GENERAL SESSION MINUTES
California ISO (CAISO)
MARKET SURVEILLANCE COMMITTEE MEETING
July 2, 2007
Via Teleconference
Folsom, California

Keith Casey, Director of Market Monitoring, provided a brief introduction at the outset of the conference call and turned the call over to Chairman Wolak.

Chairman Frank Wolak officially called the meeting to order at approximately 2:05 pm Pacific Time with all committee members in attendance. Chairman Wolak explained the purpose of the call as the discussion and possible adoption of the June 28, 2007 draft "Opinion on 'Interim Measures to Address Day-Ahead Underscheduling Under MRTU.'"

COMMITTEE MEMBERS IN ATTENDANCE

Frank Wolak
Jim Bushnell
Ben Hobbs

DISCUSSION OF JUNE 28, 2007 DRAFT "OPINION ON 'INTERIM MEASURES TO ADDRESS DAY-AHEAD UNDERSCHEDULING UNDER MRTU'"

Chairman Wolak summarized the draft opinion concerning the CAISO's proposed interim measures to address underscheduling in which the MSC recommends a hybrid approach under which the CAISO would submit reports to FERC and calculate penalties for violations, but would not charge Scheduling Coordinators until and unless FERC finds underscheduling to be persistent. Chairman Wolak then advised listeners that the MSC notice and comment process is not a stakeholder process but stakeholder input is welcome and important to the MSC's consideration. Chairman Wolak then asked for any additional public comment.

Additional comments

Carolyn Kehrein commented in favor of the MSC approach noting only a typographical error to be corrected.

Brian Theaker of Williams Power commented that the 15% safe harbor band width was too big noting that a smaller percentage deviation could affect price at the higher end of an aggregate supply curve. Member Bushnell and Chairman Wolak acknowledged this concern and suggested the CAISO should not limit reporting to occasions when the 15% threshold is breached so that smaller deviations could be monitored. Mr. Theaker responded that the CAISO should have mechanisms in place to mitigate buyer market power. Member Bushnell and Chairman Wolak both commented that high levels of fixed-price forward contracting by load serving entities takes their incentive to take actions to influence Day-Ahead prices. Mr. Theaker asked whether the MSC knew the percentage of fixed-price forward contract coverage of final demand by California's large load-serving entities (LSEs). Keith Casey, Director of the Department of Market Monitoring (DMM) with the CAISO indicated that a joint CPUC/DMM analysis found that the vast majority of peak demand was covered by fixed-price forward contracts for 2006, but this calculation had not been performed for 2007. Chairman Wolak reiterated the importance of high-levels of fixed-price forward contract coverage of final demand as the primary basis for the MSC opinion that there would be little incentive for underscheduling. Member Hobbes suggested that sellers could also respond to any underscheduling actions by LSEs by insisting on a higher price in Real-time versus Day-Ahead. Brian Theaker replied that suppliers would be concerned that such behavior would be deemed to be "economic withholding."

Ellen Wolfe commented that she believed the MSC was motivated more out of concern about the impact of the cure on the affected parties than by the parties affected by the disease. Member Bushnell indicated the MSC was concerned about the net efficiencies—given that the MSC believes the risk of demand underscheduling is small, the MSC does not want to risk market distortions that would be caused by implementing an underscheduling mechanism that is not needed. Ms. Wolfe replied that existing penalties under MRTU would not be a sufficient deterrent. Chairman Wolak responded that while the bigger disincentive for underscheduling is the level of fixed-price forward contracting, the costs of trading in the ISO's real-time market can be substantial. MSC members and Ms. Wolfe debated the extent to which LSE underscheduling could influence prices and when it would be considered "abusive." Chairman Wolak and Member Bushnell both agreed that the CAISO should be reporting more broadly on scheduling practices and not just on the defined practices that would potentially trigger penalties. Discussants agreed that generally underscheduling below the 15% threshold might not affect prices, but it could under some circumstances.

Rich Mettling from PG&E commented that a 5% threshold would be too tight and would be hit all the time at night. Chairman Wolak agreed and commented that there are many legitimate reasons for choosing to buy energy in one market rather than another.

Glenn Goldbeck from PG&E commented that early mornings are very challenging and PG&E continues to oppose penalties but prefers MSC hybrid. MSC members and Mr. Goldbeck discussed the analogy between the hybrid proposal and the CAISO's existing Uninstructed Deviation Penalty (UDP) approach. Like the UDP approach, penalties would be calculated but not charged. Unlike the UDP approach, which would be applied to all market participants when and if triggered, the penalties under the hybrid approach for underscheduling would be triggered on an individual Scheduling Coordinator basis upon FERC’s finding that the market participant had engaged in persistent underscheduling.

Sue Mara/Retail Alliance the indicated support for the MSC approach.

Anjali Sheffrin, Director of Market and Product Development at the CAISO indicated that CAISO management had intended to present both proposals to the CAISO Board as alternatives, i.e. reporting or penalties. Ms. Sheffrin also clarified that CAISO management had modified is proposed 100 MW safe harbor to 250 MW, i.e. Load Serving Entities representing 250 MW or less would be exempt from penalties.

ADOPTION OF OPINION

Chairman Wolak asked for a motion to adopt the opinion. Member Hobbes moved to adopt the draft opinion. Member Bushnell seconded. Chairman Wolak called the vote and the opinion was adopted by a 3-0 vote.