MEETING MINUTES OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR (CAISO) MARKET SURVEILLANCE COMMITTEE

Meeting Date: **October 19, 2009, 9:00 a.m.**

Held at: **Teleconference Meeting**
Call hosted from: Offices of the ISO, Pyramid Conference Room (110 Building)
Folsom, CA 95630

With Simultaneous Meeting Web Cast (Web conference via Internet (visual) and telephone (audio))

A meeting of the Market Surveillance Committee (MSC) was held at the time and place referenced above, pursuant to the Public Notice (final released October 16, 2009), posted on the CAISO Web site at http://www.caiso.com/23c2/23c2c4412f6c0.html . This meeting was also a joint CAISO stakeholder with regard to topics contained within the Public Notice.

COMMITTEE MEMBERS ATTENDING

Frank Wolak	Committee Chairman
James Bushnell	Committee Member
Benjamin Hobbs	Committee Member
Absences:	None

GENERAL SESSION

The ISO initiated the telephone conference call from the ISO conference room. It was noted that ISO representatives Eric Hildebrandt, Margaret Miller and Kimberli Lua were present from the ISO. Sidney Davies from ISO Legal was present on the phone. Other members of the public joined in the conference call; these parties are listed on a conference participant list compiled by the telephone service provider.

Chairman Frank Wolak officially called the meeting to order shortly after 9:00 a.m. with committee members Wolak, Bushnell and Hobbs all in attendance via telephone.

Before proceeding with the meeting Chairman Wolak emphasized that the Market Surveillance Committee is not a part of the ISO's formal stakeholder process, but that stakeholder comments are always appreciated because they help the MSC prepare better-informed opinions.

1. **Discussion on Convergence Bidding**

Chairman Wolak began the discussion with a brief summary of the MSC's opinion. A copy of this draft opinion had been posted on the ISO Web site along with the Public Notice for this meeting.

Dr. Wolak noted that the opinion on convergence bidding was broken down into several issues. The first issue was the question of the granularity of convergence bidding. The MSC believes that the market efficiency benefits of allowing greater granularity outweigh the potential adverse consequences of allowing the convergence bidding at the nodal level.

The second issue was the effective local market power mitigation mechanism. Here, the MSC supports the ISO's proposal of performing both rounds of the IFM mitigation process using the physical supply and the ISO's load forecast. Dr. Wolak noted that given the compressed schedule for the convergence bidding vote, the MSC thought it was best to start with the current approach that's being implemented for local power of mitigation in the current market.

The third issue was convergence bidding at the inter-ties and cautioning against making a start distinction between physical and financial schedules at the inter-ties in the day-ahead market. The MSC wanted to caution against making a distinction between physical and financial schedules at the inter-ties in the day-ahead market simply because effectively everything is a financial schedule in the day-ahead market and in inter-ties. More generally the MSC noted that they question the need for imposing the two sets of constraints in the scheduling run and proposed a more simplified approach to dealing with this issue.

The fourth issue was the question of allocation of cost. The MSC applauds the ISO's approach of attempting to implement cost causation principles, but it warns that it is an impossible task to allocate all costs on this basis, so compromises with respect to this principle are necessary.

The fifth issue was the CRR refund mechanism. Here, the MSC believes the CRR refund mechanism makes sense, but believes it would be difficult to design one that's going to catch all problems.

The sixth issue concerns what the MSC called regulatory issues. Here, the MSC thinks that the most important issue is in the timing between adopting Convergence Bidding at the Board and implementation. The MSC strongly recommends that the CPUC set clear rules on how the three utilities can participate, because active participation by these entities will improve the performance of the convergence bidding process. Finally, the MSC supports the ISO's ability to take actions to limit the locations where participants can submit convergence bids, and even prohibit market participants from submitting convergence bids in the event that these turn out to be problematic for the performance of the energy market for the simple reason that convergence bidding is not essential to delivering power.

<u>Comment</u>

After providing this summary, Dr. Wolak asked if any committee member wished to add further comment. Receiving no further comment from the MSC, Dr. Wolak then asked if there was any public comment.

Jeff Nelson of SCE asked the MSC to elaborate on the MSC's concern regarding the issue of the inter-ties and the potential interaction of dynamic schedules and Intertie virtual bidding. The MSC responded and stated their concern was more of a "heads up" to monitor the inter-ties where dynamic scheduling can take place.

The next question came from Kurt Hanson with PG&E. Mr. Hanson indicated he was struggling with the observation made in the paper that there is little meaningful distinction between physical and financial transactions in the day-ahead market. He felt that that the ISO needs to draw a clearer distinction between physical and virtual bids for the purposes of local market power mitigation and the RUC process. The MSC indicated that they were sympathetic to this view and believe it is a challenge to operationalize this distinction. The MSC stated that in the day-ahead timeframe the distinction between physical and virtual bids is largely semantic, and that all the ISO really knows is which schedules self-identify themselves as physical at the time RUC starts.

Mr. Hanson was also seeking clarification regarding how the CPUC might think about granting authority for the IOUs to participate in a virtual bidding market. The MSC responded by stating the CPUC should give the utilities the authority to participate and to profit from participating. Not having utilities participate could significantly reduce the likelihood of benefits from convergence bidding. The MSC further stated that the bottom line is the MSC would like the utilities to be participating actively as part of their overall package of procurement strategies and not have a regulatory incentive to take a risk adverse approach to this that would end up raising overall total cost.

The next question came from Jeff Nelson. Mr. Nelson asked the MSC to elaborate on section six of the opinion whereby the CRR Claw-Back Rules was discussed. The MSC responded and took the final caller.

Finally, Ellen Wolfe of Resero Consulting asked the MSC to provide a sense of where the MSC is with DMM's proposal for revising the ISO's local market power mitigation mechanism with convergence bidding. The MSC responded that it found the DMM proposal promising, but felt that further analysis was needed before implementing it, so it was best to stick with the ISO's proposal in the initial release of convergence bidding.

<u>Vote</u>
Following the discussion, a motion was made, and seconded, that the Draft Opinion on Convergence Bidding be approved. The following vote was then taken:

Ayes: 3
Nays: 0

Resolved: Draft Opinion on Convergence Bidding entitled “Opinion on Convergence Bidding“: is approved.

Executive Session

There was no executive session.

There being no further business, the Market Surveillance Committee meeting was adjourned at approximately 10:00 a.m.

The MSC has approved these Minutes of the October 19, 2009 MSC Meeting at the following MSC Meeting:

Date of approval: January 22, 2010