

Memorandum

To: CAISO Board of Governors
From: Frank A. Wolak, Chairman, CAISO Market Surveillance Committee
Date: August 29, 2008
Re: *Market Surveillance Committee Activities from June 24, 2008 to August 22, 2008*

This memorandum does not require Board action.

The Market Surveillance Committee (MSC) has been involved in three sets of activities since June 24, 2008. The first set is concerned with the performance of existing CAISO markets. The second set is activities related to the implementation of the Market Redesign and Technology Upgrade (MRTU). The third set deals with the future of the California wholesale electricity market.

FERC TECHNICAL CONFERENCE ON JULY 1, 2008

On July 1, 2008 the Federal Energy Regulatory Commission (FERC) held a technical conference in Washington D.C. reviewing the performance of wholesale electricity markets in the United States. MSC Chair Frank Wolak participated in the panel on the California electricity market.

JOINT STAKEHOLDER AND MSC MEETING ON JULY 30, 2008

The MSC held a joint stakeholder meeting on July 30, 2008 in preparation for issuing an opinion on CAISO's reserve scarcity pricing proposal and to discuss reserve pricing under the initial release of MRTU and recent market simulation results on the MRTU parameter tuning process. The meeting consisted of three sets of presentations.

Frank Wolak gave a presentation on the relationship between CAISO's parameter tuning process and reserve scarcity pricing. Wolak noted that reserve scarcity pricing is a special case of the parameter tuning process, which is a necessary feature of a locational marginal pricing market to ensure that market-clearing prices can be computed regardless of the bids and offers submitted by market participants and the configuration of the transmission network. Wolak then emphasized the importance of high levels of fixed-price forward contract coverage of final demand and active participation of final demand in the wholesale market to both limit the consumer harm that could occur from reserve scarcity pricing and limit the frequency that penalty parameters set in the parameter tuning process that will impact market-clearing prices.

Shucheng Liu, of the Department of Market and Product Design, described the *Release 1* MRTU ancillary services pricing under reserve deficiency conditions. Liu emphasized that there is no ancillary service scarcity pricing deficiency conditions during the first 12 months of MRTU through a series of three examples.

Jim Price and **Ed Lo** of the Department of Market and Product Design then presented the results of market simulations associated with the parameter tuning process in the day-ahead and real-time markets under MRTU. Price's presentation focused on results for integrated forward market (IFM) and the residual unit commitment (RUC) process. Lo's presentation focused on the real-time energy market. The goal of these simulations was to investigate the relationship between penalty parameter values and the incidence and magnitude of relaxation of the various scheduling and transmission constraints. Although the preliminary conclusion from both these sets of simulations is encouraging in terms of the ability of CAISO to find penalty parameter values that honor existing scheduling priorities, both presenters emphasized that their analysis of this issue is ongoing.

MARKET INITIATIVE ROADMAP MEETING ON AUGUST 7, 2008

On August 7, 2008 the Department of Market and Product Design held a meeting with CAISO Officers outlining a roadmap for the future of wholesale electricity markets in California. MSC Chair Frank Wolak participated in this meeting.