following these two filings.

- Stakeholders are offered an opportunity to comment and raise any further changes or refinements to the ISO's proposed tariff amendments
 - Were rule changes effective?
 - Were there unintended consequences?
 - Are there other problems with market behavior resulting in an increase to bid cost recovery uplift payments?