

# **RTO WEST**

## **Market Monitoring Work Group's Recommendations to the Regional Representative Group July 19, 2000 Briefing Paper**

### **I.**

#### **Goals for RTO West Market Monitoring Function**

- Order 2000 compliance tailored to Northwest
- Knowledge of what is happening in relevant real-time markets (transparency of RTO markets and the RTO's operations)
- Appropriate scoping – no overreaching or undermining of relevant markets
- Sufficient independence to address RTO conflict of interest concerns
- Mechanism that:
  - ◆ Is credible, timely, responsive, objective, and trustworthy
  - ◆ Provides for good flow of information
  - ◆ Is efficient and cost-effective
  - ◆ Provides the proper interface with regulatory bodies
  - ◆ Is flexible enough to be adapted as appropriate

### **II.**

#### **Order 2000 Parameters<sup>1</sup>**

- RTO Markets (markets operated or administered by the RTO):
  - ◆ Provide for objective monitoring, including the behavior of market participants, in order to identify and report to FERC:
    - \* Market design flaws
    - \* Market power abuses
    - \* Opportunities for efficiency improvements
  - ◆ Propose appropriate actions
- Other markets: Periodic assessment of how markets operated by others affect the RTO's operations
- RTO's operations: Periodic assessment of how the RTO's operations affect non-RTO markets

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<sup>1</sup> These were the Order 2000 parameters used by the Market Monitoring Work Group when developing its recommendations; the guidelines are not being presented as the work group's agreement regarding the legal requirements of Order 2000.

### **III.**

#### **Components of Market Monitoring Recommendations**

- A. Organization/Governance
- B. Markets to be Monitored
- C. Scope of Activity of Market Monitoring Unit (“MMU”)
- D. Specifics of MMU
- E. Staff
- F. Follow-Up Activity of Market Monitoring Work Group

### **IV.**

#### **Recommendations**

#### **A. Organization/Governance**

##### Options

- 1. MMU as part of the RTO staff
  - Pros: Efficient (provides stream-lined access to and coordination of information), allows for informal and expeditious problem solving
  - Cons: Independence issues (although might just be matter of perception)
- 2. MMU as separate entity
  - Pros: Clearly independent
  - Cons: Possibility of adversarial relationship between the MMU and the RTO; issue of who the MMU would be answerable to and concerns regarding the possibility of a MMU having unbridled discretion

##### Recommendations<sup>2</sup>

- MMU is part of the RTO staff
  - ◆ Board appoints, supervises, evaluates, disciplines the MMU Executive
  - ◆ MMU Executive hires, supervises, evaluates, disciplines the MMU staff
- Regular course of business (general monitoring, dealing with design flaws and efficiency improvements):
  - ◆ MMU coordinates with appropriate RTO staff members and attempts to resolve at staff level
  - ◆ If the MMU believes that staff is not cooperating, the MMU has recourse up the chain of command
    - \* Chief Operating Officer,
    - \* Chief Executive Officer, and

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<sup>2</sup> These recommendations relate to the overall structure of the MMU, they do not set out the specifics of the market monitoring process. Subsection IV.D., infra, addresses the requirements for and development of that process.

- \* As forum of last resort, Board
- ◆ If issues are raised to the Board, the Board can bring whatever resources to bear that it finds appropriate, including the use of outside consultants
- Anomalous market performance:
  - ◆ MMU coordinates with appropriate RTO staff members and brings issue to the CEO's attention. As detailed below, the Board must ultimately decide whether to report anomalous market performance to the appropriate regulatory agency (see also Subsection IV.D., second diamond).
    - \* When the MMU and the CEO (or designee) agree to recommend reporting, the CEO brings recommendation to the Board
    - \* When the MMU recommends reporting but the CEO (or designee) disagrees, the MMU can bring directly to the Board
    - \* When the CEO (or designee) recommends reporting but the MMU disagrees, the COE (or designee) can bring directly to the Board
    - \* When the MMU is put on notice of anomalous market performance, but both the MMU and the CEO (or designee) agree it should not be reported, the CEO reports anomalous market performance and the MMU/CEO's (or designee's) conclusion to the Board
- Institutional safeguards will be designed to ensure appropriate level of independence of the MMU, especially in instances where the RTO is market participant (see Section V., fourth bullet, for one suggestion regarding a safeguard to ensure independence) and procedural safeguards will be designed to protect due process of participants (see Subsection IV.D., fourth bullet, to be determined)

