

The Role of Market Monitors

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March 3, 2006

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Agenda

- FERC mandate
- Role of market monitoring unit
- Emerging market monitoring issues
- Conclusion

FERC Policy Statement on Market Monitoring Unit (May 27,2005)

- Identify ineffective market rules and tariff provisions and recommend proposed rule and tariff changes to the ISO/RTO
- Review and report on the performance of wholesale markets in achieving customer benefits
- Provide comprehensive market analyses critical for informed policy decision making
- Identify potential anticompetitive behavior by market participants

The Need for Market Monitoring is Driven by the Nature of Electricity

- ✓ Electricity is not storable
- ✓ Lack of demand response in real time
- Electricity market is a coordinated market, which remains incomplete
- Reliability (security of supply) is a public good
- Market power can't be eliminated
- Price cap or bid cap is necessary

Electricity restructuring is a process, not an event

- Market monitor provides the feedback loop to improve the performance of market
- Market performance metrics include efficient prices, reliability and efficient investments
- No market design is perfect
- It is market monitor's job to focus on the overall market performance

How Does an Internal Market Monitor Work?

- Market monitor has specific but limited mitigation authority to ensure compliance
 - Conduct/impact threshold
 - Reference price calculation
 - Market behavior rule
- Access to information and the ability to assess market performance is essential
- Open communication with market participants is essential
- Cooperation with FERC and state regulators is critical
- Keep the Board and senior management team in the loop

Emerging market monitoring issues

- Cold Snaps in the winter
- Reliability contracts
- Ancillary Service Markets
- Capacity market
- FERC's new market manipulation rule

Conclusion

- Market monitors need to focus on the overall performance of markets
- Market power mitigation authority specified in market rules provides an important base
- Access to data, analyses, knowledge, and open communication provides powerful tools
- Partnership with FERC and state regulators is essential