

Memorandum

To: ISO Board of Governors

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

Date: September 2, 2009

Re: *Market Surveillance Committee Activities from June 30, 2009 to August 19, 2009*

This memorandum does not require Board action.

The Market Surveillance Committee (MSC) has continued to review the performance of the Market Redesign and Technology Upgrade (MRTU) markets. Three significant market performance issues have arisen since go-live. The first concerns the frequency and magnitude of the exceptional dispatch instructions. The MSC held a joint stakeholder meeting on July 16, 2009, where more than half of the day was devoted to reviewing the frequency and magnitude of exceptional dispatch instructions. The second issue is whether and how to increase the pool of units considered in the integrated forward market (IFM) under MRTU. To this end, the MSC has participated in stakeholder conference calls and discussions with Market and Infrastructure Development (MID) staff and Department of Market Monitoring (DMM) staff. The final issue is the design of market power mitigation procedures to allow suppliers to change generating units' start-up and minimum load offers more frequently. The MSC opined on this issue in the July 16, 2009 opinion, "*Comments on Changes to Bidding Start-Up and Minimum Load*".

MSC Meeting on July 16, 2009

The use of exceptional dispatch since the start of the new markets has been higher than expected, and this has caused concern, particularly from the generation unit owners. An MSC meeting was held on July 16, 2009, to discuss this issue as well as others that have arisen since go-live. The Department of Market Monitoring has also provided a detailed analysis of the frequency and magnitude of day-ahead and real-time exceptional dispatch instructions in its "*Quarterly Report on Market Issues and Performance*," dated July 30, 2009.

One outcome of the MSC meeting and the DMM analysis of exceptional dispatch instructions from April 1, 2009 is that there are a host of reliability constraints that the ISO operators must respect in operating the transmission network that are not currently incorporated in the market model used in the day-ahead and real-time markets. We understand the ISO is working to incorporate as many of these constraints as possible into the market software as quickly as possible. However, many of these constraints are extremely complex and incorporating them

into the system software could considerably increase the time it takes to solve for the day-ahead and real-time market outcomes. Consequently, there is a need to balance the computation complexity of the market solution against the need to obtain dispatch and pricing results in a timely manner. The MSC is continuing to review the use of exceptional dispatch instructions and plans to produce an opinion on this topic in September.

Relaxing the MPM Rule Limiting Pool of Units Considered in IFM

MSC members have participated in a number of conference calls and stakeholder discussions of mechanisms for changing the market power mitigation (MPM) mechanism for the day-ahead market. Currently, the day-ahead market runs a MPM step using the ISO's load forecast to determine which generation units should be subject to MPM before the actual day-ahead market operates. The current market rules only allow those units that are selected in the MPM mechanism step to meet the ISO's load forecast to be considered in the integrated forward market (IFM), which clears against bid-in demand. Several instances have been identified where this limitation on resources that can be considered in the IFM may have led to significantly higher prices. The ISO has made a number of proposals to address this issue, as have several stakeholders. Members of the MSC have participated in stakeholder calls and commented on possible solutions to this issue. One proposal that appears to have garnered significant stakeholder support is to allow all units that submitted offers to the day-ahead market to be considered in the IFM, rather than only those that were accepted to supply energy in the final stage of the ISO's MPM mechanism, as is currently the case. DMM's analysis of this proposal has found that it would have reduced the extreme day-ahead prices that triggered consideration of changes to the MPM mechanism.

Start-Up and Minimum Load Bidding

The MSC produced an opinion on July 16, 2009, entitled, "*Comments on Changes to Bidding Start-Up and Minimum Load.*" The opinion urged the ISO to limit the discretion suppliers have to alter their start-up and minimum load offers to a maximum 200 percent of the cost-based number every 30 days. In addition, the MSC stated that until the ISO could incorporate the start-up and minimum load bids into its MPM mechanism, suppliers should not be allowed greater discretion in the frequency that they are allowed to change their offers or the cap on these offers. The MSC also noted that the design of an MPM mechanism for start-up and minimum load offers was complicated by the fact that computing estimates of these costs was more complex than computing an estimate of the operating cost of a generation unit.