

Decision on Local Market Power Mitigation Enhancements

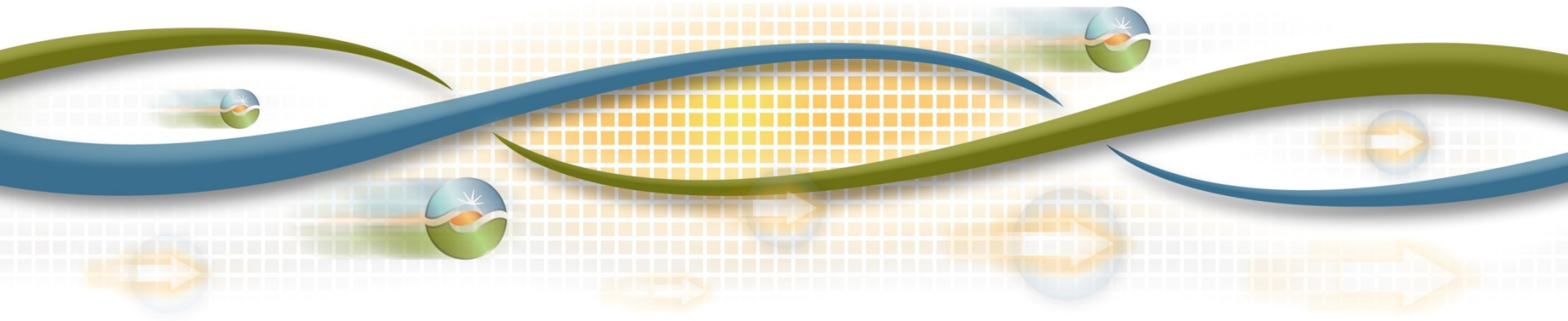
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The local market power mitigation initiative focused on meeting several objectives:

- Meet FERC requirement to use bid-in demand.
 - FERC September 21, 2006 order requires ISO to base mitigation on bid in demand within 3 years of new market implementation
- Address issues related to implementation of convergence bidding and proxy demand resource.
 - Bids currently excluded from mitigation process.
- Increase accuracy of market power mitigation.

Proposal changes the current local market power mitigation procedures in three ways:

1. Changes procedures for determining which resources are subject to bid mitigation.
 - Based on bid-in demand.
 - Considers virtual bids and bids from proxy demand resources.
 - Performed in a single pass using new LMP decomposition methodology.
2. Changes methodology for determining competitiveness of transmission paths.
 - Utilizes a dynamic competitive path assessment.
3. Changes process for determining reliability must run dispatches.
 - Determined through a manual procedure.

Proposed enhancements provide several benefits:

- More accurate mitigation.*
- Enable the use of bid-in demand, virtual and demand response bids.
- Streamlined procedure shortens processing time.

** Improved accuracy via more frequent execution and use of current system information.*

Stakeholders generally support the proposal and identified concerns have been addressed.

- Request for additional analysis completed:
 - Retrospective analysis comparing old & new methodology.
 - Additional analysis for deeper understanding of “how” and “why” the proposed approach was selected.
- Included dynamic competitive path assessment as part of the proposal.
- Bid mitigation enhancements and dynamic competitive path assessment will be implemented as concurrent as possible.

Implementation of new functionality will be staged to address implementation risks.

- New methodology for bid mitigation targeted for implementation in April 2012.
 - Meets FERC requirement.
 - Improves accuracy of mitigation.
- Dynamic competitive path assessment will be implemented in stages.
 - Day-ahead implementation spring 2012.
 - Real-time implementation Q4 2012.

Management recommends the Board approve the proposed local market power mitigation enhancements.

- Meets stated objectives of the initiative.
 - Meets FERC requirement.
 - Addresses issues related to new functionality.
 - Provides for more accurate market power mitigation.
- Result of a thorough stakeholder process.
 - Stakeholders support the proposed methodology.
 - Favorable Market Surveillance Committee Opinion.
- Streamlines processing.