



CALIFORNIA ISO

California Independent
System Operator

Department of Market Monitoring Recommendation on Bid Caps

Keith Casey, Ph.D.
Director, Market Monitoring

CAISO Board of Governors Meeting
December 16, 2005



DMM Recommendations

- DMM agrees with the recommendation of the MSC and CAISO Management to raise the current \$250 real time market bid cap.
- The potential reliability benefits of increasing the real time market bid cap from \$250 to \$400 significantly outweigh any potential cost impacts.
- Cost impacts should be minimal due to high level of forward energy contracting.



Market Power Mitigation Issues

- High level of forward energy contracting has substantially reduced opportunities and incentives for exercising system market power.
 - LSEs have minimal exposure to the “energy” spot market.
 - Small spot market volumes coupled with the shifting spot market risk to the supply-side of the market significantly limit opportunities and incentives to exercise system market power.
- CAISO Market Power Mitigation Tools will remain in place:
 - Local market power mitigation measures
 - System bid conduct and market impact tests (System AMP)



Changes to System AMP not Required

- Current System AMP
 - \$91.87 Price Screen for “running” AMP.
 - Conduct Test: Lower of \$100 or 200% increase in bid relative to reference price
 - Impact Test: Lower of \$50 or 200% increase in projected real-time price.
 - Reference Prices – Indexed to monthly gas prices.



Market Performance under a Higher Bid Cap will be Closely Monitored

- In the unlikely event that system market power became a serious concern, the bid cap level could be revisited. Lowering the thresholds on System AMP is another option.
- If local market power became a serious concern and the current local market power mitigation procedures were determined to be inadequate, DMM would seek more stringent local market power mitigation.