

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

Meeting Date: August 10, 2007, 9:00 a.m.
Held at: Offices of the CAISO, Lake Tahoe Conference Room
151 Blue Ravine Road
Folsom, California 95630

A meeting of the Market Surveillance Committee (MSC) was held at the time and place referenced above, pursuant to the Public Notice (final released August 7, 2007) posted on the CAISO Web site at <http://www.caiso.com/pubinfo/BOG/documents/market/msc/>.

COMMITTEE MEMBERS ATTENDING

Frank Wolak, Committee Chairman
James Bushnell, Committee Member
Benjamin Hobbs, Committee Member, was not present at the commencement of the meeting, due to a flight delay, but joined the meeting in progress.

GENERAL SESSION

Chairman Frank Wolak officially called the meeting to order at approximately 9:15 a.m. with committee members Wolak and Bushnell in attendance in person.

Chairman Wolak asked if there was any public comment.

1. Public Comment.

Jeff Nelson of Southern California Edison, Brett Franklin of the Electricity Oversight Board (EOB), and Bishu Chatterjee of the California Public Utilities Commission all commented on topics to be discussed at the meeting.

2. Approval of MSC Meeting Minutes from June 6, 2007, June 8, 2007 and July 2, 2007 Meetings.

Chairman Wolak noted that the next item was review and approval of MSC Meeting minutes for the following meeting dates: June 6, 2007; June 8, 2007 and July 2, 2007.

Upon motion duly made to approve the meeting minutes for these 3 meetings, a vote was taken as follows:

Yes:	2
No:	0

Mr. Hobbs had not yet joined the meeting, and so was not present to participate in the vote
Meeting Minutes for the dates June 6, 2007, June 8, 2007, and July 2, 2007 were approved.

3. Convergence Bidding.

The MSC staff heard presentations given by CAISO staff and several market participants on convergence bidding. One of the most controversial issues presented was the granularity of convergence bidding. Suppliers and traders favor allowing virtual bidding at individual nodes, whereas LSEs prefer limiting it to the LAP.

CAISO's Department of Market Monitoring (DMM) presented a number of issues that it felt needed to be addressed if virtual bidding were to be allowed at the node:

- (1) the need to explicitly identify convergence bids versus physical bids;
- (2) the ability to re-run the day-ahead market with or without convergence bids;
- and (3) the ability to re-run settlement outcomes if significant differences in charges (i.e., CRR payments) exist between the two market outcomes.

Some MSC members advocated for a compromise solution – allowing virtual bidding at a nodal level, but limiting the trade quantities that any single market participant can submit at each node. In the discussion after the DMM presentations were concluded, MSC members suggested using, as a starting point, 10 percent of the peak demand or peak generation at the node for these position limits, noting that this percentage could be increased as the CAISO and market participants gained more experience with nodal convergence bidding.

An MSC member recommended that CAISO obtain bid and market outcome data from several of the eastern markets, to perform this analysis, and further recommended against setting the \$/MWh charge for accepted convergence bids too high. He noted that the size of the \$/MWh charge for convergence bids limits the magnitude of price convergence that can occur between the day-ahead and real-time markets.

Another issue raised was the importance of clear rules from the CPUC on how utilities can use convergence bidding.

MSC Member Ben Hobbs joined the meeting in progress as the discussion on Convergence Bidding was reaching a conclusion.

4. Scarcity Pricing.

Bishu Chatterjee, from the CPUC, made a presentation to the Committee, comparing the implementation of scarcity pricing mechanism across U.S. ISOs. He discussed the role of scarcity pricing in an energy-only versus capacity market environment. Mr. Chatterjee noted that the viewpoints in his presentation did not constitute an official position of the CPUC.

In the discussion that followed, stakeholders and MSC members emphasized the need to make the CPUC's administrative demand response programs compatible with the CAISO's ancillary services and energy markets. It was noted that, currently, a large fraction of load reductions in the CAISO control area come from administrative demand reduction programs that can only be called upon when the CAISO declares a Stage 2 Emergency, and that these programs can lead to real-time market prices that are inconsistent with scarcity conditions, despite the fact that CAISO operators have called upon interruptible load.

Several stakeholders argued that, to be compatible with scarcity pricing as it exists in the markets for other products, loads should be curtailed, based on the price at which they are willing to reduce their actual consumption relative to their day-ahead schedule. Several MSC members urged CAISO to implement a version of scarcity pricing in which the willingness to curtail of loads sets scarcity pricing instead of using an administratively-determined demand curve.

5. Bid Cap on Start-Up and Minimum Load Costs.

CAISO presented its latest proposal. An MSC Member noted that the Committee is still in the process of preparing an opinion on this subject.

6. Market Initiatives Roadmap Update—Scoping Future Releases of Market Design Enhancements.

The CAISO presented a road map for ranking market initiatives for inclusion in future releases of MRTU. CAISO's presentation referred to two documents posted on the CAISO website relating to this initiative: (1) Updated 5 year Market Initiatives Roadmap and (2) Initial Scoping of Post-MRTU Market Design Enhancements. CAISO asked that stakeholders state their preferences for implementing future enhancements to the MRTU design. CAISO will collect the stakeholder input information, and release a summary to stakeholders, and this information will be used to develop a listing of MRTU Release 1A and Release 1 elements to be submitted to the CAISO Board of Governors.

7. Load Scheduling Requirements Under MRTU

The CAISO presented its revised proposal to address potential day-ahead under-scheduling under MRTU. The revised proposal was compared to the original proposal. Under the original proposal, the CAISO would have:

- Imposed an interim scheduling charge for real-time consumption by loads that were more than 15 percent larger than the cleared day-ahead schedule of the Scheduling Coordinator. Load would be exempt from this charge when the real-time price was below the day-ahead price or when the CAISO's load forecast was sufficiently far below actual real-time load.

- Compiled data on the scheduling behavior so that FERC could determine whether persistent under-scheduling had occurred. If FERC were to make a determination of persistent SC under-scheduling, then the CAISO would have implemented the Interim Scheduling Charge on a going forward basis.

The CAISO presentation stated that, under the revised proposal, the CAISO, and not FERC, will make the determination of whether persistent under-scheduling has occurred. The CAISO will apply a "bright line test" to make the determination; this test imposes a charge when the number of SC under-scheduling occurrences exceeds a certain number within a given month or a year. The CAISO proposes to set the violation threshold at 36 times per month or 438 times per year.

Stakeholders discussed the Interim Scheduling Charge proposal. The generation community argued that the threshold number was set too low, arguing that a substantial amount of persistent under-scheduling (for the purpose of reducing day-ahead prices) could occur before the violation threshold was crossed. MSC members expressed their discomfort with the Interim Scheduling Charge because of its potential to punish economically rational behavior by loads and to fail to catch certain behavior solely intended to reduce the day-ahead price. A discussion of alternative approaches then followed.

Executive Session

No Executive Session was held.

Whereupon, Chairman Wolak adjourned the MSC meeting at approximately 5:10 pm.

The MSC has approved these Minutes of the August 10, 2007 MSC Meeting at the following MSC Meeting:
Date of approval: Friday, February 8, 2008