

7 Market Surveillance Committee

7.1 Market Surveillance Committee

Historically, the Market Surveillance Committee (MSC or Committee) has served as an impartial voice on market issues primarily for the CAISO as well as for state policymakers, the FERC and the media. CAISO management and the FERC have adopted a number of Committee recommendations since its inception. The MSC has been recognized consistently by the industry and the public as useful and effective, due in large part to the stature of its members as nationally recognized experts as well as their perceived independence. Both characteristics have led to the MSC being shown considerable deference by state and federal regulators.

7.1.1 Current Members

In 2006, the Committee was comprised of the following members: Frank Wolak of Stanford University, Benjamin Hobbs of Johns Hopkins University and James Bushnell of the University of California Energy Institute at Berkeley. Frank Wolak served as the chairman of the Committee.¹ The following is a brief description of each member's background.

Dr. Frank A. Wolak, the chairman of the MSC since its inception in 1998, is a Professor of Economics at Stanford University. His fields of research are industrial organization, regulatory economics, energy economics and econometric theory. He specializes in the study of methods for introducing competition into infrastructure industries – telecommunications, electricity, water delivery and postal delivery services – and on assessing the impacts of these competition policies on consumer and producer welfare. Dr. Wolak is a visiting scholar at the University of California Energy Institute and a Research Associate of the National Bureau of Economic Research (NBER). Dr. Wolak has a Ph.D. in Economics from Harvard University, a B.A. in Economics from Rice University, a M.A. in Economics from University of New Mexico and a S.M. in Applied Mathematics from Harvard University.

Dr. Benjamin F. Hobbs, a member of the MSC since 2002, is a Professor of Geography & Environmental Engineering and Applied Mathematics & Statistics in the Whiting School of Engineering, at Johns Hopkins University since 1995. He is a former Professor of Systems Engineering and Civil Engineering at Case Western Reserve University. He has previously held positions at Brookhaven National Laboratory and Oak Ridge National Laboratory. He is presently Scientific Advisor to The Energy Research Centre of the Netherlands and a member of the Public Interest Advisory Committee for the Gas Technology Institute. His research interests include stochastic electric power planning models, environmental and energy systems analysis and economics, multi-objective and risk analysis, ecosystem management, and mathematical programming models of imperfect energy markets. Dr. Hobbs is published in numerous journal articles and magazine articles and has co-authored two books. Dr. Hobbs has a Ph.D. in Environmental Systems Engineering from Cornell University.

¹ More information is available at <http://www.caiso.com>.

Dr. James Bushnell, a member of the MSC since 2002, has served as a Research Scientist for over ten years at the University of California Energy Institute, Berkeley, California, and currently serves as the Research Director of the California Energy Institute at Berkeley. He also serves as Lecturer at the Haas School of Business, UC Berkeley, on Policies and Strategies in the Energy Markets. He is a former member of the Market Monitoring Committee of the California Power Exchange (CALPX). His research interests include game theoretic optimization models, industrial organization and regulatory economics, energy policy, and environmental economics. He has published numerous articles on the economics of electricity deregulation and has testified extensively on energy policy issues. Much of his research has focused on examining the market incentives in particular; market rules and structures created; and in developing empirical methods for measuring the impact of market power on deregulated electricity markets. Dr. Bushnell has a Ph.D. in Industrial Engineering and Operations Research with a B.S. in Economics and Industrial Engineering.

7.1.2 Accomplishments

During 2006, the MSC provided valuable input and recommendations to various issues relating to the operation of the current CAISO markets and the Market Redesign and Technology Upgrade (MRTU) proposals. Some of their more significant contributions include the following:

- **Convergence Bidding under MRTU** – The topic of convergence or “virtual” bidding under MRTU was presented and discussed at several MSC meetings in 2006. Though the initial release of MRTU will not include convergence bidding, the CAISO is working diligently to develop and implement a convergence bidding design shortly after the first release of MRTU. The MSC has provided valuable input on various aspects of convergence bidding such as the spatial granularity of convergence bidding and market power mitigation and monitoring requirements. The MSC will continue to contribute to this topic as the CAISO moves toward finalizing a convergence bidding design in 2007.
- **Long-term Congestion Revenue Rights** – Pursuant to a FERC Ruling in July 2006, the CAISO developed and filed on January 29, 2007 a proposal for long-term congestion revenue rights under MRTU. The filed proposal was the product of an extensive stakeholder effort in the fall of 2006, which the MSC was very engaged in. Through stakeholder and MSC meetings, the MSC members provided comments and recommendations on the long-term CRR design. These recommendations were formalized in an MSC Opinion on January 18, 2007.²
- **Capacity Markets** – The issue of whether the California market needs a centralized capacity market and, if so, how that market should be designed was an important topic of discussion among California market participants and the California Public Utilities Commission (CPUC) in 2006. This issue was discussed at several MSC Meetings, including an extensive discussion at the CPUC headquarters in San Francisco in which the MSC heard from several groups representing different positions on this issue.
- **Low Voltage Transmission Costs** – In 2006, the MSC provided recommendations to the CAISO on certain principles they should follow in determining how to allocate the

² This opinion is available at <http://www.caiso.com/docs/2000/09/14/200009141610025714.html>.

cost of low voltage transmission facilities. This issue arose with regard to a particular low voltage transmission project, the Trans Bay Cable project, that was approved by the CAISO Board on September 8, 2005 to address reliability concerns in the San Francisco peninsula region.

- **Transmission for Renewable Generation** – On January 25, 2007, the CAISO filed with the FERC a proposal for an alternative approach for generation interconnection and transmission cost allocation that, if adopted, would reduce barriers to the development of renewable generation. This proposal is currently pending before the Commission. In developing this proposal, the CAISO sought and obtained significant input from the MSC, including an MSC Opinion that was adopted on October 6, 2006.³ MSC members also provided guidance on appropriate economic frameworks and techniques to evaluate proposed transmission for renewables.
- **Designation of Competitive Paths** – MSC members provided advice to the CAISO on procedures for identifying competitive paths for the purposes of local market power mitigation.

7.1.3 MSC Meetings

In 2006, the MSC conducted five meetings and two teleconferences. The majority were held at the CAISO offices in Folsom, and one was held at the CPUC headquarters in San Francisco in August 2006,. The meetings provided a forum for stakeholders to take part in discussions with the MSC and allowed the MSC to understand the opinions and concerns of the stakeholders.

7.1.4 Other MSC Activities

In addition to the activities and accomplishments noted above, members of the Committee also attended FERC Technical Conferences throughout the year on MRTU market design. They also attended a FERC meeting with market monitors from the various ISOs/RTOs and the FERC Office of Enforcement to discuss generic market monitoring and enforcement issues.

³ This opinion is available at <http://www.caiso.com/docs/2000/09/14/200009141610025714.html>.