

**Southwest Power Pool  
COMPLIANCE COMMITTEE MEETING**

**March 31, 2005**

**US Airways Club, Philadelphia Airport – Philadelphia, PA**

• M I N U T E S •

**Agenda Item 1 – Administrative Items**

SPP Chair Josh Martin called the meeting to order at 1:25 p.m. The following members were in attendance or represented by proxy: Josh Martin (Director), Phyllis Bernard (Director), and Quentin Jackson (Director). Also in attendance: Craig Roach and Rob Janssen (Boston Pacific). Staff in attendance: Richard Dillon and Stacy Duckett.

Quentin Jackson requested a brief description of Boston Pacific prior to starting the agenda. Craig Roach provided that overview.

**Agenda Item 2 – Update on Current IMM Activities**

Craig Roach reviewed the current projects and activities for Boston Pacific, including: development of the market monitoring plan and mitigation measures for filing; monitoring market systems development; investigations; development of the state of the market report; and overall market development. (Attachment 1)

Market monitoring plan and mitigation measures: Boston Pacific has devoted much of its time to these issues given the pending filing in May. Craig provided a review of the various activities to date. The Board will be considering the filing for these measures at its April meeting. Boston Pacific does have concern with the level of detail currently proposed for the tariff, but is addressing that through the appropriate SPP stakeholder groups.

Market systems development: Boston Pacific has participated as SPP developed the hardware and software systems related to market operations to assure that they are being designed to perform in accordance with the market protocols.

Investigations: One investigation has been requested to date. Boston Pacific and the internal market monitoring unit worked through the investigation. Craig was very complimentary of the extensive work that the SPP staff did on the investigation. Boston Pacific requested direction as to how much detail the committee would like to receive related to investigations. The committee asked to receive the results of the recent investigation for reference. The committee also requested that Boston Pacific and the market monitoring unit provide a quarterly summary of investigation activities/status going forward. Topics for future discussion include: further development of the process for requesting an investigation; whether parties to an investigation should be named in resulting reports; a survey process following an investigation to assure parties are satisfied with the conduct of the investigation process.

State of the Market Report: The report is underway, but has not been a primary focus due to the demands related to the upcoming filings. Boston Pacific proposed a draft in May/June for final presentation at the July Board meeting. Richard Dillon expressed concern with this since the Commission has indicated that it expects a report in May. In addition, the report is part of the current contract work; the current contract expires June 30. Following discussion, Richard will discuss the current status with the Commission and advise of their response to an extended schedule. Boston Pacific will provide a synopsis of the report at the April Board meeting, and a final report at the July Board meeting. Boston Pacific assured the

committee that while the revised schedule takes the project beyond the current contract term, the work would be performed in accordance with the current contract, including the stated cost.

Market Development: Boston Pacific has monitored progress toward the planned implementation of market operations in October, particularly the integration of the market monitoring requirements.

### **Agenda Item 3(a) – Market Monitoring Function/Role – Independent Market Monitor**

Craig Roach presented an overview of the current role and functions of the independent market monitor in SPP. He then provided an assessment of recent regulatory developments related to possible changes in those functions. (Attachment 2) The group discussed some of the issues under consideration. Boston Pacific will forward the relevant court cases referenced.

### **Agenda Item 4 – Future IMM Activities**

Craig Roach discussed future activities for Boston Pacific, and requested some direction for process going forward. (Attachment 3) Josh Martin requested that written materials be provided in advance of quarterly meetings, when possible. Quentin Jackson requested a report to include expenditures to date compared to the contract and budget, as well as projected expenditures for the upcoming quarter. Josh has requested that materials for the committee members be routed through Stacy Duckett (staff secretary) to assure proper distribution.

### **Agenda Item 3(b) – Market Monitoring Function/Role – Market Monitoring Unit**

Richard Dillon reviewed the role and functions of the market monitoring unit. (Attachment 4) He provided an overview of recent activities. Richard discussed the current abilities of the internal staff, and short and long term needs from a third party vendor.

