



Independent Market Monitoring: Current Issues

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Independent Market Monitor

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The Role of Market Monitoring

- Potomac Economics is the Independent Market Monitor (“IMM”) for the Midwest ISO, New York ISO, and ERCOT, and the External Market Monitor for ISO New England.
 - ✓ 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.

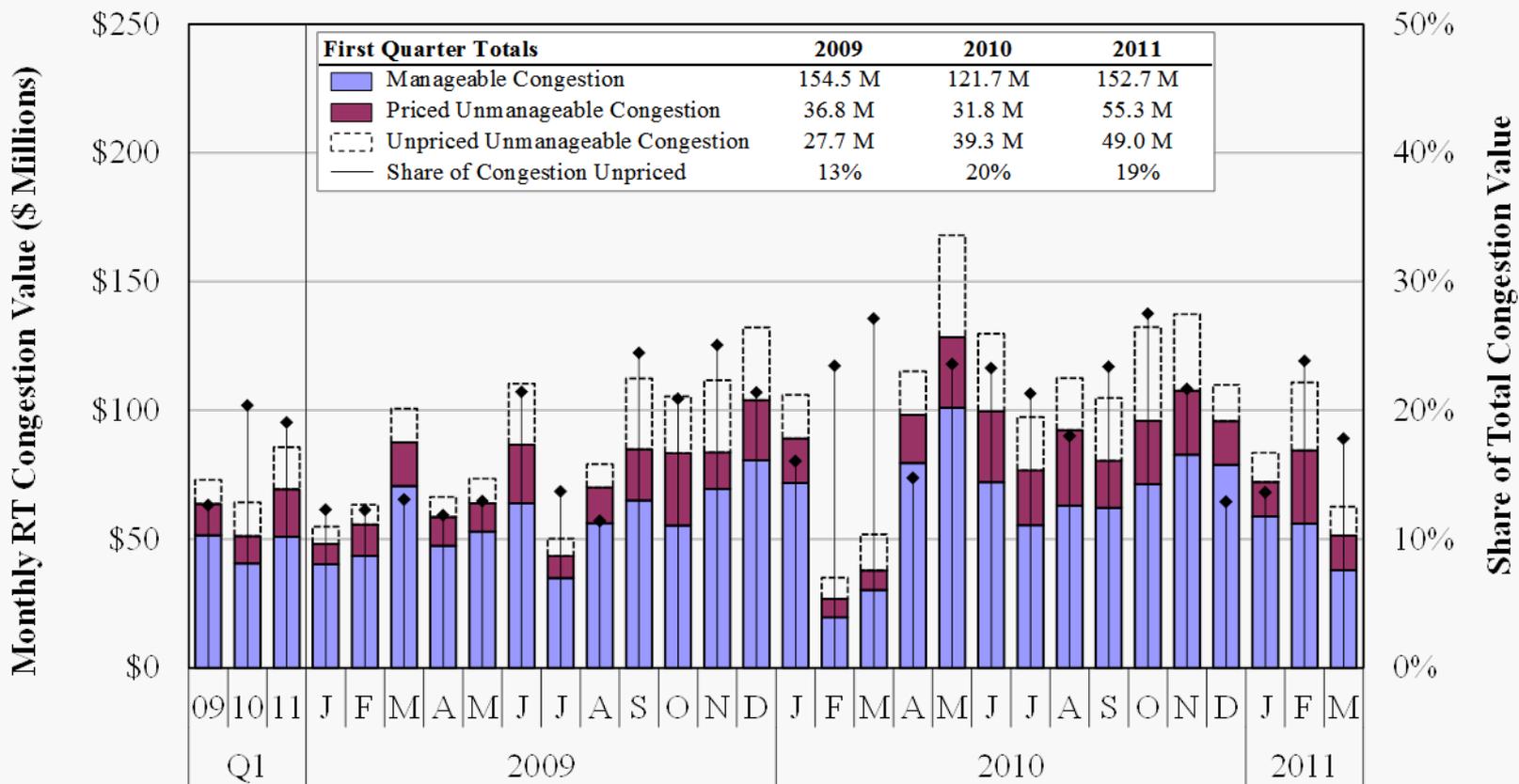


Important Operating Areas to Monitor

- 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





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