## **B. Markets to be Monitored**

### Options

1. RTO Markets (markets operated or administered by the RTO)<sup>3</sup>
  - Ancillary services
  - Congestion management
  - Transmission rights
  - Other?
  - Pros: Clearly within scope of Order 2000, sufficient to satisfy other work group goals
  - Cons: May not be sufficient to comply with Order 2000 (Order 2000 discusses periodic monitoring of markets that affect or are affected by the RTO's operations)
2. Non-RTO Markets
  - Pros: Helps to fully understand what is happening in the RTO, Order 2000 requires periodic reports on what is happening in markets that affect or are affected by the RTO

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<sup>3</sup> The Market Monitoring Work Group will not know until the RRG acts on other work group recommendations what the RTO Markets will be and how they will be structured.

Cons: Availability of information (e.g., bilateral markets, forward-looking markets, public markets), expands the MMU scope, may require additional staff, may be beyond the authority of the RTO

### 3. Operational Behavior

Pros: Operational behavior, both with respect to transmission facilities and generation (e.g., path ratings/OTC/ATC, scheduling maintenance/outages), could affect the transfer capability of the RTO/non-RTO system, FERC has indicated in orders relating to market monitoring that operational activity should be monitored (e.g., order relating to merger application of AES/CSW)

Cons: Might be difficult to identify, impacts will not always show up in power prices (this might also be a reason why operational behavior should be monitored), and information may be difficult to gather. In addition, some of these areas may be monitored by other RTO staff groups which would make the MMU's efforts duplicative.

### Recommendations

- MMU will monitor RTO Markets
- MMU will periodically assess and report on impact of non-RTO markets on RTO operations and vice versa (monitoring will be on limited basis as more fully developed in the MMU process)
- MMU will monitor operational behavior

## **C. Scope of Activity of MMU**

### Options

1. Collect data

2. Disseminate data

Pros: Minimizes gaming, helps to level the playing field between large and small players (large players have natural information advantage due to knowledge of their own and strong analytical capabilities)

Cons: Results in disclosure of trade secrets (bidding strategy), may encourage parties to collude

3. Evaluate data

4. Identify problems

5. Work with participants to resolve conduct issues

6. Make recommendations to correct design flaws and improve efficiencies

7. Prepare report (including mitigation recommendations) for Board (Board makes decision whether to report anomalous market performance to appropriate regulatory body)

Pros (Options 1, 3-7): Supports all of the work group's goals, in particular, Order 2000 compliance

8. Enforce/punish inappropriate behavior

Cons: The RTO is not the appropriate entity to enforce

## Recommendations

- MMU will:
  - ◆ Collect
  - ◆ Disseminate (some data will be disseminated, but the scope and timing are an open issue)
  - ◆ Evaluate
  - ◆ Identify
  - ◆ Work with participants to resolve conduct issues
  - ◆ Make recommendations to correct design flaws and improve efficiencies
  - ◆ Prepare report (including mitigation recommendations) for Board (Board makes decision whether to report anomalous market performance to appropriate regulatory entity)

(The conclusion of the work group is that the MMU is not the appropriate entity to enforce or punish. Issues regarding allegedly inappropriate behavior should be addressed by the appropriate regulatory or enforcement entity; issues regarding the RTO's compliance with its tariff and contracts left to tariff compliance office, dispute resolution, FERC, etc.)

## **D. Specifics of Market Monitoring Mechanism**

After the RRG has agreed upon the RTO Markets and their structure, the Market Monitoring Work Group proposes that it develop a market monitoring process consistent with the RRG's decisions regarding the MMU.

- The process must:
  - ◆ Achieve work group goals
  - ◆ Afford due process to all participants
    - \* When data alerts the MMU of anomalous market performance, process should, at a minimum, specify when and how party should be notified, address confidentiality issues, set a standard for how the RTO decides when to report to regulatory agency
  - ◆ Provide the Board the ability (after it has complied with procedural safeguards to ensure due process) to act quickly to change the RTO's rules and market design as appropriate after consideration of the MMU/staff recommendations regarding design flaws or market inefficiencies, especially in the first few years of the RTO's existence
  - ◆ Accommodate differing jurisdictional requirements for market participants and transmission owners (in particular with respect to Canadian participants)
  - ◆ Provide the specifics regarding the information that will be collected and maintained by the MMU
  - ◆ Provide the details regarding how non-RTO markets will be periodically assessed

