



# Briefing on 2009 Annual Report on Market Issues and Performance

Eric Hildebrandt, Ph.D.

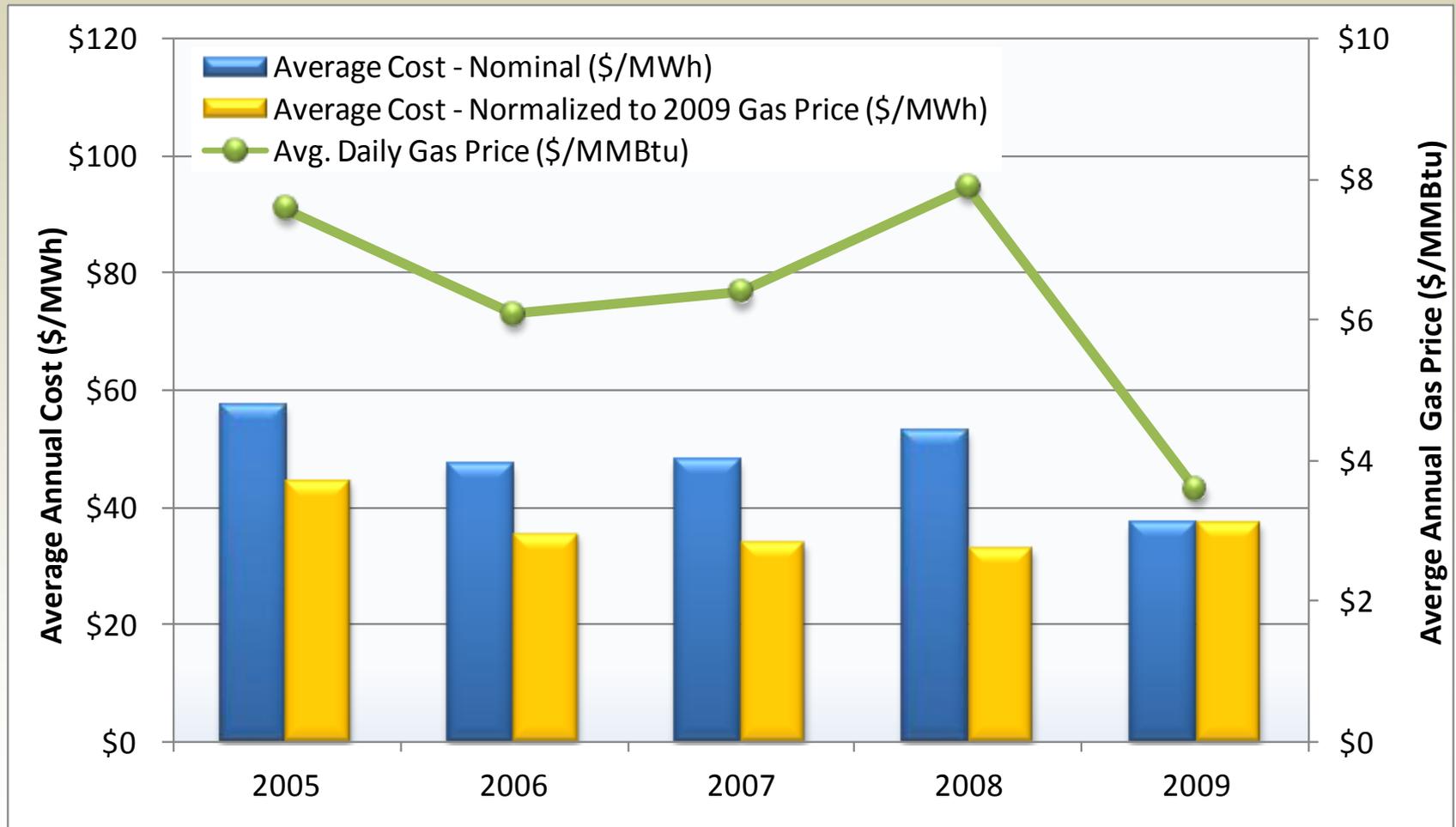
Director, Department of Market Monitoring

