
Session 2:
Who Will Monitor What:
The Role of the
Regional Transmission Market Monitor

RTO West Market Monitoring Workshop
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Session 1: Market Monitoring: Why

→ **Session 2: Who Will Monitor; the RTO's Role**

Session 3: Organization and Governance of Monitoring

Session 4: Monitoring Tasks and Process

Session 5: Authority to Address Problems

Session 6: Access to, Disclosure of Sensitive Information

Session 7: Market Power Issues

Scope and Focus of Session

- What monitoring is needed, and what other entities may perform some of it? Who and what?
- What should the scope of the RTO market monitor's role be (which product markets; geographic markets)?
 - Role/responsibility in markets/services provided by the RTO
 - Role/responsibility in any other markets the RTO may monitor

The issue of how the RTO monitoring function is organized (internal unit, outside the RTO, etc.) is addressed in the next session.

What Activities Can Help To Prevent/Detect/Address Potential Problems?

- **Collect and disseminate (non-confidential) market information** to provide market transparency.
- **Observe markets, detect** phenomena that may indicate problems are present and additional analysis is warranted.
- **Analyze markets to identify problems and causes**, distinguish normal market phenomena from problems.
- **Develop recommendations** to address problems; initiate the process to gain approval for changes.
- **Implement changes as authorized**, including short-term fixes, longer-term solutions.

Fundamental Objectives of Market Monitoring

- Order 2000: Assist FERC in identifying dealing with problems that prevent most efficient operations, protecting against anti-competitive effects or market power
- Goal: Efficiency, competitiveness of the markets
 - Open access, non-discriminatory treatment
 - Minimize interference in markets, uncertainty
 - Engender trust
 - Maintain reliability
- Monitors are also concerned with minimizing costs, wealth transfers

Meanings of the Term “Market Monitoring”

- Collecting market information, observing, analyzing, identifying problems and causes, suggesting solutions.
 - Any interested party can engage in such monitoring, limited only by its resources and access to information.
- The same, with responsibility (to a regulatory authority) to initiate a process to implement needed changes or remedies (by providing information and recommendations to the regulatory authority, and/or by actions under authority granted by the regulatory authority).
 - This latter sense of the term is the more formal monitoring responsibility of ISOs and RTOs.

Entities That May Monitor the NW Markets

In addition to FERC and RTOs:

- Market participants, consumers, other stakeholders (and their representatives, trade associations, consultants, etc.);
- Regional industry institutions (reliability councils, NWPP);
- PXs, other trading forums, etc., especially with regard to impacts on their operations;
- Market monitors in adjacent areas (Cal-PX, Cal-ISO)
- Academics, publishers, other such disinterested observers;
- State regulatory authorities (level of effort may depend on level of confidence in RTO/FERC monitoring)
 - Ohio PUC: “federal/state regulatory staff team” (*ER98-1438*)

Why Should the RTO Monitor the Markets?

RTO's "Comparative Advantages" in Monitoring

- The RTO is close to the market, has access to the necessary market data (which is confidential), and has access to the RTO staff with in-depth knowledge from day-to-day operation of the grid
- Much of the monitoring job has to do with refining the RTO's own market rules
- The RTO is independent of market participants, can be an objective monitor. It has open processes, stakeholder involvement.
- The RTO has a wide geographic scope.

FERC Is Responsible For Monitoring Wholesale Markets, Is Asking RTOs To Help Out

Order 2000 on Market Monitoring:

- Why market monitoring: “To ensure that the [RTO] provides reliable, efficient and not unduly discriminatory transmission service”
- What: “[RTO] must provide for objective monitoring of markets it operates or administers to identify market design flaws, market power abuses and opportunities for efficiency improvements, and propose appropriate actions.”

Order 2000 on the Value of Monitoring

“The Commission recognizes that the market monitoring concept is new and not yet well-refined, either at the Commission or within existing ISOs. We also acknowledge the apprehensions of parties that market monitoring by an RTO could intrude into markets and affect their behaviors.

The Commission, however, is engaged in finding ways to understand market operations in real-time, so that it can identify and react to any problems that are preventing the most efficient operations. It also has a responsibility to protect against anticompetitive effects in electricity markets. “

Order 2000 on the Value of Monitoring (cont'd)

“Market monitoring is an important tool for ensuring that markets within the region covered by an RTO do not result in wholesale transactions or operations that are unduly discriminatory or preferential or provide opportunity for the exercise of market power. In addition, market monitoring will provide information regarding opportunities for efficiency improvements.”

Order 2000's Flexible Approach to Monitoring

“... in light of the different forms of RTOs that could be developed by market participants ... different market monitoring plans are likely to be appropriate for different RTOs. Consequently, ... the Commission will require that RTO proposals contain a market monitoring plan that identifies what the RTO participants believe are the appropriate monitoring activities the RTO, or an independent monitor, if appropriate, will perform... we decline at this time to prescribe a particular market monitoring plan or the specific elements of such a plan...”

