

**GENERAL SESSION MINUTES  
MARKET SURVEILLANCE COMMITTEE MEETING  
July 2, 2013  
ISO Headquarters  
Folsom, CA 95630**

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**July 2, 2013**

The Market Surveillance Committee (MSC), an advisory committee to the ISO Board of Governors, convened the general session at approximately 10:00 a.m. and the presence of a quorum was established.

**ATTENDANCE**

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

James Bushnell  
Scott Harvey  
Benjamin Hobbs, Chair  
Shmuel Oren

**GENERAL SESSION**

The following agenda items were discussed in morning general session:

**PUBLIC COMMENT**

No public comment was offered at this time.

**DECISION ON GENERAL SESSION MINUTES**

**Motion**

**Chairman Hobbs:**

***Moved, that the Market Surveillance Committee, Advisory Committee to the Board of Governors of the California Independent System Operator Corporation, approve the draft general session minutes from the March 19 and May 7, 2013 meetings.***

**The motion was seconded by Committee member Harvey and approved 4-0-0.**

## **DISCUSSION ON CONTINGENCY MODELING ENHANCEMENTS**

Jeff Nelson, on behalf of Southern California Edison, made a presentation addressing SCE's concerns with the ISO's proposal. Mr. Nelson stated that the ISO must run a reliable grid, but questioned what dimensions of reliability should be incorporated as market products in the core market optimization. He stated that SCE was concerned with the complexity of the proposal coupled with the lack of research and testing, as well as the lack of any existing real-world application. He stated the potential for broad and material impacts to existing market product prices and Locational Marginal Pricing price formation. Mr. Nelson further described how SCE believed the proposal likely violated core preconditions for workably competitive market solutions.

Discussion followed among the MSC members and stakeholders.

Mark Rothleder, Vice President of Market Quality and Renewable Integration, provided comments in response to Mr. Nelson's concerns. Petar Ristanovic, Vice President of Technology, addressed Mr. Nelson's concerns about contingency simulation. Lin Xu, Lead Market Development Engineer from Market Development and Analysis, addressed Mr. Nelson's concerns about flexible ramping.

Ellen Wolfe, on behalf of Western Power Trading Forum, raised concerns about the complexity of Management's proposal.

Chairman Hobbs confirmed there were no additional questions.

Roger Avalos, Market Monitoring Analyst from the Department of Market Monitoring, made a presentation regarding bidding for capacity products in spot markets. Mr. Avalos provided an overview of spot capacity products that had the ability to change energy output within a specified time. He further explained how the ISO was currently developing a flexible ramping product that would be able to procure 5-minute capacity in a period so it could be used to provide energy in a future period. He further explained that the ISO would be developing a corrective capacity proposal to reduce flows across a transmission constraint post contingency within 30-minutes. He noted that the CPUC and ISO were working together to develop forward procurement of flexible ramping capacity.

Discussion about opportunity costs followed among the MSC members and stakeholders. Committee member Oren and Mr. Avalos engaged in a discussion about capacity payments.

Bradford Cooper, Manager, Market Design and Regulatory Policy, provided comments regarding bidding incentives. Mr. Cooper also provided clarifying comments on allowing separate capacity bids.

Lin Xu, Lead Market Development Engineer from Market Development and Analysis, provided comments related to capacity payments.

Committee member Harvey emphasized that long-term incentives were important. Mr. Harvey agreed with the comments that were made about marginal cost pricing and opportunity costs.

Jeff McDonald, Manager, Analysis and Mitigation from the Department of Market Monitoring, responded to Committee member Oren's question about local market power mitigation. Mr. McDonald explained that DMM staff have worked through how to incorporate the new product and the new constraints into the local market power mitigation. He noted that another white paper with additional details will be released explaining how it would fit into the existing local market power mitigation framework.

Chairman Hobbs confirmed there were no additional questions.

Committee member Harvey made a presentation that addressed how other ISOs handle contingency reserves. He highlighted many points about Eastern ISO designs. He stated that the New York ISO has, since its start-up, scheduled 10- minute reserves to enable it to restore flows over interconnection reliability operating limit constraints internal to the New York ISO to their limits following transmission contingencies. He further stated these eastern 10-minute reserves were included in the overall New York ISO reserve requirements, that they do not increase the total reserve requirement, but that they change where reserves are located. Mr. Harvey explained the California ISO design would similarly integrate contingency reserves with other California ISO reserve requirements.

Mr. Harvey continued to describe how the eastern 10-minute reserve prices could impact NYISO energy prices when there was a tradeoff between energy and eastern 10-minute reserves. He noted that the ISO New England applied a similar concept to its local 30-minute reserves. He further illustrated the shortage prices for local reserves can set energy prices when ISO New England is short of reserves in these load pockets. However, unlike the New York ISO, ISO New England adjusts its contingency reserve target in real-time to reflect the level of flows on the constraints. He stated in scheduling these reserves, the New York ISO and ISO New England minimized the cost of being able to restore flows, i.e., of having the necessary capacity available to be dispatched.

