

**MEETING MINUTES OF THE CALIFORNIA INDEPENDENT SYSTEM
OPERATOR (CAISO) MARKET SURVEILLANCE COMMITTEE**

Meeting Date: December 2, 2009, 9:00 a.m.

Held at: Teleconference Meeting
Call hosted from: Offices of the ISO, Pyramid
Conference Room (110 Building)
Folsom, CA 95630

**With Simultaneous Meeting Web Cast (Web conference via Internet (visual
and telephone (audio))**

A meeting of the Market Surveillance Committee (MSC) was held at the time and place referenced above, pursuant to the Public Notice (final released November 25, 2009), posted on the CAISO Web site at <http://www.caiso.com/23c2/23c2c4412f6c0.html> . This meeting was also a joint CAISO stakeholder with regard to topics contained within the Public Notice.

COMMITTEE MEMBERS ATTENDING

Frank Wolak	Committee Chairman
James Bushnell	Committee Member
Benjamin Hobbs	Committee Member
Absences:	None

GENERAL SESSION

The ISO initiated the telephone conference call from the ISO conference room. It was noted that ISO representatives Jeff McDonald, Shucheng Liu, Andrew Ulmer, Donald Tretheway and Kimberli Lua were present from the ISO. Other members of the public joined in the conference call; these parties are listed on a conference participant list compiled by the telephone service provider.

Chairman Frank Wolak officially called the meeting to order shortly after 9:00 a.m. with committee members Wolak, Bushnell and Hobbs all in attendance via telephone.

Before proceeding with the meeting Chairman Wolak emphasized that the Market Surveillance Committee is not a part of the formal ISO stakeholder process, but that stakeholder comments received are appreciated and help the MSC develop better-informed opinions.

Discussion on Scarcity Pricing

Chairman Wolak began the discussion with a brief summary of the MSC's opinion. A copy of this draft opinion had been posted on the ISO Web site along with the Public Notice for this meeting.

Dr. Wolak began the summary by stating that Scarcity Pricing already exists in the ISO market because of how the penalty parameters on constraint violations are set. Dr. Wolak added that what the Scarcity Pricing proposal does is really add more detail to that process. He went on to say that their first major point in the opinion is to ask the ISO and stakeholders to take a comprehensive view of the issue of setting penalty parameters and use an economic basis in particular to represent the expected unserved energy and the associated cost of that when thinking about setting the values of the parameters. Next, the MSC questioned why in the current version of the ISO's proposal, the locational reserve services had a smaller penalty parameter, or demand curve value, associated with it, than system wide reserve services. The next point discussed, which was also an issue previously identified by the Department of Market Monitoring, is the inconsistency between the fact that real-time ancillary service prices are set as part of the RTPD process performed 15-minutes before real-time, whereas real-time prices are set within each five minute interval. Dr. Wolak also noted that the final point made in the opinion was to reiterate that the most effective scarcity pricing is active participation of final demand in the wholesale market in the manner discussed in the MSC's previous opinion on the ISO's proxy demand resource proposal.

Comment

After providing this summary, Dr. Wolak asked if any committee member wished to add further comment. After receiving comments from Jim Bushnell and Ben Hobbs, Dr. Wolak opened up the lines for public comments.

The first question came from Ellen Wolfe at Resero Consulting. Ms. Wolfe noted that ISO staff has offered explanations for the scarcity value differences in the context of the stakeholder meetings, she indicated she was not sure if the MSC agreed with those explanations or agreed with the ISO's conclusions or if the MSC is requesting that the ISO look into this issue in a more quantitative way or a more rigorous way. The MSC responded by saying that they felt there is a lot of merit to doing quantitative analysis, and hoped that was something that would be pursued.

The next question came from Michael Kramek of SCE who mentioned how the MSC briefly discussed the disconnect between the RTPD AS prices and RTD energy prices. Mr. Kramek wanted to know how effective the MSC thinks the scarcity pricing proposal will be in reality if this disconnect continues for an extended period of time. Dr. Wolak stated that it goes back to the point the MSC made at the beginning, in that there already is a constraint relaxation process everywhere in the ISO associated with many different operating constraints, and that one would not want to set the penalty parameters too high because of this disconnect associated with scarcity pricing. Since this framework already exists, Dr. Wolak indicated this must be dealt with it in the current market even before the reserve scarcity proposal is implemented. Michael Kramek then inquired

about the priority of this issue. Responding on behalf of the ISO, Jeff McDonald indicated that the ISO has had some internal discussions and that early next year it will be discussed with the stakeholders in the roadmap process.

The next comment came from Kurt Hansen of PG&E. Mr. Hansen thought this issue would be just one more initiative that the stakeholders and the California ISO would rank as part of the roadmap process. Mr. Hansen went on to say that stakeholders have gone through the process over the last number of months to define or identify the eight top initiatives that were going to be taking on as far as market design issues for the next year. The MSC responded by stating that there is going to be a lot of academic and technical legwork in advance to begin the process.

The next question came from Ellen Wolfe of Resero Consulting who asked if there was something else that the ISO could do in the timeframe of the stakeholder process on this scarcity pricing proposal. The MSC thought Ms. Wolfe raised a good point and indicated that the MSC would continue to meet with the ISO and DMM to formulate a long-term strategy.

Doug Boccignone from Flynn Resource Consultants then indicated that he thought there could be some benefit by gaining a better understanding of both the value of the lost load and the probability of the particular contingency occurring. Mr. Boccignone also stated he supported Ms. Wolf's comments about trying to make some progress in this issue and that any effort that can be made to try to frame this in a way that progress could be made would be helpful. The MSC responded to Mr. Boccignone's comment, and stated that his encouragement is welcome and they are pleased to hear there is interest in further study of this issue.

On a related point, Kurt Hansen of PG&E mentioned that effective demand participation came up when the scarcity pricing stakeholder process was deferred back in 2008. One of the reasons for deferring scarcity pricing was that ISO felt that until one had effective demand participation in the markets, scarcity pricing wasn't going to be meaningful and could actually be harmful, particularly depending on how the prices were set. Hansen stated that if the value of loss load is overestimated and demand can't participate effectively, then money is just being transferred from one set of participants to another. Mr. Hansen added that he was concerned that the discussion has changed to being more hopeful that by implementing scarcity pricing demand will be more motivated to participate in the wholesale market. Mr. Hansen indicated that he was concerned that there wasn't really an effective way for demand to participate at this time, so if the ISO is going down this route then money is just being transferred from one set of participants to another. The MSC responded that without the necessary metering technology and tariffs allowing active demand participation in the wholesale market, scarcity-pricing could just be transferring money, which wasn't the goal of implementing scarcity pricing.

Vote

Following the discussion, a motion was made, and seconded, that the Draft Opinion on Reserve Scarcity pricing Design be approved. The following vote was then taken:

Ayes: 3
Nays: 0

Resolved: Draft Opinion on Scarcity Pricing entitled "Opinion on Reserve Scarcity Pricing Design": is approved.

Executive Session

There was no executive session.

There being no further business, the Market Surveillance Committee meeting was adjourned at approximately 10:00 a.m.

The MSC has approved these Minutes of the December 2, 2009 MSC Meeting at the following MSC Meeting:

Date of approval: January 22, 2010