Board of Governors Meeting

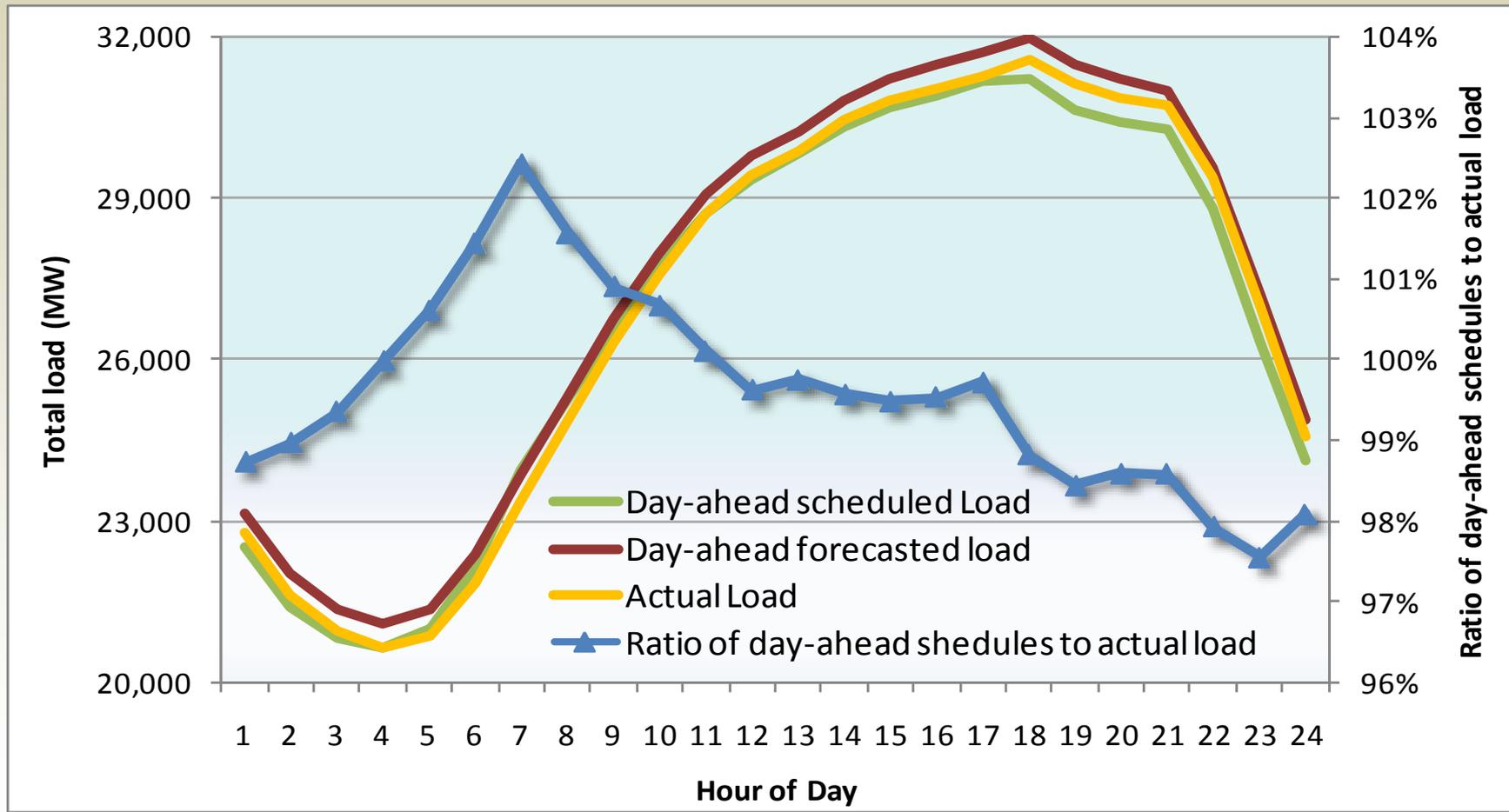
General Session

May 17-18, 2010

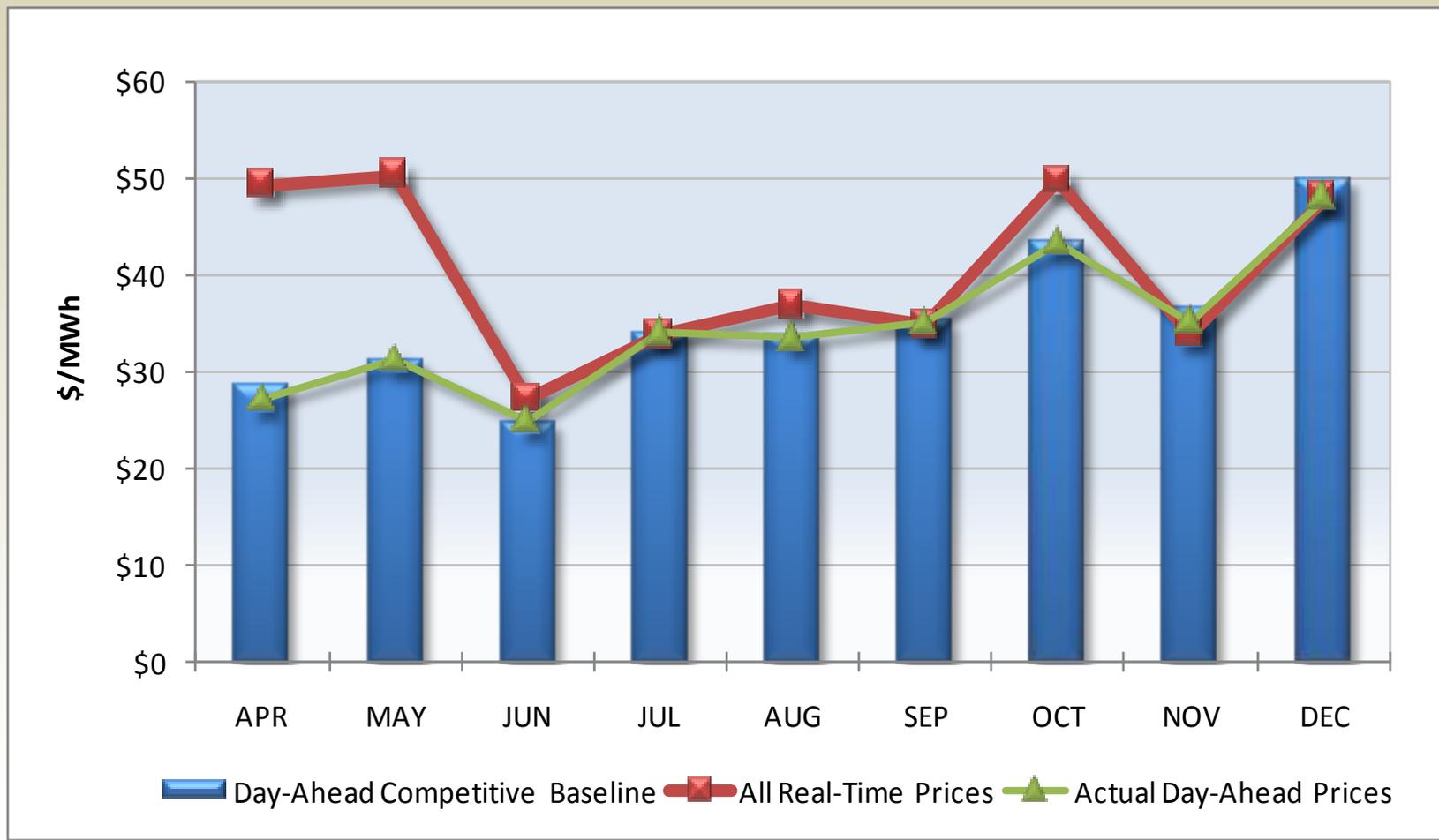
Total wholesale costs have decreased primarily due to drop in gas prices – but the new market design also lowered costs.



