

# Memorandum

**To:** ISO Board of Governors  
**From:** Yakout Mansour, President & Chief Executive Officer  
**cc:** ISO Officers  
**Date:** January 18, 2007  
**Re:** *Decision on Market Surveillance Committee Reappointment*

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*This memorandum requires Board action.*

## Executive Summary

Dr. Benjamin Hobbs has served as a member of the ISO Market Surveillance Committee (MSC) since 2002. His term as a committee member expires on March 31, 2007. During his tenure on the MSC, Dr. Hobbs has provided invaluable expertise and advice to the Board, ISO Management and staff on numerous market issues relating to the operation of the current ISO markets and MRTU. Dr. Hobbs was also instrumental in the development of the ISO's Transmission Economic Assessment Methodology (TEAM), which was recently adopted by the CPUC, and has conducted training seminars on this methodology for CAISO staff. The ISO Tariff requires that the ISO CEO, subject to approval by the Board of Governors, make appointments to the MSC. Therefore, I request that the ISO Board of Governors 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.

## 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 Governing Board and the FERC on market performance and design. The MSC is currently comprised of three members:

- Frank Wolak (Chairman), term expires on March 31, 2008
- James Bushnell (Member), term expires on March 31, 2009
- Benjamin Hobbs (Member), term expires on March 31, 2007

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 members have shown a keen interest in listening to stakeholder concerns. Historically, the MSC has served as an impartial source of information on market issues, primarily for the ISO, but also for state policymakers, the FERC and the news media. ISO Management and the FERC have adopted a number of Committee recommendations since its inception. Formal reviews and recommendations by the MSC are provided in written opinions to the ISO Officers, and ISO Governing Board, and, when appropriate, filed with the FERC. MSC opinions are also available to the public through the CAISO website.

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 perceived independence. Both characteristics have led to the MSC being shown considerable deference by state and federal regulators.

Dr. Benjamin Hobbs has been a member of the MSC since 2002. He has served as a Professor of Geography and Environmental Engineering and Applied Mathematics & Statistics in the Whiting School of Engineering, at Johns Hopkins University since 1996. He is a former Professor of Systems Engineering and Civil Engineering at Western Reserve University. He has previously held positions at Brookhaven National Laboratory and Oak Ridge National Laboratory. He is presently Scientific Advisor to The Energy Research Centre of the Netherlands and a member of the Public Interest Advisory Committee for the GAS Technology Institute. His research interests include stochastic electric power planning models, environmental and energy systems analysis and economics, multi-objective and risk analysis, ecosystem management, and mathematical programming models of imperfect energy markets. Dr. Hobbs is published in numerous journal articles and magazine articles and has co-authored two books, "*Energy Decisions & The Environment: A Guide to the Use of Multicriteria Methods*" and "*The Next Generation of Electric Power Unit Commitment Models*". His recent research projects have addressed CO2 trading market impacts in the US and Europe; the reliability and price impacts of capacity markets in PJM's revisions to its capacity market; the modeling of market power in transmission-constrained power systems; and ecological restoration of rivers under multiple objectives.

During his tenure as an MSC member over the past several years, Dr. Hobbs has become a highly respected expert on the various market design and policy challenges confronting the ISO and California (e.g., transmission planning, long-term capacity markets, convergence bidding, long-term transmission rights, etc.). 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 other MSC

members, Dr. Frank Wolak and Dr. James Bushnell. A summary of their biographies is included in Attachment A.

For these reasons, I request that the ISO Board of Governors re-appoint Dr. Benjamin 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.

**Motion:**

*MOVED, that the Board reappoint Dr. Benjamin Hobbs to the ISO Market Surveillance Committee for a three-year term to end March 31, 2010, and be it further 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.*

## Attachment A

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

**Dr. Wolak**, the chairman of the MSC since its inception in 1998, is a Professor of Economics at Stanford University. His fields of research are industrial organization, regulatory economics, energy economics and econometric theory. He specializes in the study of methods for introducing competition into infrastructure industries – telecommunications, electricity, water delivery and postal delivery services – and on assessing the impacts of these competition policies on consumer and producer welfare. Dr. Wolak is a visiting scholar at University of California Energy Institute and a Research Associate of the National Bureau of Economic Research (NBER).

He earned a B.A. in Economics from Rice University in 1979, a M.A. in Economics in 1980 from University of New Mexico, and a S.M. in Applied Mathematics from Harvard University. In 1985, he obtained a PhD in Economics from Harvard University.

Dr. Wolak's current 3-year term expires on March 31, 2008.

**Dr. Bushnell**, a member of the MSC since 2002, has served as a Research Scientist for over ten years at the University of California Energy Institute, Berkeley, CA, and currently serves as the Research Director of the California Energy Institute at Berkeley. He also serves as Lecturer at the Haas School of Business, Berkeley on Policies and Strategies in the Energy Markets. 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 has a Ph.D. in Industrial Engineering and Operations Research with a B.S. in Economics and Industrial Engineering. In his current term as member of the MSC, he has provided the ISO, and particularly the DMM, expert advice on critical aspects of market design, comparing market performance across different ISO's and market power. He continues to help the DMM and the ISO MRTU team on critical design issues, especially on the design and implementation of virtual bidding.

Dr. Bushnell's three-year term expires on March 31, 2009.