### **Agenda Item 5 – Other Business**

The committee discussed possible changes in the role of the independent market monitor going forward. Richard Dillon was asked to provide a summary of his recent discussions with the Office of Market Oversight and Investigation at FERC, specifically as related to the role of a third party market monitor and its role at the commission. Phyllis Bernard also reflected the discussion with the FERC Commissioners by the ISO/RTOs regarding FERC's ability to perform market monitoring and that IMM's are not permitted to impose penalties. There have been changes in the regulatory environment that impact the strategy of having a third party manage and provide certain functions. This topic is currently at issue within some of SPP's working groups. The Compliance Committee will consider revisions to the current contract, following stakeholder working group and committee meetings in April.

### **Agenda Item 6 – Future Meetings**

The committee plans to meet quarterly in advance of Board meetings. A specific schedule will be developed by Josh Martin and Stacy Duckett.

Respectfully Submitted,

Stacy Duckett  
Secretary



# UPDATE ON CURRENT INDEPENDENT MARKET MONITORING ACTIVITIES

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Presented to  
Compliance Committee of the  
SPP Board of Directors

Presented by  
Craig R. Roach, Ph.D.  
Robert J. Janssen  
Boston Pacific Company, Inc.

March 31, 2005  
Philadelphia, PA



# OUTLINE

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- I. FILING MARKET MONITORING  
PLAN AND MITIGATION  
MEASURES
- II. MONITORING SYSTEMS  
DEVELOPMENT
- III. INVESTIGATIONS
- IV. STATE OF THE MARKETS REPORT
- V. PROGRESS TOWARD EIS MARKET



# I. FILING MARKET MONITORING PLAN AND MITIGATION MEASURES

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## A. Overview

1. Mitigation Measures
2. Monitoring Plan
3. Stakeholder process
4. FERC Staff
5. Board review in April for targeted FERC filing in May



# I. FILING MARKET MONITORING PLAN AND MITIGATION MEASURES

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## B. Mitigation Measures

1. Transmission market power
2. Energy market power
  - a. Offer cap
  - b. Market Behavior Rules
3. Resource Adequacy



## I. FILING MARKET MONITORING PLAN AND MITIGATION MEASURES

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### C. Change in Offer Cap

1. Level of cap the same
  - a. Balance mitigation and reliability
2. Change: to whom cap applies
  - a. Pivotal supplier
  - b. Those who can solve constraint
3. We support the change
4. FERC approval probable



## I. FILING MARKET MONITORING PLAN AND MITIGATION MEASURES

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### D. Change: Market Behavior Rules Enforcement

1. Explicit over/underscheduling restrictions
2. We support
3. FERC approval probable
  - a. Physical withholding concern
  - b. SFT concern



## I. FILING MARKET MONITORING PLAN AND MITIGATION MEASURES

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### E. Monitoring Plan

1. Recent RTWG revision
  - a. IMM not defined
2. IMM cannot support current form
  - a. Will continue to work through stakeholder process
  - b. Creates confusion, not flexibility
  - c. IMM's independence is key



## I. FILING MARKET MONITORING PLAN AND MITIGATION MEASURES

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### E. Monitoring Plan (continued)

3. FERC approval?
  - a. No RTO "discretion" in mitigation
  - b. Otherwise it is the Board's call
  - c. See separate background briefing



## II. MONITORING SYSTEMS DEVELOPMENT

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- A. Hardware and Software Systems
- B. IMM Working with MMU
- C. Significant Amount of Information Available
- D. Scheduled for Market Trials



## III. INVESTIGATIONS

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- A. Part of IMM and MMU Role
- B. Status Report
- C. Compliance Committee Preference for Reporting on Investigations?



## IV. STATE OF THE MARKETS REPORT

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- A. Annual Report on SPP Markets and Services
- B. First Report Is Baseline Analysis, Primarily for Board and SPP, not FERC
- C. Substantial Progress Has Been Made, but Better to Close on FERC Filing First
- D. Propose May/June Review by Board, Completion by July Board Meeting



## V. PROGRESS TOWARD EIS MARKET

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- A. Initial Design Completed by MWG; Revision Requests under Review
- B. MWG Balancing October 2005 Deadline with Software Functionality
- C. Primary Market Monitoring Features Scheduled for October 2005
- D. FERC Approval Prospects?





