

**GENERAL SESSION MINUTES
MARKET SURVEILLANCE COMMITTEE MEETING
January 25, 2019
Offices of the ISO
250 Outcropping Way
Folsom, California**

January 25, 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 December 7, 2018 meeting.

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

REVIEW OF RELIABILITY MUST RUN AND CAPACITY PROCUREMENT MECHANISM ENHANCEMENTS DISCUSSION

Keith Johnson, Infrastructure and Regulatory Policy Manager, explained that there is an ISO stakeholder initiative underway that reviews reliability must-run and the capacity procurement mechanism for possible enhancements. Mr. Johnson next explained that the ISO will not propose wholesale changes to the RMR structure or to the compensation structure for CPM. However, since the curve methodology does not appear to be optimal, the ISO will propose enhancements to the methodology for determining price that can be bid above the soft-offer cap price. He added that, under the RMR compensation construct, the ISO will propose updates to the bidding rules for RMR resources. Mr. Johnson explained that the ISO will retain both the RMR and CPM procurement mechanisms. He next provided an overview of the use of RMR and CPM procurement and the proposed enhancements. Discussion ensued among Committee members and stakeholders regarding the efficiency of the proposed construct for CPM and RMR compensation and the proposed refinements to RMR bidding rules. Brief discussion followed regarding the resource adequacy availability incentive mechanism as it relates to RMR.

RECESSED

The meeting was recessed at approximately 12:05 p.m. for lunch. Chair Hobbs stated the meeting would reconvene at 1:00 p.m.

RECONVENED

The MSC reconvened the general session at approximately 1:05 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:

LOCAL MARKET POWER MITIGATION ENHANCEMENTS DISCUSSION

Elliott Nethercutt, Sr. Market Design Policy Developer, provided a summary of circumstances under which economic displacement occurs. Mr. Nethercutt provided an overview of the current framework, the proposed economic displacement formula, and the

framework under the proposed rule. He explained that, in the draft final proposal, the proposed rule was modified to limit balancing authority areas' net exports to the greater of the quantity of base transfers or pre-mitigation transfers, plus the total of the flexible ramping-up awards in excess of the BAAs flexible ramping up requirement. He added that the proposed rule would be optional for energy imbalance market BAAs, based on their preference. He next provided illustrative examples of a mitigation run and a market run under the proposed rule. Discussion ensued among Committee members and stakeholders regarding congestion rents and the proposed economic displacement formula.

Committee Chair Hobbs described a technical issue relating to the mathematical condition known as degeneracy. Dr. Hobbs explained that degeneracy is likely if the economic displacement constraint is set equal to the mitigation run transfer, which could result in multiple prices and wealth transfer. He added that a possible solution would be to permute the economic displacement constraint upwards, which would likely result in a lower shadow price and less distortion of locational marginal prices.

Brittany Dean, Market Design Policy Developer, explained that hydro resources have opportunity costs that are challenging to calculate. Ms. Dean stated that to ensure participation by hydro resources the ISO has developed a hydro default energy bid, which was updated in the draft final proposal based on stakeholder feedback to include a gas floor price, a locational floor, and a geographical floor. She next provided an overview of the formula for the hydro default energy bid, and explained that the multiplier of the local component of the bid, specified as 1.4, was updated based on additional analysis. Ms. Dean provided an overview of the two terms of the default energy bid that are customizable, namely the maximum storage horizon and the bilateral hubs. Discussion ensued among Committee members and stakeholders regarding the default bilateral hubs and the maximum storage horizon.

Danielle Tavel, Policy Development Data Analyst – Market Design Policy, provided an overview of the ISO's analysis to determine the multiplier of the local component of the default energy bid. Ms. Tavel explained that the ISO determined the 1.4 multiplier by assuming using 4 hours of available energy per day and 95-99% dispatch efficiency. Discussion ensued among Committee members and stakeholders regarding the analysis and the default energy bid formulations.

Ms. Dean concluded the presentation by providing an overview of the changes in the draft final proposal related to the reference level adjustments process. She explained that the draft final proposal includes provisions for basing adjustments either on same-day gas trading the ISO observes on the International Continental Exchange or on manual reference level consultations.

DAY-AHEAD MARKET ENHANCEMENTS MITIGATION OF FLEXIBLE RAMPING PRODUCT BIDS DISCUSSION

Don Tretheway, Senior Advisor – Market Design Policy, briefly described the two previous alternatives being considered: (1) keep the current day-ahead market application sequence, or (2) change the current day-ahead market application sequence. Mr. Tretheway explained that the ISO will propose to keep the current day-ahead market sequence, which would include co-optimizing energy, ancillary services and flexible ramping products in the independent forward market, minimal changes in reliability unit commitment, and no changes to deviation settlement except for the flexible ramping products and corrective capacity. He next described the ISO's approach for evaluating data to determine whether the market or the ISO day-ahead forecast is more accurate in calling actual real-time conditions, and he provided graphical illustrations of the data analysis. Mr. Tretheway described the ISO's proposals to allow bidding for all day-ahead products and to re-optimize all products in the real-time market. Discussion ensued among Committee members and stakeholders regarding the ISO's proposals, the data analysis, whether allowing day-ahead bidding for dispatch products results in the need for market power mitigation rules, and what the approach might be for mitigation.

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 3:45 p.m.