

GENERAL SESSION MINUTES
California ISO (CAISO)
MARKET SURVEILLANCE COMMITTEE MEETING
January 18, 2007
Via Teleconference
Folsom, California

Lorenzo Kristov, Principal Market Architect, in the CAISO's department of Market and Product Development, provided brief introduction at the outset of the conference call introducing himself and turning the call over to Chairman Wolak.

Chairman Frank Wolak officially called the meeting to order at approximately 1:00 pm PST with all committee members in attendance by telephone and introduced the other CAISO personnel in attendance: David Withrow, Anna McKenna and Sidney Davies. Chairman Wolak explained the purpose of the call: discussion and possible adoption of the draft "Opinion on Long-Term Congestion Revenue Rights Proposal."

COMMITTEE MEMBERS ATTENDANCE

Frank Wolak
Jim Bushnell
Ben Hobbs

**DISCUSSION OF DRAFT "OPINION ON LONG-TERM CONGESTION
REVENUE RIGHTS PROPOSAL"**

Chairman Wolak summarized the draft opinion on long term congestion revenue rights (LT-CRRs) posted on the CAISO website, thanked interested parties for their comments, and then asked other committee members if they had any comments to add to the summary. Other committee members indicated that Chairman Wolak had summarized the draft opinion satisfactorily. Chairman Wolak then advised listeners that the MSC notice and comment process is not a stakeholder process but stakeholder input is welcome and important to the MSCs consideration prior to asking for additional comment.

Additional comments

Glen Goldbeck commented that PG&E's main concerns were addressed in the CAISO's proposal, which the MSC draft opinion endorsed, but stated PG&E's view that some capacity for LT-CRRs should be available for auction rather than having all LT-CRRs allocated. Chairman Wolak and Mr. Bushnell responded that there were many reasons

for not having an auction for the first year, including policy, technical and pragmatic reasons, noting also that LT-CRRs that were initially allocated would also be available through the secondary auction.

Jeff Nelson on behalf of SCE expressed some concern over the fact that LT-CRRs to Trading Hubs would not be available. Committee members discussed the possibility that a bundle of CRRs from sources and sinks can be used as an equivalent to CRRs to a Trading Hub, so that market participants could request the LT-CRRs from the sources and sinks and achieve the same end. Discussants also discussed the value of the “go slow” approach with respect to how many LT-CRRs are made available. Finally MSC members addressed the benefit, which the MSC Opinion endorses, of not auctioning of LT-CRRs. Allocation ensures that the LT-CRRs are allocated to load in the first instance so that load can hedge congestion costs. Load then can determine which LT-CRRs to make available on the secondary market and allow the market to “reconfigure.” If LT-CRRs go to auction, then they will be awarded to those that pay the most, which may not be load. Allocating avoids concentration and avoids putting LT-CRRS in hands of those that may have incentive to use the instruments to raise prices, rather than to hedge congestion costs incurred by load.

Tony Braun of CMUA noted a typographical error on page 4 and noted the second paragraph under section 4.2 contained a sentence that might be misleading in that it suggests that the CAISO’s proposal would, in fact, guarantee that future transmission upgrades would maintain the firmness of LT-CRRS. Chairman Wolak agreed to correct the typographical error and to revise the sentence to indicate that the MSC opinion was just characterizing the CAISO’s stated intent that future transmission upgrades would guarantee future firmness of LT-CRRS.

Carolyn Kehrein indicated that purchases of non-utility LSEs would still be tied to Trading Hubs rather than tied to identified capacity, but agreed that CRRs to Trading Hubs could be broken down as previously discussed. Ms. Kehrein further commented that she agreed with the “go slow” approach but that 50% was too high for an initial release and that all Load Serving Entities should have the same access to LT-CRRs.

Jeff Lam from Powerex also expressed a preference for procuring LT-CRRs through an auction, noting that transmission owners will be paid regardless. Jim Bushnell noted that recovering transmission revenues does not equate with having the right to LT-CRRs.

Jeff Nelson from SCE commented that CAISO’s proposal discourages investment in new power plants due to uncertainty since the CAISO’s LT-CRR proposal does not allocate LT-CRRS based on planned long-term supply arrangements. Chairman Wolak indicated that there should be adequate incentives for contracting. Glen Goldbeck from PG&E commented that allowing some LT-CRRS to be auctioned could address SCE’s concern.

ADOPTION OF REVISED OPINION

The MSC agreed to revise the draft opinion in the following non-substantive ways:

1. Revise the sixth sentence of the Summary as follows: “A guarantee of full-funding of annual and long-term CRRs also increases the risk that the ISO will need to assess an uplift charge in the event that its merchandising surplus—the difference between the amount loads pay and amount generation unit owners receive for energy— is insufficient to fund CRR payments in the fact of sustained or significant line outages.”
2. On page four revise the fourth sentence of the second paragraph in Section 3.2, as follows: “According to the ISO’s proposal, the transmission planning process will guarantee that future upgrades maintain the firmness of these LT-CRRs through their entire 10-year life.”
3. On page four revise the eight and last sentence of the second paragraph of Section 3.2 as follows: “Thus the firmness of LT-CRRs will be subject to certain extraordinary events, such as the departure of a participating transmission owner (PTO) from the ISO.”
4. The heading for Section 3.3 is revised to refer to “LT-CRRs” rather than “LT-FTRs”

Ben Hobbs then moved that the MSC adopt the opinion as revised per the discussion. Jim Bushnell seconded the motion. The motion carried by a vote of 3-0.