

Memorandum

To: ISO Board of Governors
From: Frank A. Wolak, Chairman, ISO Market Surveillance Committee
cc: ISO Officers
Date: January 18, 2007
Re: *Market Surveillance Committee Update*

This is only a status report. No Board action is requested.

Although the Market Surveillance Committee (MSC) has not held a public meeting since November 13, 2006, MSC members have been active on a number of fronts over the past two months. This report summarizes these activities.

Stakeholder Meetings

Frank Wolak attended the November 29, 2006, market initiatives meeting at the ISO. He made two presentations and participated in discussions with stakeholders throughout the day. The first presentation outlined the desirable features of a long-term financial transmission rights (FTR) product. The second discussed methods for capturing the market efficiency benefits of convergence bidding under the Market Redesign and Technology Upgrade (MRTU).

Frank Wolak also attended the Federal Energy Regulatory Commission (FERC) technical conference on December 14-15, 2006, in Phoenix, Arizona. The purpose of this conference was to identify alleged seams issues with MRTU and neighboring control areas. **Frank Wolak** read and provided comments to ISO staff on two documents prepared for the Control Area Coalition, "MRTU Seams Issues Whitepaper," by ZGlobal, Inc., and "Seams Issues in the Eastern Interconnect," by Seth Blumsack. **Ben Hobbs** provided detailed written comments on the document by Seth Blumsack to ISO staff. **Frank Wolak** also prepared a short presentation on the seams issues that are likely to be improved with the implementation of MRTU in preparation for the technical conference.

Market Monitoring

James Bushnell, Ben Hobbs and **Frank Wolak** attended the semi-annual meeting of the market monitoring units of all the regional transmission organizations (RTOs) that FERC oversees in Washington, DC, on December 4-5, 2006. During the first day each market monitoring unit summarized the past year in its market. The morning of the second day discussed mechanisms for ensuring the independence of market monitoring units in RTOs. The rest of the day was devoted to breakout sessions with FERC staff on issues specific to each RTO.

Analysis of Transmission Expansions

Ben Hobbs and **Frank Wolak** read and provided comments to the Department of Market Monitoring and the Planning and Infrastructure Development group on draft economic analyses of various transmission proposals that were based on the ISO's Transmission Economic Assessment Methodology (TEAM).

On January 9-11, 2007, **Ben Hobbs** will be at the ISO to work with ISO staff to implement further applications of the TEAM methodology to the Sunrise Powerlink transmission project.

Long-Term Financial Transmission Rights (LT-FTR)

Frank Wolak and **James Bushnell** have been working with Market and Product Development (MPD) staff on the design of the ISO's long-term FTR (LT-FTR) proposal. To this end, **Frank Wolak** and **Anjali Sheffrin** met with PJM staff on the morning of December 5, 2006, at Valley Forge, PA, to gain a thorough understanding of the details of the PJM LT-FTR filing recently approved by FERC. On December 7, 2006, **Frank Wolak** participated in an all-day meeting at the ISO to discuss the ISO's LT-FTR proposal with MPD staff. **Frank Wolak** has also provided comments to MPD staff on various drafts of the LT-FTR proposal before it was posted on the ISO website on January 5, 2007. **James Bushnell** will participate in and make a presentation at the stakeholder meeting discussing the ISO's LT-FTR proposal on January 9, 2007.

The MSC is currently preparing an opinion on the ISO's LT-FTR proposal. The ISO Board memo for the November 13, 2006, MSC meeting summarizes concerns raised by individual MSC members with respect to the design of the LT-FTR product. The MSC plans to adopt a final opinion on LT-FTRs on January 18, 2007. A copy of that opinion will be provided to the ISO Board.

Other Market Design Issues

The MSC continues to work with MPD and DMM staff on a number of topics discussed at previous MSC meetings. The MSC provided comments to MPD staff on the proposed change to real-time LAP pricing under MRTU. The MSC continues to work with the ISO on the local and system-wide resource adequacy process that is ongoing at the California Public Utilities Commission (CPUC). One MSC member is scheduled to moderate a stakeholder meeting on capacity market design. Another MSC member is scheduled to moderate a stakeholder meeting on January 25, 2007, on how to best involve demand in the ISO's energy and ancillary services. The MSC has been involved in the design of the convergence bidding protocols under MRTU. The issues raised by MSC members are summarized in the ISO Board memo for the November 13, 2006, MSC meeting.