Independent Market Monitoring: Current Issues

Presented by:

Harvard Energy Policy Group

David B. Patton, Ph.D.
Independent Market Monitor

June 2, 2011
The Role of Market Monitoring

  - In each of these roles, we monitor the conduct and actions of both market participants and the Midwest ISO.
  - We also monitor a number of individual transmission providers or utilities (to identify anticompetitive, manipulative or discriminatory conduct).
- RTO market monitoring is intended to ensure that the markets operate competitively and efficiently to achieve the benefits of competition.
  - Market monitoring should provide improved transparency to the markets and increased confidence in the market overall.
- Market monitoring is designed to identify:
  - Flaws in market rules that create inefficiencies or gaming opportunities;
  - Efficiency improvements;
  - Market power abuses and manipulation;
Market Monitoring Scope and Independence

• Market monitoring addresses a broad array of competitive and efficiency issues. This scope includes:
  ✓ Abuses of market power: identifying the existence of market power and conduct by participants to exercise market power. *(1 recommendation in 2010 SOM)*
  ✓ Market manipulation: detecting attempts to influence market outcomes or settlements through fraud or manipulation. *(1 recommendation in 2010 SOM)*
  ✓ Market performance: determining whether market rules and procedures provide efficient incentives and lead to efficient market outcomes. *(6 recommendations)*
  ✓ Operator performance: evaluating whether the Midwest ISO is operating the system in a manner that is consistent with their reliability requirements and not undermining market performance. *(6 recommendations in 2010 SOM)*

• Independence of the Market Monitor from the RTO is important due to its role in monitoring the RTO’s rules, procedures, and operations.
  ✓ The actions of a market operator generally have a larger impact on the market outcomes than any single participant.
  ✓ Manual actions taken to maintain reliability can distort the market outcomes -- the rules and operating procedures can often be modified to improve the consistency of the market and reliability requirements.
Important Operating Areas to Monitor

- Real-time commitments and other reliability actions
  ✓ “Headroom” targets”
  ✓ Process for committing and decommitting peaking resources
  ✓ Export curtailments
  ✓ Other emergency actions

- Transmission operations
  ✓ Modeling consistency between day-ahead and real-time markets (leads to balancing congestion)
  ✓ Modeling consistency between the FTR market and day-ahead market.
  ✓ “Marginal value limit” levels and changes by operators
  ✓ Constraint “relaxation”
  ✓ Shift factor “cutoffs”

- Ramp management
  ✓ Use of the load offset parameter
  ✓ Load forecasting
  ✓ Transaction scheduling
Value of Real-time Congestion

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manageable Congestion</td>
<td>154.5 M</td>
<td>121.7 M</td>
<td>152.7 M</td>
</tr>
<tr>
<td>Priced Unmanageable Congestion</td>
<td>36.8 M</td>
<td>31.8 M</td>
<td>55.3 M</td>
</tr>
<tr>
<td>Unpriced Unmanageable Congestion</td>
<td>27.7 M</td>
<td>39.3 M</td>
<td>49.0 M</td>
</tr>
<tr>
<td>Share of Congestion Unpriced</td>
<td>13%</td>
<td>20%</td>
<td>19%</td>
</tr>
</tbody>
</table>
Current Challenges for Market Monitoring

- System modeling and operator conduct;
- Integrating subsidies and regulated investment in transmission, supply resources or demand resources;
- Monopsony market power (i.e., state intervention in wholesale markets);
- Removing barriers and facilitating trade between RTOs;
- Who’s watching the watchers? *Everyone*
  - FERC
  - RTO management and RTO Boards
  - Market Participants
  - States
  - Academics