

Memorandum

To: ISO Board of Governors

From: Frank A. Wolak, Chairman, ISO Market Surveillance Committee

Date: February 3, 2010

Re: *MSC Activities from November 30, 2009 to January 26, 2010*

This memorandum does not require Board action.

The Market Surveillance Committee (MSC) has been involved in two major activities over the past two months: (1) the design of the California Independent System Operator's policy for information release under convergence bidding, and (2) modification of the ISO's local market power mitigation mechanism with proxy demand resources. MSC members participated in phone calls with ISO staff, stakeholder conference calls, as well as an MSC meeting on these issues.

MSC Meeting on January 22, 2010

The MSC held a meeting on January 22, 2010. The first topic discussed was information release under convergence bidding. Frank Wolak, Chair of the Market Surveillance Committee, gave a presentation outlining the reasons that the MSC advocated for a minimum information release of cleared hourly nodal net positions of convergence bids in its October 16, 2009 opinion on the ISO's convergence bidding proposal.¹ Dr. Wolak argued that releasing the hourly net virtual position — total cleared incremental bids minus total cleared decremental bids — at each node at the close of the day-ahead market was likely to improve market performance without revealing either propriety market participant information or information that would be likely to enhance the ability of suppliers to exercise unilateral market power. This presentation was followed by discussion of the presentation with stakeholders and Department of Market Monitoring (DMM) staff present at the meeting.

The next topic discussed was local market power mitigation (LMPM) with proxy demand resources (PDRs). Eric Hildebrandt, Interim Director of Market Monitoring, gave a presentation demonstrating how including proxy demand resource bids could allow a supplier with local market power to avoid mitigation under the ISO's current local market power mitigation mechanism. Dr. Hildebrandt then discussed three options the ISO was considering to address

¹ Convergence Bidding Information Release and Market Performance, Frank A. Wolak, January 22, 2010, <http://www.caiso.com/2725/2725e2c02c80.pdf>

this issue. The first alternative was to adopt the DMM's proposal for local market power mitigation discussed in the convergence bidding process. Because the PDR will be in place before convergence bidding is in place, this approach was ruled out as short-term solution. The second alternative considered was to increase the ISO load forecast used in the current LMPM mechanism. Dr. Hildebrandt noted that this proposal would require ongoing adjustment of the load forecast by the ISO. He felt that the best short term option was a third proposal which would exclude PDR resources from the all-constraints run of the current local market power mitigation process. Several MSC members expressed their support for this third alternative as a short-term solution to the problem and felt that the first alternative had significant potential as a long-term solution.

The final topic discussed was the competitive path analysis (CPA) being performed by the DMM staff as part of the process of the annual revision of which transmission paths are considered competitive and uncompetitive in the ISO's local market power mitigation mechanism. DMM highlighted a number of key issues involved in the CPA process that might be modified in the future based on further experience, and received input on these issues from the MSC and stakeholders. This was followed by a more general discussion among MSC members, DMM staff and stakeholders of possible alternative approaches to local market power mitigation.

Stakeholder Outreach Activities

Over the past two months, several MSC members also participated in phone calls and meetings with stakeholders to discuss the performance of the new ISO market and aspects of convergence bidding information release proposal.