

# Memorandum

**To:** ISO Board of Governors  
**From:** Frank A. Wolak, Chairman, ISO Market Surveillance Committee  
**cc:** ISO Officers  
**Date:** December 4, 2007  
**Re:** *Market Surveillance Committee Activities from September 26, 2007 to November 19, 2007*

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**This is only a status report. No Board action is requested.**

The Market Surveillance Committee (MSC) has worked with ISO staff on several issues and participated in stakeholder conference calls and a stakeholder meeting at the California ISO during the past two months. These efforts have culminated in the preparation of three MSC opinions. This memo summarizes these activities.

## **Interim Capacity Payment Mechanism**

The MSC has been involved in discussions with staff from Market and Product Development on the design of the Interim Capacity Payment Mechanism (ICPM) to replace the Reliability Capacity Services Tariff (RCST). The ICPM will provide the ISO with a backstop to the California Public Utilities Commission (CPUC) Resource Adequacy (RA) process. If the ISO determines that a load-serving entity (LSE) has not procured its full RA requirement in advance of the delivery year, the ICPM process will allow the ISO to purchase the needed RA capacity and charge this cost to the market participant. The ICPM product also allows the ISO to procure additional RA capacity within the delivery year if a "significant event" occurs during the year that renders the RA requirements set at the start of the year inadequate. The MSC reviewed the CAISO's most recent ICPM proposal and adopted, on November 21, an opinion entitled "Opinion on Interim Capacity Payment Mechanism under MRTU." This opinion is included as an attachment to this memo.

## **Long-Term Resource Adequacy Process**

As part of the process of preparing the opinion entitled, "Opinion on Long-Term Resource Adequacy under MRTU," the MSC participated in an all-day joint stakeholder and MSC meeting on the long-term resource adequacy process at the California Public Utilities Commission on October 1, 2007 and has been actively engaged in other CAISO stakeholder meetings and CPUC workshops on this topic. In this opinion the MSC considers the question of whether California should move forward with a centralized capacity market. For the reasons outlined in the opinion, the MSC felt it was prudent for the CPUC to work with the ISO to improve on the current resource adequacy process rather than implement a centralized capacity market at the present time. This opinion, which was adopted on November 9, is included as an attachment to the CAISO Board Memo on this same topic.

## **Greenhouse Gas Emissions and California Electricity Market**

The MSC has continued to follow the issue of how to implement California's Greenhouse Gas Emissions control goals in a manner that best utilizes the strengths of the CAISO market design and does not adversely impact the performance of the California and Western Electricity Coordinating Council (WECC) electricity markets. The MSC strongly argues against the adoption of a load-based cap-and-trade GHG-control mechanism. The MSC believes that a load-based cap-and-trade GHG emission permit regulatory mechanism is likely to adversely impact California ISO markets and unnecessarily increase the price of electricity to California consumers relative to other mechanisms available for limiting GHG emissions. The document entitled, "Opinion on Load-Based and Source-Based Trading of Carbon Dioxide in California," explains the logic underlying the MSC's position. This opinion was adopted on November 27 and is included as an attachment to this memo.

Dr. Frank Wolak (MSC Chair) will be available at the December Board meeting to answer any questions the Board may have on these opinions or other pertinent market issues.