



# Memorandum

**To:** ISO Board of Governors  
**From:** Yakout Mansour, President and Chief Executive Officer  
**Date:** March 17, 2010  
**Re:** Decision on Market Surveillance Committee Appointment

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*This memorandum requires Board action.*

## EXECUTIVE SUMMARY

Dr. Benjamin Hobbs has served as a member of the California Independent System Operator Corporation's Market Surveillance Committee since 2002. His term as a committee member expires on March 31, 2010. During his tenure on the MSC, Dr. Hobbs provided valuable expertise and advice to the ISO Board of Governors and ISO Management and staff on numerous market issues relating to the operation of the ISO markets and design of future market enhancements. Dr. Hobbs was also instrumental in the development of the ISO's Transmission Economic Assessment Methodology, which was adopted by the California Public Utilities Commission, and has conducted training seminars on this methodology and locational marginal pricing for ISO staff. The ISO tariff requires that the ISO Chief Executive Officer, subject to approval by the Board, make appointments to the MSC. Therefore, I request that the Board re-appoint Dr. Hobbs as a member of the MSC and authorize execution of a contract for a three-year term on the same conditions as his current contract.

*Moved, that the ISO Board of Governors reappoints Dr. Benjamin Hobbs to the ISO Market Surveillance Committee for a three-year term to end March 31, 2013; and*

*Moved, that the Chief Executive Officer is authorized and directed to enter into an appropriate consulting agreement with Dr. Benjamin Hobbs to compensate him for his participation on the ISO Market Surveillance Committee.*

## **BACKGROUND**

The ISO tariff (Appendix P2, Section P2.2.2.1) requires that the Market Surveillance Committee be comprised of three or more experts whose combined professional experience encompasses the following:

- Economics, with an emphasis on antitrust, competition, and market power issues in the electricity industry;
- Operational aspects of generation and transmission in electricity markets;
- Antitrust or competition law in regulated industries; and
- Financial expertise relevant to energy or other commodity trading.

The ISO tariff also outlines strict criteria for independence that require each member of the MSC to have no material affiliation, through employment, consulting or otherwise, with any market participant or affiliate thereof, and to have no material financial interest in any market participant or affiliate thereof. The MSC has a specific tariff-assigned role to provide independent external expertise in monitoring the ISO's markets and to provide independent expert advice and recommendations to ISO Management, the ISO Board and the Federal Energy Regulatory Commission on market performance and design. The MSC is currently comprised of three members:

- Frank Wolak (Chairman), term expires on March 31, 2011
- James Bushnell (Member), term expires on March 31, 2012
- Benjamin Hobbs (Member), term expires on March 31, 2010

The tariff authorizes MSC members to develop and publish opinions and reports at the request of the ISO Management, or independently, when deemed appropriate by the Committee. While MSC processes do not constitute a stakeholder process, Committee meetings provide an additional forum for stakeholder input and discussion, and Committee members have shown a keen interest in listening to stakeholder concerns. Formal reviews and recommendations by the MSC are provided in written opinions to ISO Management, the Board, and, when appropriate, filed with FERC. MSC opinions are also available to the public through the ISO website. Historically, the MSC has served as an impartial source of information on market issues, primarily for the ISO, but also for the FERC and state policymakers. The MSC has been consistently recognized by the industry and the public as being useful and effective, due in large part to the stature of its members as nationally recognized experts as well as their independence. Dr. Benjamin F. Hobbs, a member of the MSC since 2002, is the Theodore & Kay Schad Professor of Environmental Management in the Whiting School of Engineering at Johns Hopkins University, where he has been since 1995. He also holds a joint appointment in the Department of Applied Mathematics and Statistics. He is a former Professor of Systems Engineering and Civil Engineering at Case

Western Reserve University. He has previously held positions at Brookhaven National Laboratory and Oak Ridge National Laboratory. He is a member of the Public Interest Advisory Committee for the Gas Technology Institute.