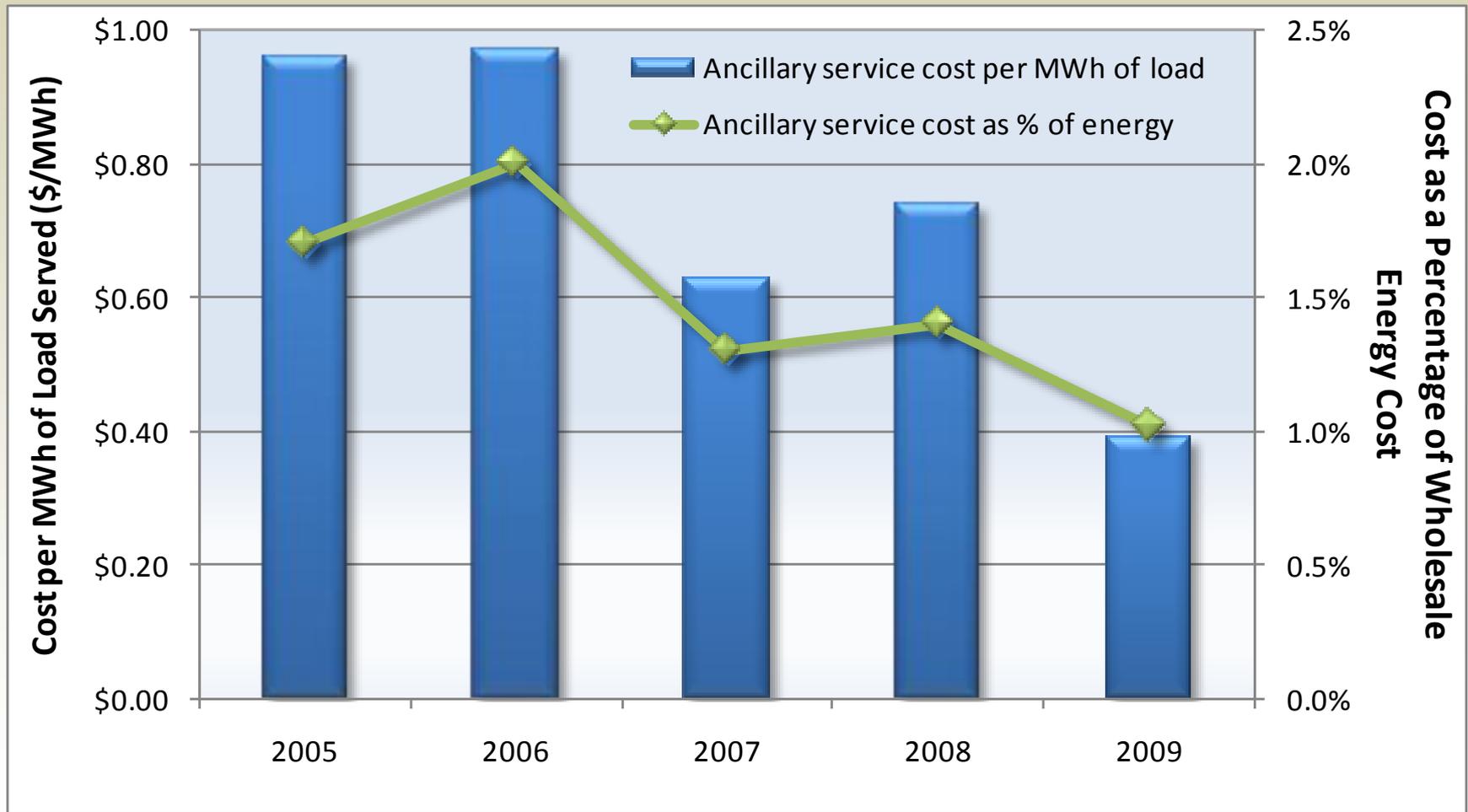
# Load and generation scheduled in day-ahead market has been very high – but not too high.



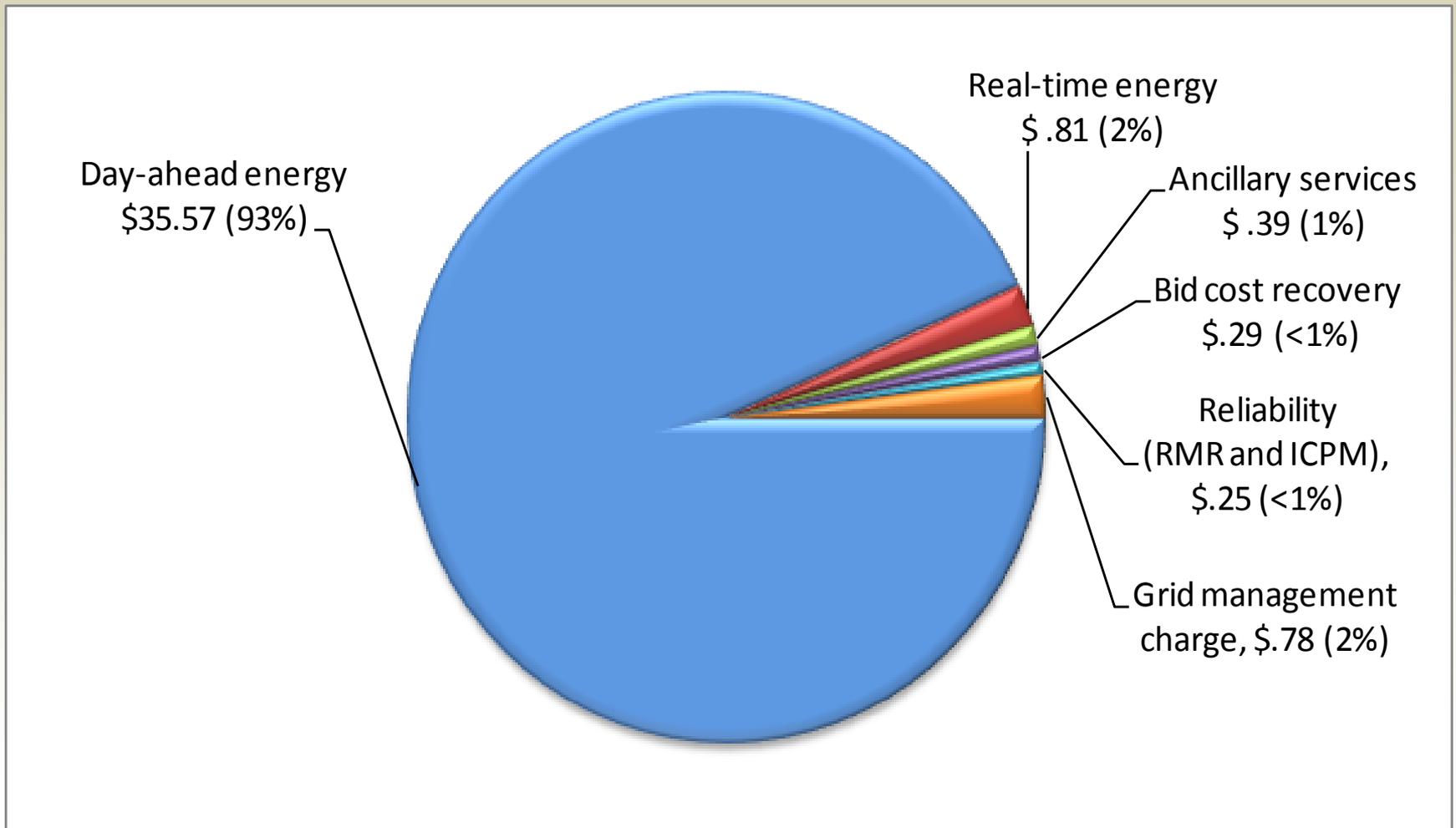
# Day-ahead and real-time prices have been about equal to a perfectly competitive baseline.