Brief discussion followed regarding the cost-benefit analysis conducted by the eastern ISO's. Mr. Harvey explained why a detailed cost-benefit analysis was not necessary at the time due to the cost of gas and operating reserves.

Mr. Ristanovic provided comments regarding how the ISO can better model generation contingencies.

Mr. Xu provided further comments in response to Mr. Ristanovic's comments about modeling generation contingencies.

Chairman Hobbs confirmed there were no additional questions.

## **RECESSED**

There being additional general session matters to discuss, the general session was recessed at approximately 12:30 p.m.

## **RECONVENED**

The Market Surveillance Committee reconvened the general session at approximately 1:00 p.m. and the presence of a quorum was established.

## **ATTENDANCE**

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

James Bushnell  
Scott Harvey  
Benjamin Hobbs, Chair  
Shmuel Oren

## **GENERAL SESSION**

The following agenda items were discussed in afternoon general session:

### **DISCUSSION ON ENERGY IMBALANCE MARKET**

Committee Member Harvey made a presentation that addressed energy imbalance market (EIM) design issues. He provided an overview of the following areas: greenhouse gas design performance, adjusted base schedules and revenue adequacy, proration rules, and resource adequacy. Mr. Harvey described how adjusted base schedules were fundamentally financial and how relaxing transmission constraints when adjusting base schedules would result in infeasible adjusted base schedules. He also explained that the rules used to define entitlements to use of the transmission system without paying congestion need to be workable from an implementation standpoint for the California ISO, equitable for the affected energy imbalance market participants, and approved by FERC. He noted that the resource plan was an important element of the EIM short-term resource adequacy design.

Discussion between the MSC Members, Ellen Wolfe, on behalf of the Western Power Trading Forum (WPTF) and Jeff Nelson, on behalf of Southern California Edison, ensued.

Ryan Kurlinski, Sr. Market Monitoring Analyst from the Department of Market Monitoring, provided comments about constraints and uplifts.

Don Tretheway, Lead Market Design and Regulatory Policy Specialist from the Market Design and Regulatory Policy department, provided comments regarding the EIM second revised straw proposal. Mr. Tretheway explained that within the proposal was a method by which ISO would isolate the congestion offset costs by balancing area authority based upon constraint within each balancing authority.

Chairman Hobbs confirmed there were no additional questions.

Committee member Bushnell made a presentation regarding green-house gas (GHG) issues in the EIM. Mr. Bushnell explained that measuring GHG emissions was necessary to serve the cap load and assign costs accordingly. He explained that dispatch would essentially try to find the least-cost way to serve the California load which would automatically be locating the cleanest generation. Mr. Bushnell further explained generation would look different under these alternatives and the alternatives would be to use a balancing authority average

Discussion between the MSC committee members, Mr. Cooper and Ellen Wolfe, on behalf of the Western Power Trading Forum (WPTF), ensued about resources importing into California, GHG costs and market power.

Mark Rothleder, Vice President of Market Quality and Renewable Integration, provided comments about energy bids in the EIM.

Chairman Hobbs confirmed there were no additional questions.

Jeff McDonald, Manager, Analysis and Mitigation, from the Department of Market Monitoring, made a presentation on local market power mitigation in the EIM.

Mr. McDonald explained congestion in one balancing authority would trigger mitigation in another balancing authority although exercising local market power across balancing authorities was not a concern. He stated that the EIM balancing authority might rely on higher spot prices for fixed cost recovery absent a formal forward capacity reserve requirement. He further illustrated that local market power is created by congestion that isolates some load and a limited pool of supply from the rest of the system. A resource has local market power if the (net) impact of uncompetitive constraints on the locational marginal pricing is positive. Lastly, Mr. McDonald described how the existing LMPM

framework would accommodate this with the addition of balancing authority identifier for transmission constraints and supply resources.

Lin Xu, Lead Market Development Engineer from Market Development and Analysis, provided comments about counter flow.

Chairman Hobbs confirmed there were no additional questions.

### **DISCUSSION ON MSC'S JUNE 28, 2013 REPORT TO FERC ON LOCAL MARKET POWER MITIGATION AND COMPETITIVE PATH ANALYSIS**

Committee member Bushnell made a presentation on the MSC's June 28, 2013 report on the Appropriateness of the Three Pivotal Supplier Test and Alternative Competitive Screens. Mr. Bushnell explained the role of Local Market Power Mitigation in a short-term bid based short-term electricity market. He further defined conditions under which the ISO or market monitor mitigates the offers of some or all suppliers to their estimated competitive level.

Mr. Bushnell explained that a large fraction of merchant units bid in excess of 1.2 times DEB during congested hours for the paths studied. He concluded that the MSC did not find anything to support a change in the current three pivotal supplier threshold.

Chairman Hobbs provided supportive comments regarding staying with a 3 pivotal supplier test.

Brain Theaker, on behalf of NRG Energy, provided comments about bidding in excess of 1.2 times DEB.

Chairman Hobbs confirmed there were no additional questions and concluded the topic.

### **FUTURE AGENDA ITEMS**

Next meeting scheduled for September.

### **ADJOURNED**

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