During 2009-2010, he has been visiting the University of Cambridge, UK, where he is Senior Research Associate in the Electricity Policy Research Group in the Department of Economics and Judge Business School. His research interests include stochastic electric power planning models, including transmission planning; power systems operations and economics; multi-objective and risk analysis; ecosystem management; and mathematical programming models for simulating imperfect energy markets. Dr. Hobbs has published numerous journal articles and magazine articles on these topics and has co-authored two books. Dr. Hobbs has a Ph.D. in Environmental Systems Engineering from Cornell University, and is a Fellow of the IEEE.

During his tenure as an MSC member over the past several years, Dr. Hobbs has become a highly respected expert on various market design and policy challenges confronting the ISO and California, including in areas of transmission planning, long-term capacity markets, convergence bidding, and long-term transmission rights. Additionally, Dr. Hobbs' diverse and exceptional expertise in engineering, power systems and economics makes him a highly valued member of the MSC and an excellent complement to the skills and talents of the other MSC members, Dr. Frank Wolak and Dr. James Bushnell. A summary of the other MSC members' biographies is included in Attachment A.

#### **MANAGEMENT RECOMMENDATION**

For these reasons, I request that the Board re-appoint Dr. Benjamin Hobbs as a member of the MSC and authorize execution of a consulting agreement with Dr. Hobbs for a three-year term.



## Attachment A

### Summary Biographies of MSC Members Dr. Frank Wolak and Dr. James Bushnell

**Dr. Frank Wolak**, the chairman of the MSC since its inception in 1998, is a Professor of Economics at Stanford University. In this capacity, he has testified numerous times at the Federal Energy Regulatory Commission and at various Committees of the US Senate and House of Representatives on issues relating to market monitoring and market power in electricity markets. Topics addressed in this testimony include: FERC's role in the design of the California electricity market, the factors leading to the California electricity crisis, the role of the Enron trading strategies in the California electricity crisis, and lessons from the California electricity crisis and Enron bankruptcy for the design of effective regulatory oversight of wholesale energy markets.

Dr. Wolak is the Holbrook Working Professor of Commodity Price Studies in the Economics Department and the Director of the Program on Energy and Sustainable Development at Stanford University. He received his undergraduate degree from Rice University, and an S.M. in Applied Mathematics and Ph.D. in Economics from Harvard University. His fields of research are industrial organization and empirical economic analysis. He specializes in the study of privatization, competition and regulation in network industries such as electricity, telecommunications, water supply, natural gas and postal delivery services. He is the author of numerous academic articles on these topics. He is a research Associate of the National Bureau of Economic Research and a Visiting Researcher at the University of California Energy Institute in Berkeley. Professor Wolak has served as consultant to the California and U.S. Departments of Justice on market power issues in the telecommunications, electricity, and natural gas markets. He has also served as a consultant to the Federal Communications Commission and Postal Rate Commission on issues relating to regulatory policy in network industries.

Dr. Wolak's current 3-year term expires on March 31, 2011.

**Dr. James Bushnell**, a member of the MSC since 2002, has been an Associate Professor of Economics at Iowa State University since 2009, where he holds the Cargill Chair in Energy Economics and is Director of the Biobased Industry Center. He is also a member of the California Air Resources Board's Economic Assessment and Allocation Committee. Dr. Bushnell served as a Research Scientist for over 15 years and as Research Director over 10 years at the University of California Energy Institute, Berkeley, CA. He is a former member of the Market Monitoring Committee of the California Power Exchange (CALPX). His research interests include game theoretic optimization models, industrial organization and regulatory economics, energy policy, and environmental economics. He has published numerous articles on the economics of electricity deregulation and has testified extensively on energy policy issues. Much of his research has focused on examining the market incentives in particular; market rules and structures created and in developing empirical methods for measuring the impact of market power on deregulated electricity markets.

Dr. Bushnell's current 3-year term expires on March 31, 2012.