# MARKET MONITORING FUNCTION / ROLE

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Presented to  
Compliance Committee of the  
SPP Board of Directors

Presented by  
Craig R. Roach, Ph.D.  
Robert J. Janssen  
Boston Pacific Company, Inc.

March 31, 2005  
Philadelphia, PA



# OUTLINE

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- I. Role of Market Monitoring at SPP
- II. FERC Commissioner Kelliher's  
Comments
- III. Implications for SPP Going  
Forward



## I. ROLE OF MARKET MONITORING AT SPP

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### A. Independent Monitoring Required by Order 2000

1. Option 1: IMM/MMU combination with IMM reporting to Board (NY, NE, CA, SPP)
2. Option 2: MMU reporting to Board (PJM)
3. Option 3: IMM reporting to Board (MISO)



## I. ROLE OF MARKET MONITORING AT SPP

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### B. IMM Role at SPP

1. Design market monitoring and mitigation measures for SPP Markets and Services
2. Periodic reports to SPP Board and FERC
3. Assist SPP with Market Design
4. Assist and advise MMU (e.g. Investigations)
5. Report to and advise SPP Board



## I. ROLE OF MARKET MONITORING AT SPP

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### C. MMU Role at SPP

1. Implement market monitoring and mitigation measures for SPP Markets and Services
2. Obtain, collect, and evaluate information for monitoring purposes
3. Investigate behavior of market participants
4. Report to and advise SPP management



## II. FERC COMMISSIONER KELLIHER'S COMMENTS

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### A. Reforming Order 888

### B. The *U.S. Telecom* Decision

1. No delegation of decision making authority to RTOs
2. Context: Two cases on NYISO Temporary Extraordinary Procedures (TEP)
3. Future Role of IMMs and MMUs



### III. IMPLICATIONS FOR SPP GOING FORWARD

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#### A. Limited, if Any Discretion in SPP Mitigation Measures/Monitoring Plan

1. Emergency Corrective Action
2. *U.S. Telecom* allows third party input

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### III. IMPLICATIONS FOR SPP GOING FORWARD

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#### B. Recent Actions

1. FERC just approved IMM-only for MISO
2. FERC “requires” IMM for state-run RFPs under *Edgar*
3. FERC “approves” IMM as mitigation for individual utilities

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### III. IMPLICATIONS FOR SPP GOING FORWARD

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#### C. MMU and IMM

1. Both work for Public Utility

#### D. Independence Is Our Key Concern

1. IMM must work for SPP Board (reporting, budgets, etc.)
2. Conflict Policy works

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### III. IMPLICATIONS FOR SPP GOING FORWARD

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#### E. It Is the Board's Call

1. Same criteria as any Board choosing outside advice
  - a. For special expertise- antitrust, market power
  - b. For independence/objectivity
  - c. For ability to informally communicate/mediate

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# FUTURE INDEPENDENT MARKET MONITORING ACTIVITIES

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Presented by  
Craig R. Roach, Ph.D.  
Robert J. Janssen  
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# OUTLINE

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- A. INTERACTION WITH  
COMPLIANCE COMMITTEE
- B. BUDGET
- C. PRIORITIES FOR REMAINDER OF  
2005



## FUTURE INDEPENDENT MARKET MONITORING ACTIVITIES

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- A. Interaction With Compliance Committee
  - 1. Regular meetings and briefings?
  - 2. Reporting?
  - 3. Responding to Committee's needs?
- B. Budget
  - 1. Next contract year
  - 2. Independence



