

CHARTER OF THE MARKET SURVEILLANCE COMMITTEE OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

Revised June 14, 2006

This charter prescribes the membership, duties and procedures of the Market Surveillance Committee ("Committee") of the California Independent System Operator Corporation ("ISO").

I. Establishment

The Market Surveillance Committee has been established by the ISO to provide independent external expertise on the ISO market monitoring process (as described in Appendix P of the ISO Tariff), and independent expert advice and recommendations to the ISO Chief Executive Officer (CEO), and Governing Board. In addition, Appendix P indicates that the Committee shall review and comment on the Department of Market Monitoring (DMM) analysis and reports. The Committee is separate and independent from the DMM.

In addition to serving on the Committee, members will be expected to provide independent advice, individually or collectively (provided the number of members is less than a quorum), to ISO Management, the Director of DMM, or the Governing Board on market issues.

II. Membership

A. Qualifications

The members of the Committee shall consist of three or more independent and recognized experts whose combined professional expertise and experience meets the requirements of P2.2.2.1 of Appendix P.

B. Appointment

Members shall be nominated by the ISO CEO and confirmed by the Governing Board. Members shall be appointed to staggered terms, three years in length.

C. Chair

The members of the Committee shall elect a Chair, subject to confirmation by the Governing Board, who shall have the following duties:

- (1) preside over meetings;
- (2) manage and facilitate the Committee's work load

(3) ensure the quality and timely completion of any deliverables required of the Committee;

(4) serve as the Committee's primary contact to the ISO, and

(5) when necessary, enlisting the assistance of other Committee members in accomplishing any of these and any other assigned responsibilities.

D. Compensation, Reimbursement, Liability

(1) Members of the Committee shall be compensated on such basis as the ISO CEO shall from time to time determine. Members of the Committee shall receive prompt reimbursement for all expenses reasonably incurred in the execution of their responsibilities under Appendix P2 and this Charter.

(2) As provided in Section 14.3.1 and 14.3.2 of the ISO Tariff, the Committee and its members are not liable to any Market Participant under any circumstances whatsoever for any matter described in those sections, including but not limited to any financial loss or loss of economic advantage resulting from the performance or non-performance by such ISO entities of their functions under Appendix P2 and this Charter.

E. Independence of Members

Each member of the Committee must meet the following criteria for independence in order to be appointed:

(1) no material affiliation, through employment, consulting or otherwise, with any Market Participant or affiliate thereof consistent with the pertinent Standards of Conduct of the Federal Energy Regulatory Commission (FERC).

(2) no material financial interest in any Market Participant or affiliate thereof consistent with the pertinent FERC Standards of Conduct.

(3) Members may not provide paid expert witness testimony or other commercial services to the ISO or to any other party in connection with any legal or regulatory proceeding relating to the ISO or any trade or transaction involving the ISO markets (except that the Committee may consult with and make recommendations concerning the functioning of the markets to ISO Management or to the Governing Board in connection with legal or regulatory proceedings).

F. Potential Conflicts

If any matter before the Committee could potentially affect the personal financial interests of a member or the interest of an entity with which the member is affiliated, the member shall disclose such interest to the Committee. Where necessary to avoid a conflict of

interest, the member shall not participate in the matter. Any such disclosure and recusal shall be recorded in the minutes of the meeting.

G. Confidentiality

Non-public information received or developed by the Committee (or its members in their capacity as members) may not be disclosed outside of the Committee and the ISO without authorization of the Committee. The Committee will not authorize disclosure of information which has been received subject to a specific restriction on non-disclosure except after consultation with the ISO General Counsel and in accordance with applicable law.

H. Removal of Members Prior to Expiration of Term

The Governing Board may remove, subject to a two-thirds vote, a member of the Committee prior to the expiration of that member's appointed term for failure to perform his or her duties or comply with the provisions of Appendix P2 or this Charter.

III. Meetings of the Committee

A. Time and Place

The Committee shall meet to vote on any opinion or report to be issued by the Committee. In addition, the Committee shall meet up to eight times per year in accordance with a calendar established by the members in conjunction with the ISO CEO, and shall also meet at the call of the Chair. Members may participate in a meeting telephonically. Except when otherwise designated by the Committee, the ISO DMM staff may attend any meeting.

B. Secretary

Unless otherwise directed by the Committee, the Corporate Secretary or his designee shall serve as secretary to the Committee to ensure accurate records of their meetings.

C. Voting

Three members constitute a quorum and an affirmative vote of at least two members of the Committee is necessary for any Committee action. Provided, however, that two members will constitute a quorum if the Committee has only two members as the result of removal, incapacity or resignation of other members.

D. Meeting Procedures

All meetings shall be held pursuant to the ISO's Bylaws and Open Meeting Policy as then in effect with regard to notice and waiver thereof and public access to the meetings. Materials, other than those covered by confidentiality concerns, submitted to the Committee, and written minutes of each meeting, shall be duly filed in the ISO's records.

E. Public Comment

With the exception of meetings held in closed/executive session, opportunities for public comment will be provided at each meeting.

IV. **Functions of the Committee**

A. Information Gathering and Evaluation Criteria.

The Committee shall review the initial catalogs of information and data and the evaluation criteria developed by the DMM pursuant to Appendix P and shall propose such changes, additions or deletions to such catalogs or items therein as it sees fit. In so doing, the Committee shall have full discretion to specify database items or evaluation criteria for inclusion in the pertinent catalog.

B. Evaluation of Information

The Committee may, upon request of the DMM, the ISO CEO or the ISO Governing Board, or on its own volition, evaluate such information or data as may be collected by the DMM on the basis of the evaluation criteria developed by the DMM and such further articulated evaluation criteria developed by the Committee.

C. Reports and Recommendations

(1) Required Reports

All evaluations carried out by the Committee pursuant to P2.2.6.2, and any recommendations emanating from such evaluations, shall be embodied by the Committee in written reports to the ISO CEO and ISO Governing Board and shall be made publicly available subject to due restrictions on dissemination of confidential or commercially sensitive information.

(2) Additional Reports

The Committee may make such additional reports and recommendations as it sees fit, or in response to requests by the ISO CEO, Governing Board, or FERC, relating to the monitoring program referred to in Appendix P, the analysis of information, the evaluation criteria or any corrective or enforcement actions proposed by the ISO or posed of its own volition.

(3) Annual Policy Calendar

To focus the Committee's efforts on specific policy issues, the Committee, in conjunction with the ISO CEO, will develop an annual Policy Calendar at the beginning of the term of each new member of the Committee. That Policy Calendar shall be developed with the assistance of the DMM to identify those specific policy issues on which Committee opinions are or will be requested and

will describe the associated deliverables and their due dates. The Policy Calendar may be amended by mutual consent of the Committee and the ISO CEO to enable the Committee to address new issues that may arise.

D. Publication of Reports and Recommendations

Upon request of the Committee, the ISO CEO shall publish reports and recommendations of the Committee or incorporate them, if consistent, into the ISO's own reports or recommendations.

E. ISO Staff Support to the Committee

At the request of the Committee, but only to the extent practicable, the ISO shall provide administrative support to the Committee through the DMM to provide data and other information needed by the Committee, assistance in analyzing such data, and assistance to the Chair in managing the ongoing work load of the Committee.