

# Memorandum

**To:** ISO Board of Governors

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

**Date:** September 1, 2010

**Re:** *Market Surveillance Committee Activities from July 16, 2010 to August 23, 2010*

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*This memorandum does not require Board action.*

The Market Surveillance Committee (MSC) has been involved in two major activities over the past month: (1) participating in the formulation of revisions to the ISO's policy on dynamic transfers and preparing the attached opinion on this topic that was approved on August 5, 2010, and (2) undertaking quantitative analyses of the performance of various aspects of the ISO markets since the start of the nodal market on April 1, 2009.

### ***Opinion on the ISO's Dynamic Transfer Policy for Intermittent Resources***

An increasing number of intermittent renewable generation resources constructed or proposed for construction outside of the California ISO control area are intending to sell energy to retailers inside the California ISO control area. This has necessitated reconsideration of the ISO's policies for dynamic transfers. MSC members have participated in several meetings and phone calls with ISO staff to discuss the various versions of the ISO's dynamic transfer proposal.

The MSC understands that the ISO has deferred consideration of the dynamic transfer policy to allow for the policy to be informed by the completion of technical studies. Following is a summary of the MSC opinion on the dynamic transfer proposal prior to ISO deferring consideration on the proposal. The MSC's August 5, 2010, opinion on this topic supported the logic outlined in the ISO's proposal, which called for waiting until a number of studies underway of the system reliability and market efficiency consequences of allowing dynamic transfers from intermittent resources were completed before implementing a final policy. The MSC supported a two-stage approach because the increasing number of requests by renewable resources located outside of California to submit dynamic schedules emphasizes the need for a policy that allows this to occur as soon as possible, but the limited information on the market performance and system reliability impacts of dynamic transfers by intermittent resources argues against adopting a final policy at the present time.

The MSC opinion then highlighted two important criteria with regard to the design of an interim dynamic transfer policy. First, an interim solution, by definition, should not allocate inertia capacity rights that would extend beyond the interim period. Second, the interim proposal

should allow for as much utilization of the available dynamic transfer capacity as quickly as possible. The MSC felt that the most expedient interim solution would therefore be to allow all eligible importers to offer dynamic imports through the ISO's existing day-ahead and hour-ahead congestion management process. This would make maximum use of existing market mechanisms to manage dynamic transfers from intermittent resources and maximize the utilization of dynamic transfer capacity during the interim period. Moreover, the experience gained during the interim period may reveal that the ISO's existing congestion management process is also the most cost-effective long-term solution to managing dynamic transfers from intermittent resources. The remainder of the opinion outlined four criteria that MSC felt should guide the process of designing a long-term policy.

### ***Analysis of Performance under New Market Design***

The MSC is continuing to undertake quantitative analyses of data from the ISO markets since the start of the new market design initiated as part of its study of the performance of the ISO's current local market power mitigation mechanism. One goal of this research is to investigate alternatives to the ISO's current local market power mitigation mechanism that rely on the most timely information on the ability of a generation unit owner to exercise unilateral market power, so as to mitigate the supplier only when the generation unit owner has a significant ability and incentive to exercise local market power. The MSC is grateful to DMM staff for providing the necessary data for the analysis and plans to continue to work with DMM to ensure the results of the research are useful to the ISO's market monitoring process.