

Memorandum

To: ISO Board of Governors

From: Frank A. Wolak, Chairman, ISO Market Surveillance Committee

Date: December 9, 2009

Re: *Market Surveillance Committee Activities from October 15 to November 30, 2009*

This memorandum does not require Board action.

The Market Surveillance Committee (MSC) has been involved in two major activities over the past two months: (1) the design of the California Independent System Operator Corporation's (ISO) convergence bidding protocols under the new market design, and (2) the design of the reserve scarcity pricing proposal under the new market design.

MSC Meeting on October 15, 2009

The MSC held a meeting on October 15, 2009. The first topic discussed was the ISO's reserve scarcity pricing proposal. Department of Market Monitoring (DMM) staff first presented a summary of ancillary services market performance since the start of the new market design. Then staff from Market and Infrastructure Development presented a preliminary draft of the ISO's reserve scarcity pricing proposal. MSC members provided comment on the preliminary proposal, as did a number of stakeholders at the meeting.

The next topic discussed was convergence bidding. Frank Wolak presented a preliminary summary of the MSC's thinking on this issue and pointed out several features of the ISO's proposal that he was hoping to receive stakeholder comments on. This was followed by a discussion among stakeholders, ISO staff, and MSC members on a number of features of the ISO's convergence bidding proposal.

The final topic covered was the DMM's competitive path assessment (CPA) study, which is used in the ISO's local market power mitigation mechanism. The presentation summarized preliminary results of analysis performed by DMM to assess the competitiveness of transmission constraints under actual market conditions using an alternative approach similar to that used by numerous other ISOs. The analysis was performed and presented to the MSC in order to provide an indication of how results under the CPA methodology compare to this alternative approach.

Convergence Bidding

The MSC prepared an opinion on the ISO's convergence bidding proposal for the October ISO Board meeting. Frank Wolak participated in a conference call with ISO staff and staff from the

three investor-owned utilities to discuss the ISO's final convergence bidding proposal in advance of the ISO Board meeting. Frank Wolak then attended the ISO Board meeting to summarize the MSC opinion and answer questions on it.

Reserve Scarcity Pricing

Following the October 15, 2009 MSC meeting, the MSC began working on the reserve scarcity pricing opinion for the December ISO Board meeting. As part of this process, the MSC received written comments from the Western Power Trading Forum. Based on these comments and those received at previous MSC and stakeholder meetings, the MSC prepared an opinion which was discussed and formally approved by the MSC on December 2, 2009. Frank Wolak plans to attend the ISO Board meeting to summarize this opinion and answer any questions.