

Memorandum

To: ISO Board of Governors

From: Benjamin F. Hobbs, Chair, ISO Market Surveillance Committee

Date: October 25, 2012

Re: Briefing on MSC Activities from September 1 – October 15, 2012

This memorandum does not require Board action.

Summary

Over the period covered by this memorandum, individual members of the MSC have conferred with ISO staff and stakeholders concerning several important on-going initiatives of the ISO. The initiatives on which MSC members have been consulted include development of a flexible ramping product; bid cost recovery mitigation measures; and performance of local market power mitigation.

In addition, MSC member Dr. James Bushnell presented the MSC opinion¹ on the ISO's long-run flexible generation capacity procurement: risk of retirement proposal to the Board at its September meeting. Also, MSC chair Dr. Benjamin Hobbs reviewed approaches for economic evaluation of alternative timings of transmission investments with ISO transmission planning staff.

No public MSC meetings or calls have been held; the next public meeting will be conducted in Folsom on October 19, 2012.

Flexible Ramping Product Development

The management and compensation of resources for the provision of system ramping capability day-ahead and in real-time is the focus of this proposal. Consultations by individual MSC members with staff and stakeholders have concerned the relationship of procurement processes in the day-ahead, real-time pre-unit commitment, and real-time

¹ J. Bushnell, S. Harvey, B. Hobbs, and S. Oren, "Opinion on Flexible Capacity Procurement: Risk of Retirement", Opinion of the Market Surveillance Committee of the California ISO, <http://www.caiso.com/Documents/MSCFinalOpinion-FlexibleCapacityProcurementRisk-Retirement.pdf>

dispatch markets. A focus has been on the definition of requirements for the product in these markets, and alternative rules for bidding. These issues will be discussed at the upcoming October 19 meeting. The MSC plans on issuing a formal opinion in time for consideration when the proposal is brought to the Board.

Bid Cost Recovery Mitigation Measures

The ISO's market rules provide for recovery of start-up, minimum run, and energy bid costs if a generator is scheduled by the ISO market software but energy and other revenues are insufficient to cover those bid costs. In December 2011, the Board approved the separation of bid-cost recovery payment calculations for the day-ahead and real-time markets. This separation is intended to increase the incentive for supply bids to be submitted in the real-time markets.

At the same time, however, it is possible that incentives are increased for adverse bidding behavior in real-time in order to increase bid-recovery payments. Such behavior can harm market efficiency and increase costs to consumers. MSC members have conferred with ISO staff on the development of procedures that would identify such behavior by market participants, and discourage it by disqualifying certain portions of bid cost recovery payments. This initiative will be discussed at the October 19, 2012 MSC meeting, and will be the subject of a formal MSC opinion when a proposal on this issue is brought to the Board.

Local Market Power Mitigation Performance

In its Order accepting the ISO's revisions to the Local Market Power Mitigation procedures,² the Federal Energy Regulatory Commission directed the MSC to report findings regarding the appropriateness of the three-pivotal-supplier test and whether an alternative competitive screen to identify market power opportunities for generation in load pockets is necessary. This report is required by May 1, 2013.

During the period covered by this memo, we have discussed the types of studies that would be needed to comply with this order. The ISO's Department of Market Monitoring is assisting by providing data and modeling services. The MSC looks forward to working with the Department of Market Monitoring on designing and completing the analyses necessary for the report ordered by the FERC.

² Federal Energy Regulatory Commission, "Order Accepting Tariff Revisions," 138 FERC ¶ 61,154, www.caiso.com/Documents/2012-03-01_ER12-423_LMPMorder.pdf