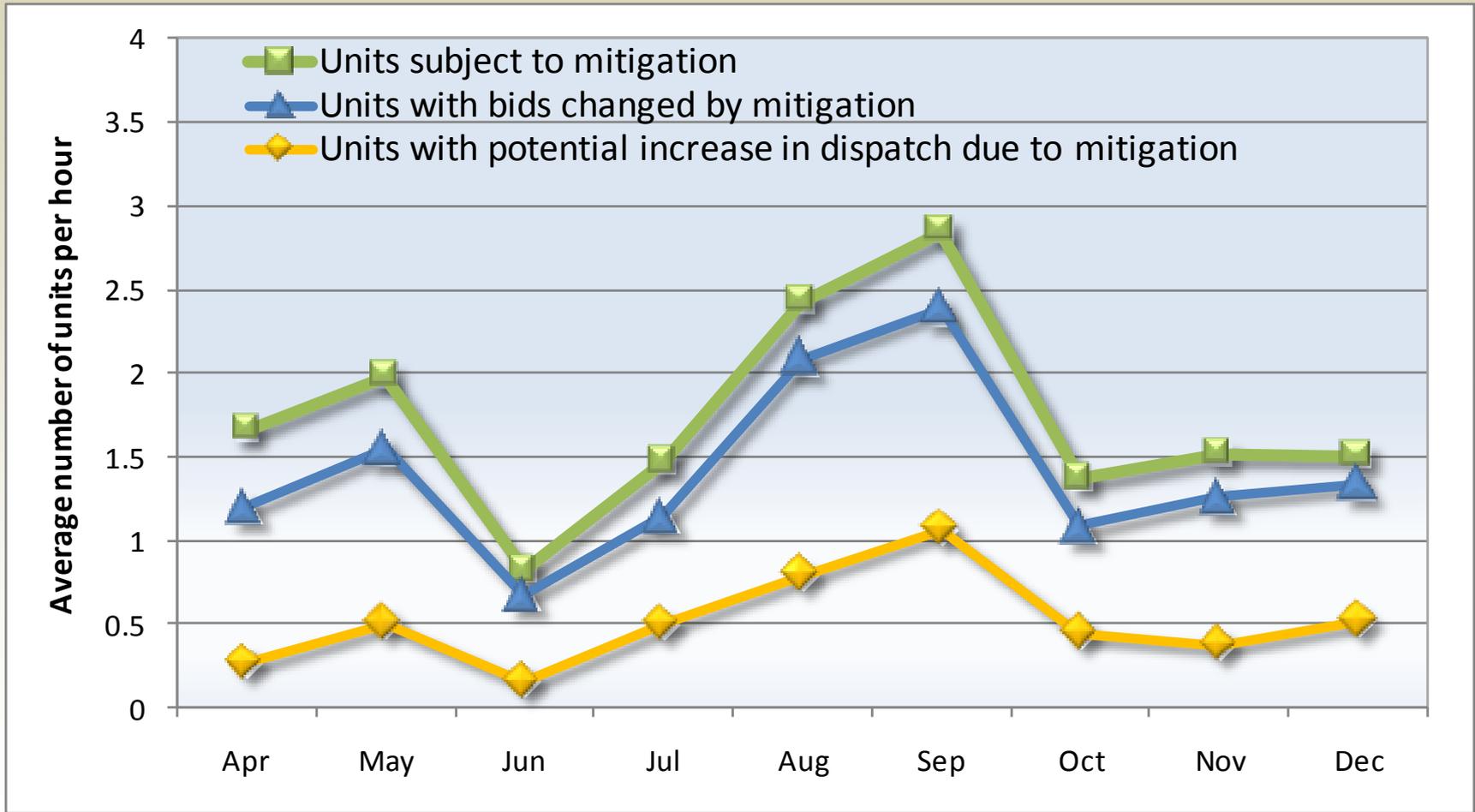
# Ancillary service costs have decreased due to co-optimization.