## FUTURE INDEPENDENT MARKET MONITORING ACTIVITIES

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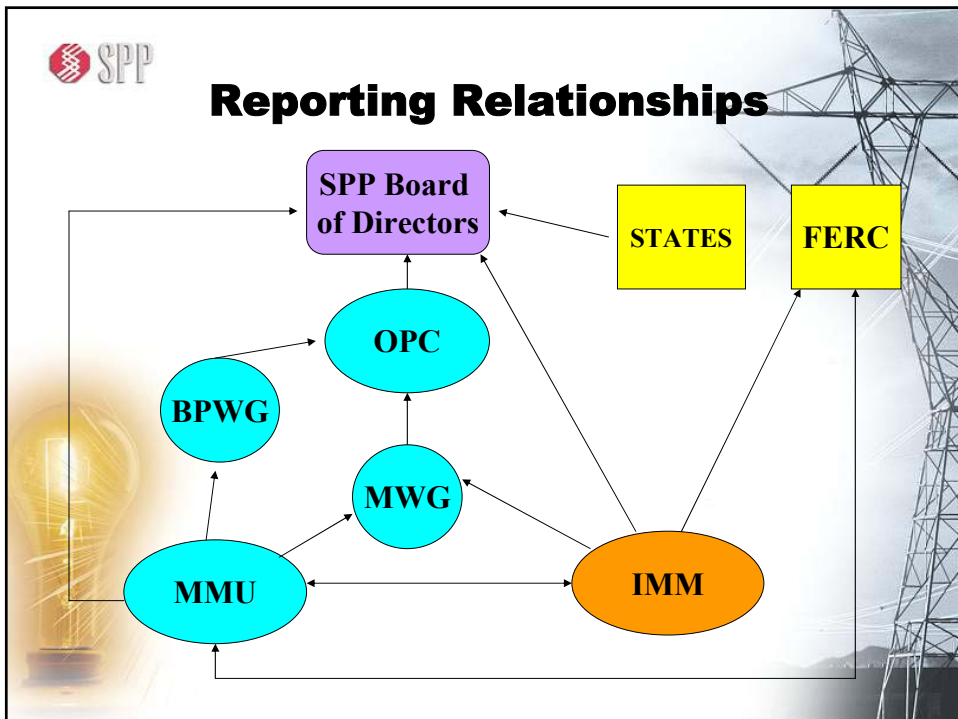
- C. Priorities for Remainder of 2005
  - 1. FERC approval of Monitoring Plan and Mitigation Measures
  - 2. State of the Markets Report
  - 3. Initial assessment of transmission market power
  - 4. EIS market start-up monitoring and reporting



# Market Monitoring Structure

Richard Dillon  
Director, Market Development

March 31, 2005







## **Reporting**

- ❖ **IMM reports to the SPP Board of Directors through the Compliance Committee**
- ❖ **MMU reports to the Chief Executive Officer of SPP**



## **Requirements of MMU**

- ❖ **Monitoring of transmission and energy markets**
- ❖ **Application of Market Power Mitigation**
- ❖ **Assessment of market design improvements**





## **Requirements of MMU**

- ❖ **Investigation of disputes**
- ❖ **Analysis of market and trends**
- ❖ **24/7 operations**



## **Contractual Obligations of the IMM**

- ❖ **Development of Market Monitoring and Market Power Mitigation protocols**
- ❖ **Annual “State of the Market” report**
- ❖ **Consult on market issues and investigations**





## **Market Enhancement Process**

- ❖ **Market monitors and participants identify enhancements**
- ❖ **Market Working Group evaluates and develops protocols**
- ❖ **Regional Tariff Working Group develops Tariff changes**



