



TO: CAISO GOVERNING BOARD MEMBERS, STEVE BERBERICH AND KAREN EDSON
CC: SAEED FARROKHPAY, MAURY KRUTH, FERC
FROM: GARY ACKERMAN AND ELLEN WOLFE, WESTERN POWER TRADING FORUM
SUBJECT: CAISO BOARD PROPOSAL ON LOCAL MARKET POWER MITIGATION AND DYNAMIC PATH ASSESSMENT
DATE: JULY 13, 2011

The Western Power Trading Forum appreciates the opportunity to inform the Board of an important implementation concern. We regret that WPTF representatives will not be in attendance at this week's board meeting and hope that the board finds this memo sufficiently informative.

The CAISO staff is proposing changes to (1) its local market power mitigation procedure ("mitigation procedure") and (2) its competitive transmission path assessment ("assessment"). Whereas WPTF generally supports the substance of both proposed changes, we strongly oppose the CAISO's intended schedule to implement the new mitigation procedure and dynamic path assessment at different times. Specifically, the CAISO proposes to delay the day-ahead dynamic assessment one month and the path assessment used in the hour-ahead and real-time by approximately eight months.

The mitigation procedure has been re-designed to both use bid-in demand (responding to a FERC order) and to be conducted in a single pass (thereby saving computational time). The new dynamic assessment will replace the current path assessment (which is conducted through a laborious manual process once a quarter) and will be conducted as part of the market process. The new assessment process will remedy severe deficiencies with the current competitive path assessment.¹ The mitigation procedure and the new assessment are intended to work hand-in-hand to mitigate participants' energy bids when the participant's unit is deemed to have the potential to exercise local market power (because the unit affects the flow on a congested non-competitive transmission path).

¹ The current assessment treats 99% of the nearly 5000 transmission paths as uncompetitive without actually assessing whether those paths are competitive, even though the CAISO finds only 3% of paths it tests for competitiveness to be uncompetitive.

The CAISO's proposed implementation schedule places a higher priority on the mitigation procedure changes, seemingly because of a FERC order directing the CAISO to modify the mitigation procedure by April 2012. However, the FERC order only requires the CAISO to use bid-in demand in the mitigation procedure and does **not** require the CAISO to move to the single pass mitigation procedure. While the new mitigation procedure will remedy some problems with the current mitigation procedure², WPTF is greatly concerned that implementing the new mitigation procedure prior to implementing the new dynamic path assessment will result in the unnecessary and unwarranted mitigation of energy bids.³ To WPTF, decoupling the implementation of these two changes is like putting new wood floors in a house but delaying fixing the leaking roof; it makes no sense to implement upgraded mitigation procedures while the inaccurate and overly stringent path assessment is kept in place. Instead the CAISO should implement both the new mitigation procedure and the dynamic competitive path assessment simultaneously in each market (day-ahead, HASP, and real-time). If necessary, the CAISO should request that FERC grant a short⁴ delay for complying with the order directing the use of bid-in demand in the mitigation procedure – a request that WPTF would support.

WPTF respectfully requests that the Board direct staff to revise its proposal to provide for simultaneous implementation of the mitigation procedure and the dynamic path assessment or otherwise work with WPTF to address WPTF's concerns about non-simultaneous implementation. WPTF appreciates staff's thorough work on, and presentation of, these issues and hopes WPTF and staff can agree to modifications to the CAISO's proposal that both parties could accept.

In summary, WPTF respectfully asks the board to consider the alternative resolution language (changes shown in underlining).

Moved, that the ISO Board of Governors approves the proposed tariff change regarding the enhancements to local market power mitigation, as detailed in the memorandum dated July 6, 2011; and

Moved, that the ISO Board of Governors directs staff to work with stakeholders, prior to making any regulatory filings, to address concerns

² Namely, that the current mitigation procedure regularly mitigates bids when mitigation is not warranted.

³ WPTF believes this will take place because the new mitigation procedure will mitigate the energy bids of any unit that affects flow – no matter how minutely - on a transmission path deemed non-competitive, while the current path assessment will deem all paths that are not even tested in the quarterly assessment to be non-competitive.

⁴ For example, according to the CAISO schedule only a one-month delay would be required to allow for simultaneous implementation in the day-ahead market.

**about implementing the new local market power mitigation procedures
ahead of implementing the dynamic path assessment, and**

**Moved, that the ISO Board of Governors authorizes Management to make all
necessary and appropriate filings with the Federal Energy Regulatory
Commission to implement the proposed tariff change.**

Thank you for your consideration.