# Bid cost recovery uplift payments were relatively low and compared favorably with other ISOs.

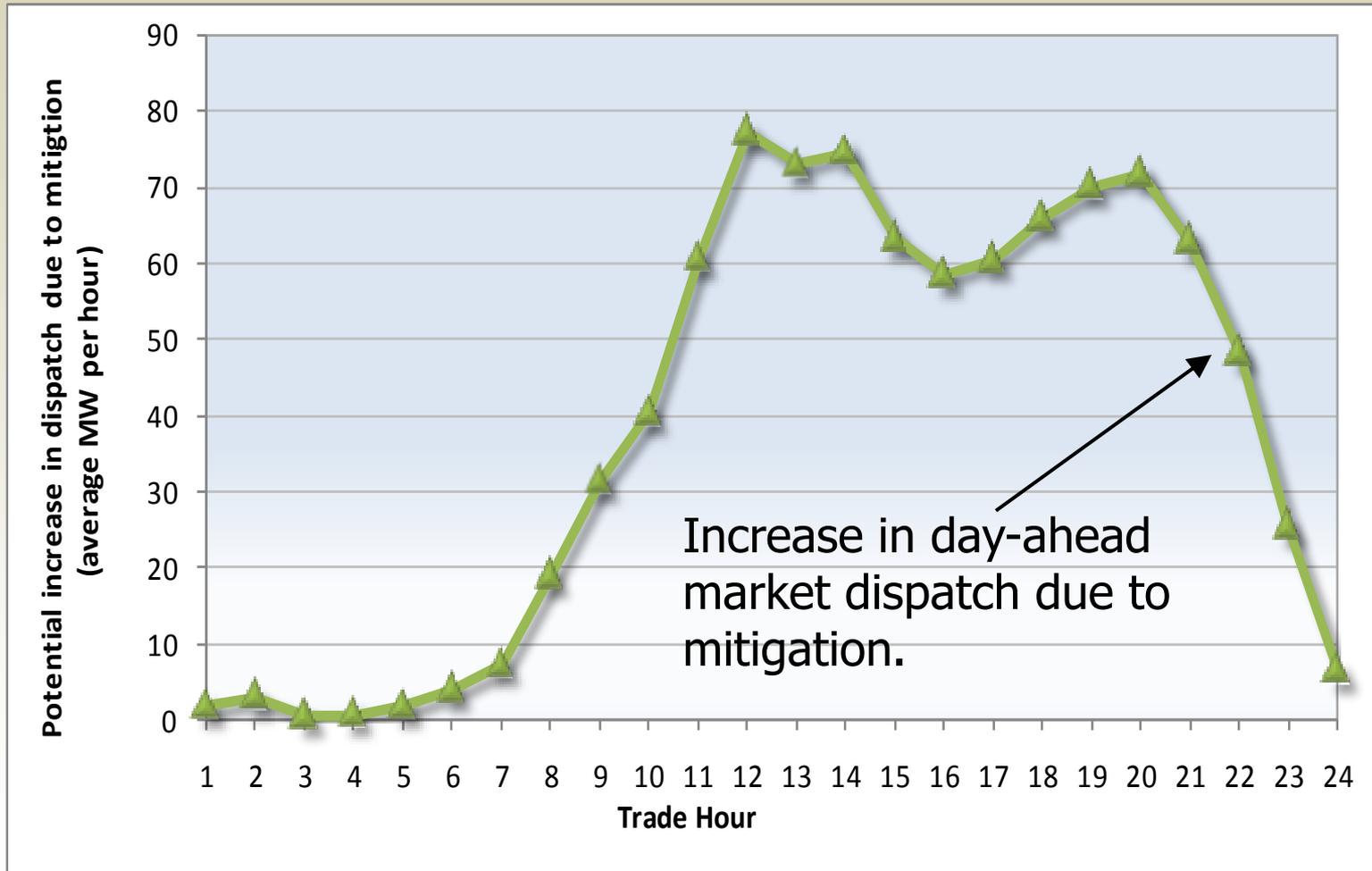


The number of units impacted by local market power mitigation procedures has been relatively low.