## **Market Enhancement Process**

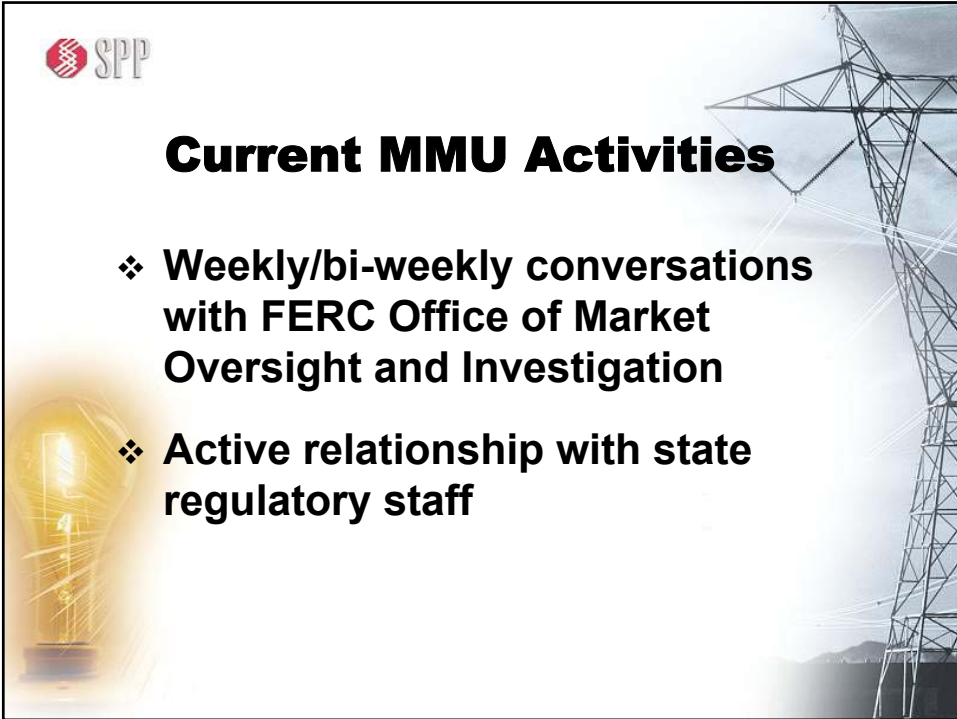
- ❖ **Markets and Operations Policy Committee recommends Tariff to Board of Directors**
- ❖ **Board of Directors approves Tariff for filing with FERC**





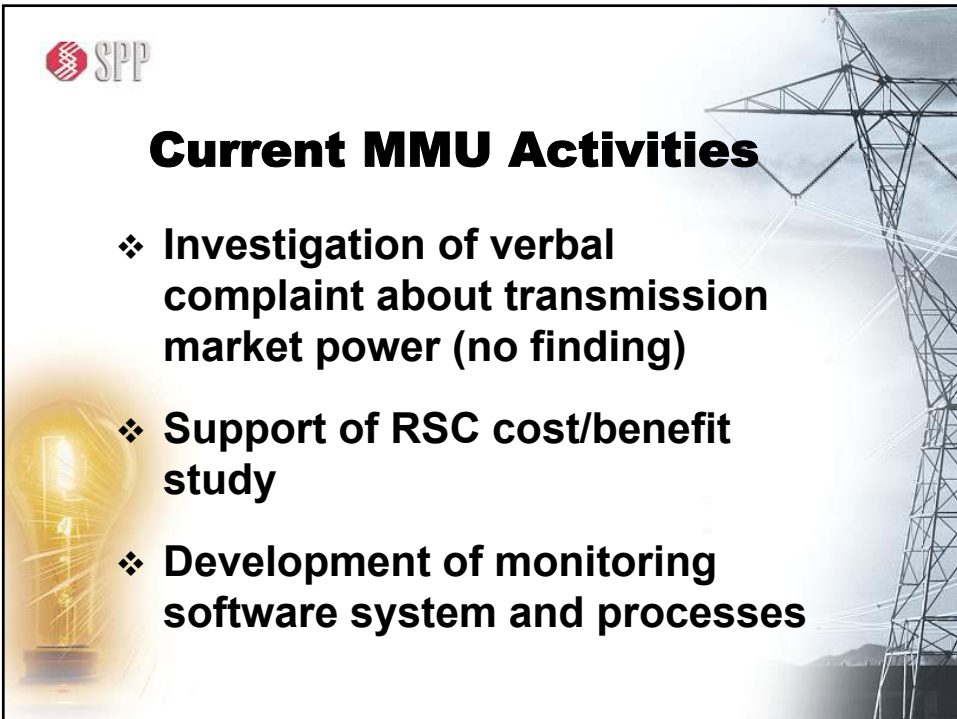
## **Current MMU Activities**

- ❖ **Weekly/bi-weekly conversations with FERC Office of Market Oversight and Investigation**
- ❖ **Active relationship with state regulatory staff**



## **Current MMU Activities**

- ❖ **Investigation of verbal complaint about transmission market power (no finding)**
- ❖ **Support of RSC cost/benefit study**
- ❖ **Development of monitoring software system and processes**





## **Current MMU Activities**

- ❖ **Coordination of market development**
- ❖ **Validation of market power test**
- ❖ **Participation in Intermarket Surveillance Group (all RTO/ISOs and international monitoring organizations)**



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