- ◆ Provide specifics regarding dissemination of information, including the type of information that will be released and the timing of the release<sup>4</sup>
- ◆ Provide guidance on how the MMU professional staff will objectively evaluate market performance and identify anomalous market performance (industry standards should be described or identified that could be considered by the MMU staff to aid their professional judgment)
- ◆ Provide that the RTO does not have superior access to work product of the MMU to avoid conflict of interest issues
- ◆ Establish communication protocols between different units of the RTO staff;
- ◆ Not distinguish between the RTO and other market participants for purposes of the process (the RTO gets the same treatment as others)
- ◆ Provide for an annual evaluation of the RTO's design's impact on the market
- ◆ Detail how operational behavior is to be monitored<sup>5</sup>
- ◆ Be timely and cost effective

#### **E. Staff**

- Tentative recommendation that the MMU have the following areas of expertise represented on its staff: economics, business/commercial (e.g., risk management, commodities, electric power system operation and markets), finance, engineering, statistics, data management, and legal. These will not all be full-time positions. In addition, the MMU should have the ability to retain outside consultants.

#### **F. Follow-Up Activity of Market Monitoring Work Group**

- Respond to RRG modifications to the Market Monitoring Work Group's recommendations
- After RRG has agreed upon RTO Markets and their structure, develop a market monitoring process consistent with the RRG's decisions regarding the instant recommendations<sup>6</sup>
- Finalize recommendation regarding the MMU staff

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<sup>4</sup> While there are many matters that will need to be addressed in developing the process, the dissemination of bid information is a particularly sensitive issue. It is still open, but it is premature at this point to raise it with the RRG. The Work Group hopes to reach consensus on this matter in August and, in any event, the RRG will hear more about the dissemination of bid data in the future.

<sup>5</sup> At least one work group member is not convinced that is appropriate for the MMU to monitor operational behavior; however, it was decided that a small group would spend more time defining the behavior that should be monitored and what information would be collected. At that point, the work group will double-check their recommendation that operational behavior be monitored.

<sup>6</sup> The Market Monitoring Work Group envisions that this will be accomplished in mid-August.

## V. Input Needed from RRG

- Response to Market Monitoring Work Group’s recommendations
- Decisions regarding RTO Markets (what markets will there be, how will they be structured?)
- Direction regarding the market monitoring component of the filing:
  - It probably is not necessary for the process discussed in Subsection IV.D to be developed for the initial filing. Knowing the details of the process might be necessary, however, in order for transmission owners to decide whether to participate in the filing. The Market Monitoring Work Group would like some direction from the RRG as to whether the work group should develop the process after the RRG has made decisions regarding the identify and structure of RTO Markets. If the work group is not tasked with developing the process, the RRG should consider whether there are some critical process issues that should be addressed before the filing (e.g., dissemination of information).
- Guidance on following issue:
  - It was suggested that the Board retain an outside consultant to perform an annual independent audit for MMU design and compliance for the first couple of years of the RTO’s existence (among other things, this would address questions relating to the independence of an internal MMU; monitor the efficiency/effectiveness of the MMU design [in part by providing information about market monitoring efforts in other parts of the country]; and assess the quality of the MMU staff’s performance). While all of the work group members thought this was a good idea, there was a split as to whether this detail should be built into the filing as a requirement for the RTO or sent by the Filing Utilities/RRG to the RTO Board for consideration after the RTO is formed. The work group would like the feedback of the RRG on this issue.
- RRG discussion/decision on whether it makes sense to have a brief evaluation of the market power issues facing the RTO West (and possible mitigation) in order to finalize the RTO’s design. This is not intended to be a full market power evaluation and mitigation plan, and would be used to inform RRG decisions and not to be part of the filing.
- Some of the work group members are concerned that the Northwest will have a “monitoring gap” under the current recommendation. While other ISOs have companion PXs that monitor the markets they participate in (which complements the limited RTO monitoring), no such PX is envisioned in the Northwest. These members would like the RRG to consider whether the scope of the MMU’s activities should also include Northwest energy markets that are not currently being monitored. Additionally, at least one work group member is concerned that the RTO should monitor energy markets in order to deal with political issues (and possible backlash). When difficulties are experienced in the Northwest power market, the RTO will be approached by politicians and the public and be expected to provide an explanation. In order to provide accurate information, the RTO has to know what is happening in Northwest energy markets.