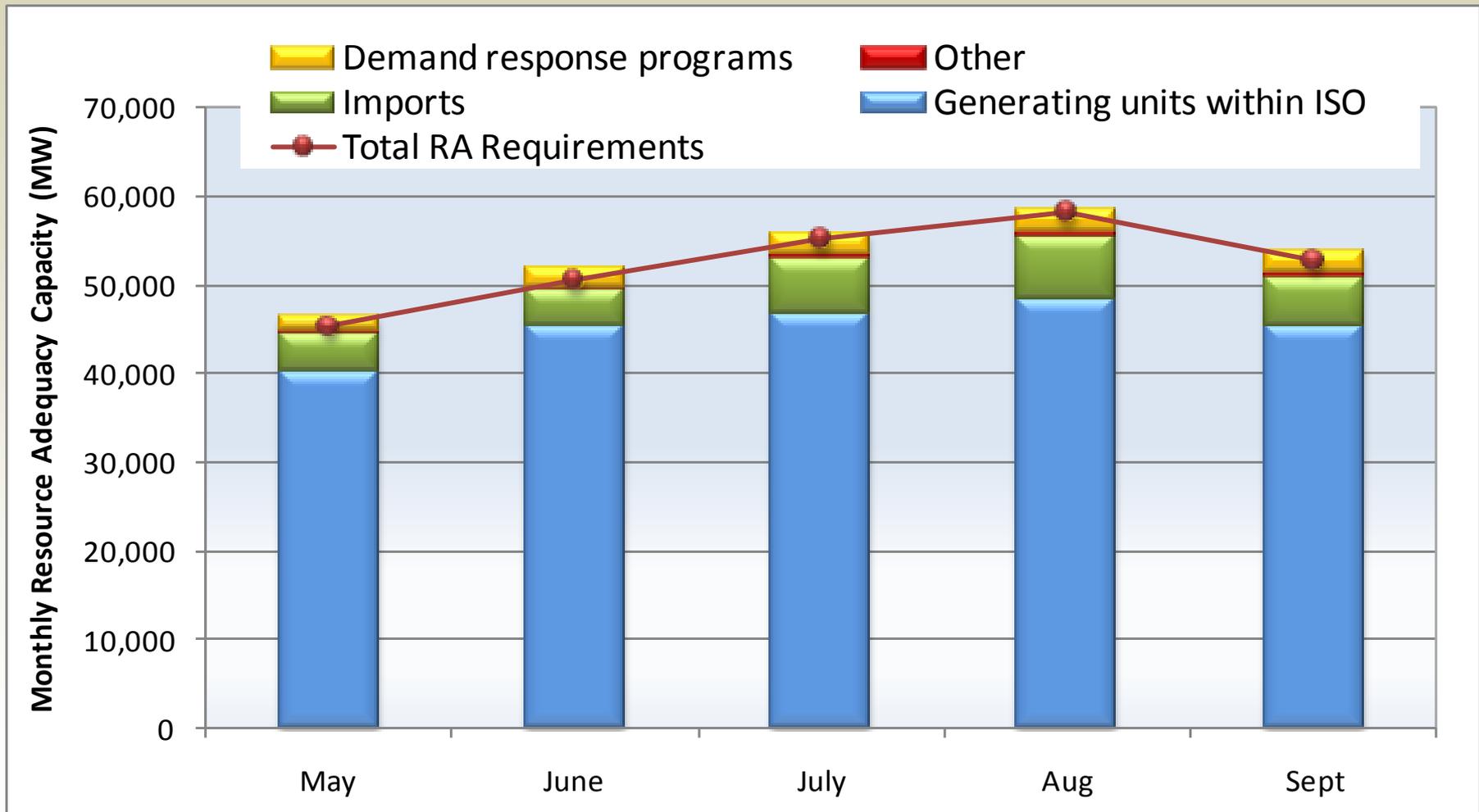


Day-ahead market

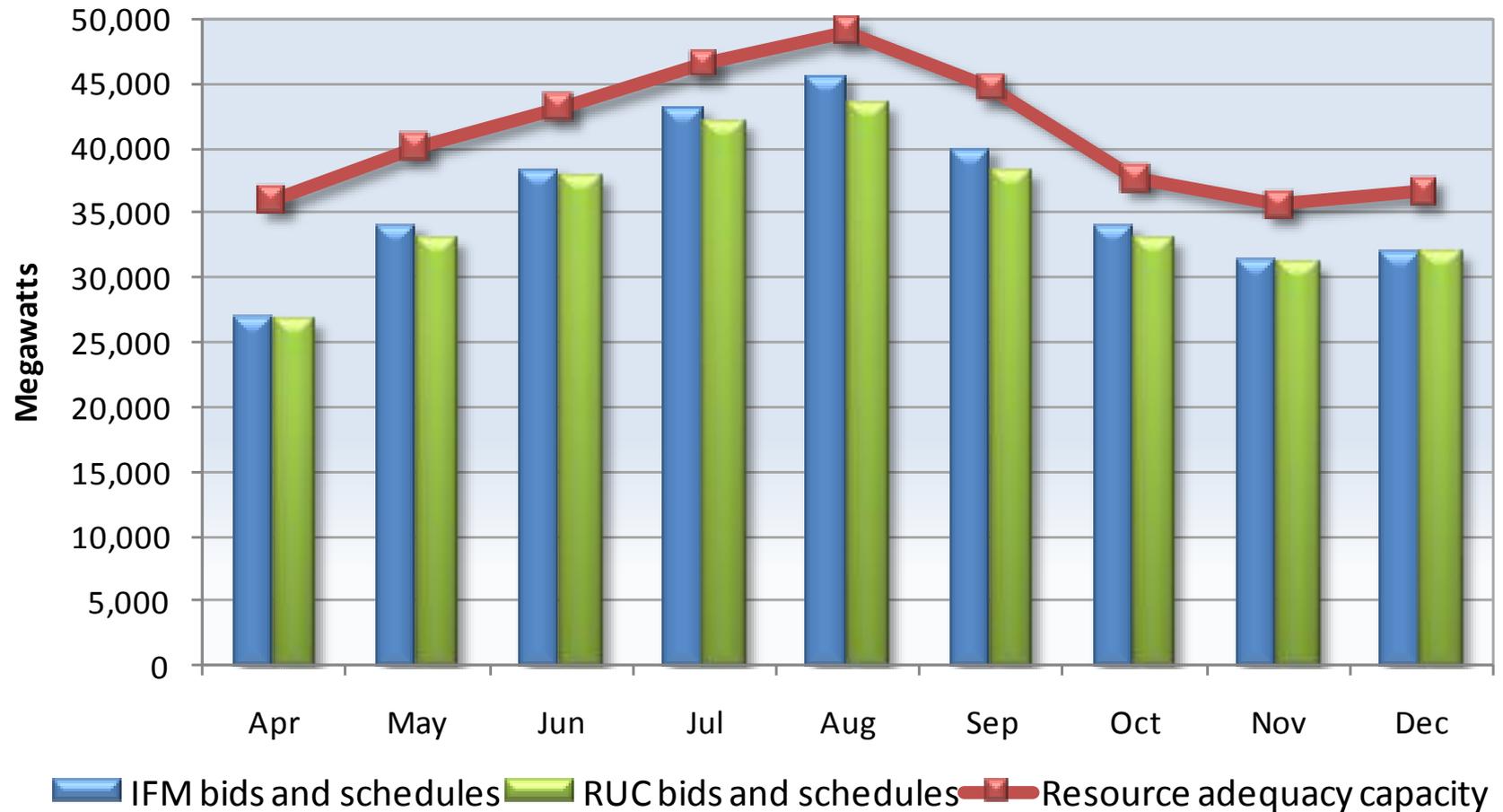
When bids are lowered due to mitigation, the market impact has usually been relatively low.



