

**GENERAL SESSION MINUTES  
MARKET SURVEILLANCE COMMITTEE MEETING  
August 19, 2019  
Offices of the ISO  
250 Outcropping Way  
Folsom, California**

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**August 19, 2019**

The Market Surveillance Committee (MSC), an advisory committee to the ISO Board of Governors, convened the general session meeting at approximately 10:05 a.m. and the presence of a quorum was established.

**ATTENDANCE**

The following members of the Market Surveillance Committee were in attendance:

Benjamin Hobbs, Chair  
James Bushnell  
Scott Harvey

**GENERAL SESSION**

The following agenda items were discussed in general session:

**PUBLIC COMMENT**

There was no public comment.

**DECISION ON GENERAL SESSION MINUTES**

**Motion**

Committee member Bushnell:

***Moved, that the Market Surveillance Committee, advisory committee to the ISO Board of Governors, approve the general session minutes for the June 7, 2019 meeting.***

The motion was seconded by Committee member Harvey and approved 3-0.

## **SYSTEM MARKET POWER MITIGATION DISCUSSION**

Perry Servedio, Lead Market Design Policy Developer – Market Design Policy provided a summary of some possible design elements of a proposal being developed to address system-wide market power, including (1) screening for uncompetitive conditions, (2) determining which resources to mitigate, and (3) ISO estimation of resource costs for use in default energy bids. Extensive discussion ensued among Committee members, ISO staff, and stakeholders regarding the design elements and stakeholder concerns.

Next, Committee member Scott Harvey provided a detailed presentation that addressed (1) the three-pivotal supplier test, (2) the changing supply-demand balance in the ISO markets, (3) Dr. Harvey's analysis of two groupings of high-priced hours in 2018, (4) the issue of high priced resource adequacy import supply, and (5) application of system market power mitigation. Dr. Harvey concluded that if the ISO and other stakeholders believe there is a potential for changes in market conditions that will materially increase dependence on imports and result in more hours in which the supply of imports is constrained by transmission congestion, the ISO could develop an expanded local market power mitigation design in which a three pivotal supplier test would be triggered not only by material congestion within the ISO but could also be triggered by material congestion on the major interties into California.

Finally, Committee member Jim Bushnell provided a presentation in which he argued that contracts for energy, and not just capacity, in the resource adequacy process are needed to mitigate market power, and that this was a major lesson from the 2000-01 crisis. Dr. Bushnell argued that such contracts also have benefits for risk hedging and supporting construction of new resources. Discussion ensued among Committee members, ISO staff, and stakeholders regarding mismatches between standard contract time profiles and actual load profiles, and whether energy contracts would lessen flexibility. Dr. Bushnell concluded that system-wide mitigation would not address all issues arising from reduced hedging by load serving entities.

## **RECESSED**

The meeting was recessed at approximately 12:20 p.m. for lunch.

## **RECONVENED**

The MSC reconvened the general session at approximately 1:10 p.m. and the presence of a quorum was established.

## **ATTENDANCE**

The following members of the MSC were in attendance:

Benjamin Hobbs, Chair

James Bushnell  
Scott Harvey

## **GENERAL SESSION**

The following agenda items were discussed in general session:

### **DAY-AHEAD MARKET ENHANCEMENTS DISCUSSION**

Committee member Scott Harvey provided a presentation in two broad parts addressing first the benefits and implementation challenges of combined energy-residual unit commitment design for the day ahead market, and then a discussion of alternative sequential designs. Dr. Harvey also posted a set of numerical examples of the application of the sequential and combined designs designed to show their differences. Dr. Harvey's discussion of the combined design first summarized that design and then reviewed its potential benefits. He then outlined four challenges in implementing a combined design. Active discussion ensued among Committee members, ISO staff, and stakeholders regarding pricing of virtual bids and clarification of the mathematical formulation and how virtual bids affect prices.

Next, Dr. Harvey summarized five distinct proposals for sequential energy-residual unit commitment markets, about which he made eight sets of observations. Dr. Harvey's observations addressed issues such as whether capacity should be required to be dispatchable within 15 minutes (relaxing this requirement would lower costs to consumers and, according to Committee members, not endanger reliability), and the inability of some proposals to guarantee deliverability of capacity reserves.

### **ENERGY STORAGE AND DISTRIBUTED ENERGY RESOURCES PHASE 4 DISCUSSION**

Gabe Murtaugh, Senior Infrastructure and Regulatory Policy Developer – Infrastructure and Regulatory Policy, provided an overview of the current proposal for defining battery cycling costs for use in determining default energy bids for distributed storage in the ISO's local market power mitigation mechanism. Mr. Murtaugh explained that because storage will often be installed to manage local congestion problems, if a significant amount of storage is owned by one entity, it could be in a position to exercise local market power. He then presented two different methods for approximating cycling costs in default energy bid calculations for storage.

Next, Committee Chair Benjamin Hobbs made a brief presentation addressing how a research paper written by University of Washington engineers examined the question of the accuracy of approximations of battery cycling cost upon simulated ISO-New England operations. Dr. Hobbs summarized the research paper and its conclusions and made note of the implication that the ISO's consideration of cycling costs could improve system dispatch, but that the accuracy of the approximation matters. Discussion followed.

### **FUTURE AGENDA ITEMS**

There were no items to discuss.

### **ADJOURNED**

There being no additional general session matters to discuss, the session was adjourned at approximately 4:00 p.m.