What Order 2000 Specifically Requires

- The RTO must satisfy, “or demonstrate that an alternative proposal is consistent with or superior to satisfying,” the following three standards:
 - (i) Market monitoring must include monitoring the behavior of market participants in the region, including transmission owners other than the RTO, if any, to determine if their actions hinder the RTO in providing reliable, efficient and not unduly discriminatory transmission service.

What Order 2000 Specifically Requires (cont'd)

- (ii) With respect to markets the RTO operates or administers, there must be a periodic assessment of how behavior in markets operated by others (e.g., bilateral power sales markets and power markets operated by unaffiliated power exchanges) affects RTO operations and how RTO operations affect the efficiency of power markets operated by others.
- (iii) Reports on opportunities for efficiency improvement, market power abuses and market design flaws must be filed with the Commission and affected regulatory authorities.

Other FERC Views Expressed in Order 2000

- Because RTOs are suppliers of last resort of A/S and must strive to buy A/S at low cost, RTOs are not independent of the markets. Therefore, RTOs must propose “an objective monitoring plan to assess whether the RTO’s involvement in these markets favors its own economic interests over those of its customers or members.”

Order 2000 on the Scope of Monitoring

To summarize, O2000 requires the RTO to monitor:

- all markets that it operates or administers (including behavior of participants);
- how markets operated by others affect its operations (periodic assessment, at least);
- how the RTO's markets affect markets operated by others (periodic assessment, at least).

Scope of Monitoring Required By Order 2000

	Markets the RTO operates/ administers	Markets operated by others: periodic assessment
Ancillary services		
Imbalance energy		
Congestion management		
FTRs		
Energy market, forward markets	 (if relevant)	

Scope of Midwest ISO Market Monitoring

- Potential similarities: May not operate energy market, may not operate as single control area?
- FERC-accepted monitoring plan (ER98-1438, 4/16/00)
 - Will monitor behavior of transmission owners, generators, network users for attempts to create congestion, other behavior that undermines provision of transmission service.
 - Will monitor relationship between control areas and ISO, determine if split of functions creates any problems.
 - Reports can be submitted directly to regulatory agencies.
 - After 18 months, report on data and analysis it would need to perform comprehensive monitoring (incl. energy markets)

Monitoring of Merged AES/CSW Before RTO Formation

- To mitigate impacts of the merger before formation of an RTO, AES/CSW proposed market monitoring (EC98-40).
- Such monitoring has a different purpose than monitoring by RTOs under Order 2000.
- Elements of the AES/CSW monitoring plan:
 - Consulting firm chosen to perform monitoring, will have access to company data and staff
 - Will monitor AES/CSW for conduct that increases prices or forecloses rivals; transmission refusals, TLRs, taking lines out of service, unjustified ratings, etc. also generation to create and benefit from congestion.

Existing ISOs and Monitoring of Bilateral Markets

- FERC to PJM, CA-ISO: “Monitor bilateral markets;” but no specific requirements or authority to obtain information
- PJM is attempting to monitor bilateral markets
 - Requested bilateral contract information from market participants last year to investigate a specific problem; many complied, two refused. PJM filed with FERC to compel (EL00-42), and settlement negotiations are now underway.
 - Owes FERC a report on monitoring of bilateral markets.
- CA-ISO: Annual report states intention to monitor bilateral markets; no specific efforts made.

Is Monitoring Of Bilateral Markets Necessary?

- Can there be market power in forward and bilateral markets that is not apparent in visible, RTO-managed, real-time imbalance and congestion markets?
 - Buyers who face high prices due to market power will shift their purchases to other trading forums, and between forward and real-time markets, if lower costs can be obtained and the market design poses no restrictions or disincentives.
 - Therefore it would seem unlikely that there could be market power and resulting high prices in one trading forum or market and not in other available markets that offer services that can meet the same ultimate needs.

Who Will Monitor Behavior In Bilateral Markets?

- Competing PXs and trading forums?
 - None has access to the relevant information; for example, none can assess whether capacity was withheld, as it could have been bid through a different trading forum
 - Some customers will prefer unmonitored exchanges and maximum confidentiality; institutions facing significant competition may be loathe to monitor conduct
- State regulatory bodies?
- FERC staff

RTO's Ability To Identify Problems In Markets Operated By Others

- RTO should know what facilities provided what services in each hour throughout the grid. (if multiple control areas?) RTO could simulate the market and estimate whether it is operating efficiently, using cost estimates. Deviations from an efficient resource production mix may indicate:
 - Market design weaknesses, and possibly related gaming, in the RTO's or other institutions' markets; or
 - Withholding or uneconomic production (market power)
- Prices can also be increased without inefficient production. As mentioned earlier, depending upon market design, the symptoms should appear in the RTO's real-time markets

Should RTO West Monitor Behavior In Bilateral Markets?

Should RTO West establish a monitor that accepts responsibility for performing comprehensive analyses of the Northwest's power markets, including, to the extent it is able given limited access to information:

- Identifying conduct issues in any of the markets;
- Making recommendations to address such issues;
- At a minimum, when information is insufficient, bringing any “warning signs” to FERC’s attention;
- Possibly having some role in imposing FERC-approved mitigation?

Scope of Monitoring: Discussion