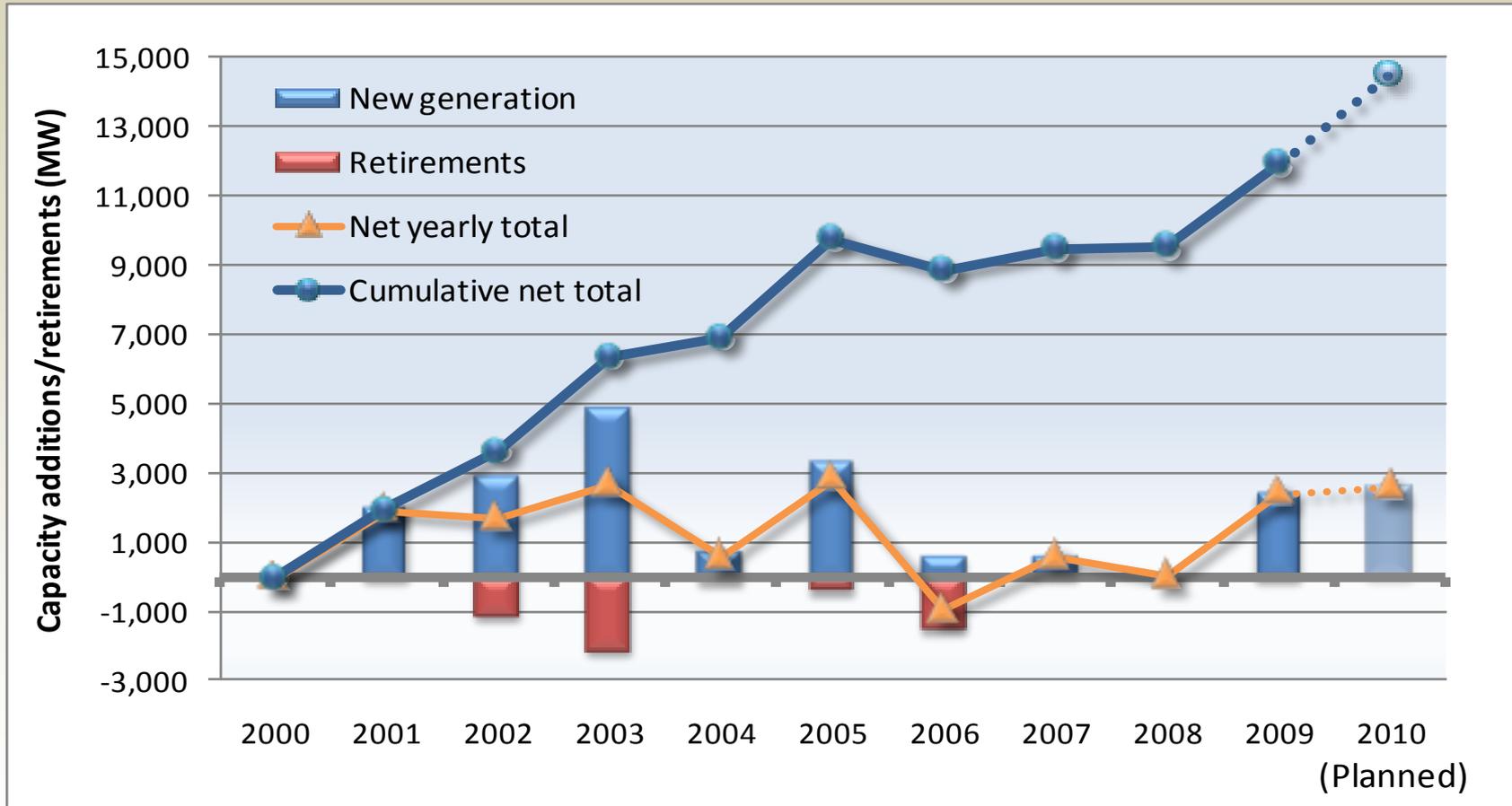
# Month ahead resource adequacy capacity showings exceeded system and local requirements.



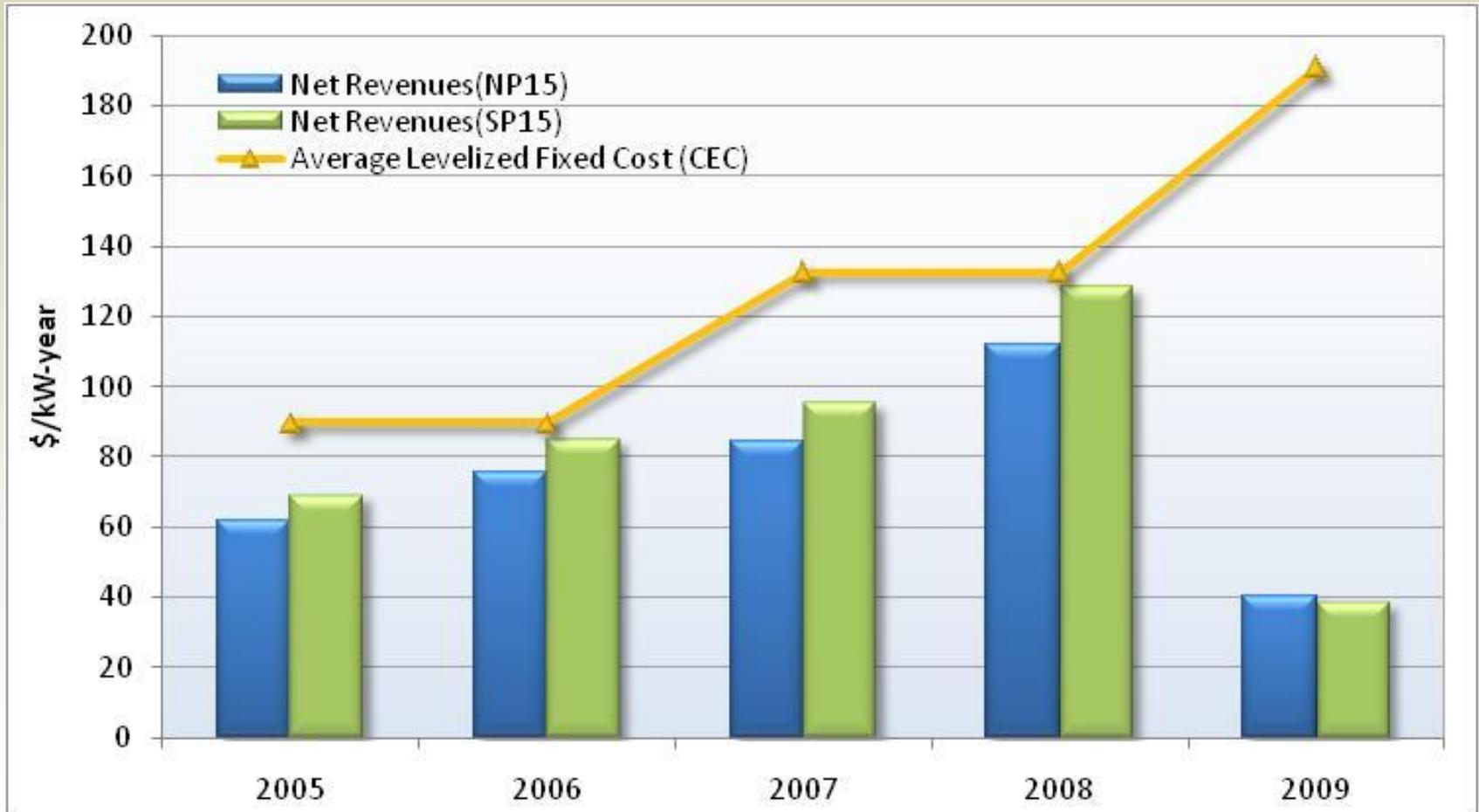
About 91% of resource adequacy capacity was available in the day-ahead market during very high load hours.



