

**UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION**

**Review of Market Monitoring Policies  
Docket No. AD07-8-000**

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Good afternoon, Chairman Kelliher and distinguished Commissioners. I appreciate the opportunity to participate in this Technical Conference on Market Monitoring.

Keith Casey of the ISO and other panelists have already spoken in detail about the role of ISO and RTO market monitors in detecting, defending against, and preventing market manipulation and about how market monitors interact with FERC. I will therefore focus my remarks on the function of the independent Market Monitoring Department within the California ISO and on the benefits that the Department provides for ISO operations and planning.

As you are aware, we have a belt-and-suspenders market monitoring program at the California ISO. In addition to the Department of Market Monitoring, we have the benefit of a blue ribbon Market Surveillance Committee that informs many ISO market deliberations and reports directly to our Board of Governors.

The current structure of the California ISO's internal Department of Market Monitoring (DMM) was established in 2005, when the ISO initiated a major organizational realignment. The realignment consolidated compliance activities within DMM, eliminating the existing Compliance Department and moving its former shared role in administering the ISO's Enforcement Protocol to DMM entirely. FERC authorized the Department to administer the Protocol in December 2005. This authorization recognized the Department's independence and also affirmed that the ISO's selection process established an independent Board of Governors, a criterion that FERC had deemed essential to Protocol administration.

The ISO provides the Department with IT support to maintain its operating database and analysis tools. In addition, the Department has access to, and interaction with, other ISO departments on a consistent basis to address ongoing market issues, provide input on how operations might be improved, and make recommendations on future market design initiatives.

The realigned structure has served us well and provided significant benefits from the Department's day-to-day oversight of our markets and operations:

- A primary goal of the California ISO and its monitoring department is to identify market behavior and design issues before they go out of control. Because DMM is staffed by highly trained, skilled electric market experts with access to on-going market information, they are well positioned to identify, analyze and understand market problems as they unfold.

- Furthermore, the department's physical location on-site facilitates communications with systems operations and market design experts to isolate critical problems and bring them to the attention of the CEO and Board of Governors, as appropriate.

The Department also provides benefits in addition to those related to day-to-day oversight. These added benefits derive from the expertise that our market monitors provide to other aspects of ISO operations.

- For example, their expertise has come to bear in our review of transmission projects through their independent critique of ISO staff's analysis of transmission additions and policies.
- Their expertise also provides independent analysis of market design proposals during development and when they come before our Board for consideration. For example, the Department has identified potential modifications that will help ensure the effectiveness of our Market Redesign and Technology Upgrade (MRTU) initiative, which will be operational in February 2008, including recommendations to address potential deficiencies in proposed local market power mitigation procedures.
- The Department is also currently working to establish the tools and environments needed to support readiness of enforcement and compliance functions within the redesigned market. Successful implementation of MRTU is our top corporate priority and the Department has worked extensively with the project team for the past year and a half to develop the appropriate business requirements for monitoring the redesigned market.

Some might argue that reviewing project analyses or market design proposals is outside the scope of the "market monitoring" job title, but we believe otherwise. Market monitoring is the mechanism for identifying market design and behavior issues as soon as possible after they arise. In contrast, reviewing transmission project evaluations and market design proposals occurs in advance of implementation, effectively helping to avoid problems before they arise. The right infrastructure mitigates market power and good market design disciplines market behavior.

The California ISO and its Board of Governors rely on the expertise and independence of the DMM and find the Department invaluable not just as a day-to-day market monitor but as an internal check point. The Department's counsel has tremendous value to management and our Board because of its independence and expertise -- traits that are the foundation of the group's credibility and their value to the internal operations of the ISO.