

Electric Market Monitoring

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Guiding Principles

- Anti-competitive behavior is contrary to the goal of efficient and competitive markets and must be identified and remedied. Standards to identify and remedy anti-competitive behavior by buyers or sellers must be clearly identified and consistently applied.
- In assessing market power, the Commission should:
 1. Apply established anti-trust standards focusing on generation, load and transmission market concentration levels.
 2. Identify key factors impacting market performance, including flaws in market structure and rules, barriers to entry, and supply and demand imbalance conditions.
 - To the extent any of these conditions exist, the market monitoring procedure should explicitly identify them and propose specific remedies and milestones for implementation.
 3. Analyze price levels in combination with individual bidding behavior.
 - The focus of market monitoring should be on improving transparency and eliminating specific anti-competitive behavior, rather than general application of mitigation measures to address “possible” market power exercise.
- Price levels alone are not an effective measure of anti-competitive behavior. Reliance on theoretical estimates of hourly short-run marginal cost is an inappropriate and flawed standard for evaluating market power, as it fails to properly account for capacity values, start-up and low load costs, opportunity costs, risk premiums (e.g., credit, liquidated damages, gas price volatility), and scarcity rents.
- The standards for market monitoring should not replicate the disruptive experiences with market intervention (e.g., retroactive price adjustments) experienced until recently in some of the eastern ISO markets (i.e., New York and New England). The role of market monitoring is not to dampen or eliminate price volatility that provides appropriate signals to the market.
- Accurate status reports on unit availability must be provided to the ISO by Scheduling Coordinators and should be subject to periodic audit by independent agents. Efficient markets will create incentives for participants to bid all of their resources in the market, including demand responsive resources.

Proposed Framework

- Aggregate supply and demand bid information should be released in manner that allows all market participants and interested parties to review the data and analysis performed by the market monitoring unit or any other entity proposing recommendations to the ISO/RTO Board.
- Oversight and enforcement of market rules should occur through a structure that ensures thorough and independent analysis of market performance and alleged misconduct, due process for market participants, and independent decision making.
 - An independent market monitoring unit's responsibilities should be limited to:
 - performing market analysis;
 - reporting, periodically, on the state of the market(s);
 - reviewing allegations of misconduct brought to it by other market participants; and
 - making recommendations to the ISO/RTO Board on improving market efficiency, correcting market design flaws or addressing alleged misconduct by individual market participants.
 - To ensure due process, market participants should have equal standing with the market monitoring unit on matters before the ISO/RTO Board, and should be allowed to review and critique the unit's studies and recommendations or present their own analysis and recommendations. The market monitoring unit should be required to engage in discussions with market participants prior to submitting such analysis or recommendations to the RTO/ISO Board. If the independent Board determines that there has been misconduct by an individual market participant, the matter should be referred to the FERC for consideration of appropriate remedies. Market participants should have the opportunity to appeal ISO/RTO board decisions directly to the FERC.