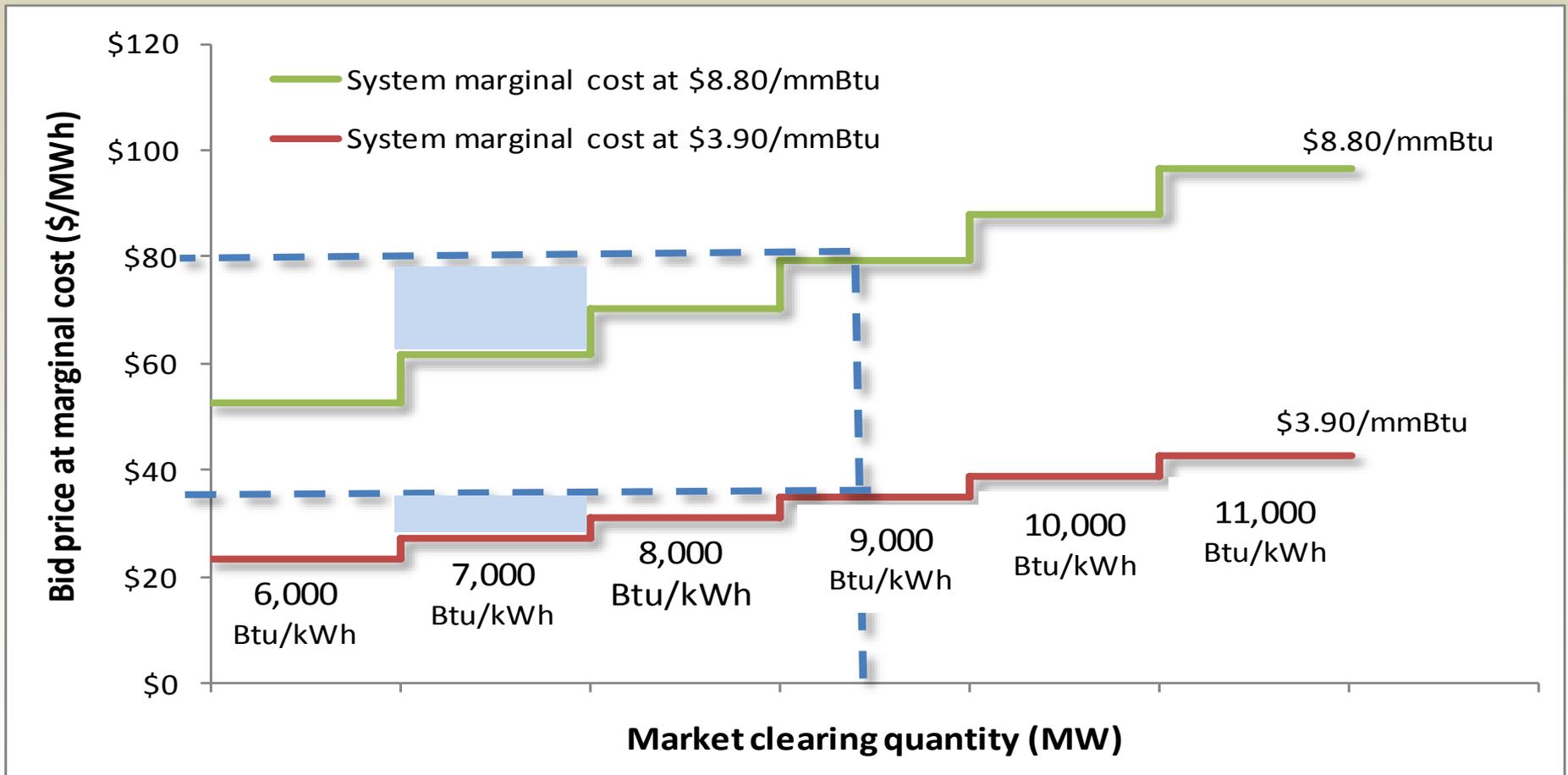
Over 2,400 MW of new generation capacity was added in 2009, including 86 MW of renewables.



Estimated net revenues earned by a hypothetical new combined cycle unit from the ISO spot market dropped significantly.



# The drop in gas prices accounts for most of the decrease in net revenues of new gas-fired generation.



# Recommendations: Market power mitigation

- Continuation of CPUC policies encouraging high level of forward energy contracting.
- Maintain current local market power provisions in 2010, while developing refinements:
  - Complete review of modifications previously proposed by DMM in convergence bidding design process.
  - Consider how to “relax” test for competitiveness of constraints once tool allowing more dynamic testing is completed.
  - Improve processes to ensure proper implementation of all aspects for local market power mitigation procedures.

# Recommendations: Market design issues

- Develop capability to monitor proxy demand resource program taking effect in 2010 and adjust program as needed.
- Work with CPUC to develop requirements for proxy demand resources developed by non-utility demand service providers to provide resource adequacy capacity.
- Continue to work with CPUC to refine resource adequacy capacity counting criteria and performance standards for cogeneration, wind and solar resources.