

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

**Meeting Date:** November 21, 2007, 8:30 a.m.  
**Held at:** Via Teleconference, conference host located at  
Offices of the CAISO  
151 Blue Ravine Road  
Folsom, California 95630

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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 20, 2007), posted on the CAISO Web site at [www.aiso.com](http://www.aiso.com).

Keith Casey, Director of Market Monitoring, and telephone call host for the teleconference meeting, provided a brief introduction at the outset and then turned the meeting over to Chairman Frank Wolak, to preside.

A quorum of members being present, Chairman Wolak officially called the meeting to order at approximately 8:35 AM Pacific Standard Time. Chairman Wolak explained that the purpose of the meeting was the discussion and adoption of the Draft "Opinion on Interim Capacity Payments Mechanism Under MRTU."

**COMMITTEE MEMBERS ATTENDING**

Frank Wolak	Committee Chairman (via telephone)
James Bushnell	Committee Member (via telephone)

Benjamin Hobbs Committee Member, Mr. Hobbs was not present at the commencement of the meeting, but joined the meeting in progress (via telephone) at approximately 8:40 a.m.

CAISO representatives Keith Casey, Udi Helman, Anthony Ivancovich, Kimberli Perez and Bill Di Capo were present in the CAISO Pyramid Conference Room, from which the teleconference was being hosted. CAISO representative Sidney Davies also was also in attendance, via telephone.

**GENERAL SESSION**

**DISCUSSION OF NOVEMBER 19, 2007 DRAFT "OPINION ON 'INTERIM CAPACITY PAYMENTS MECHANISM UNDER MRTU'"**

Chairman Wolak summarized the draft opinion as reflecting a compromise between interests of generation owners and load serving entities and reiterated the back stop nature of the proposal.

Chairman Wolak then advised listeners that the MSC notice and comment process is not a stakeholder process but noted that stakeholder input was welcome and important to the MSC's consideration. Chairman Wolak then asked for any additional public comment.

A number of members of the public were in attendance at the meeting via teleconference. The following public comment and discussion took place:

1. Kerry Hatevick, Mirant. Ms Hatevick had several questions regarding what constituted a "significant event" under the ICPM (Interim Capacity Payment Mechanism). She stated that, in her view, the need driving ICPM is really an energy product issue, ICPM should not be a long term device to address system capacity shortfalls. She further stated that scarcity pricing should provide market signals to build or offer additional generation, and that an ICPM tool should only be implemented for an interim period until scarcity pricing was put in place. MSC committee members noted in response to these comments that:
  - a. significant events would likely consist of local need situations (rather than system needs);
  - b. the ICPM payment should address situations in which a unit owner may not have an incentive to participate (i.e. bid) in the energy market, but the ISO operators need the unit to be available to operate the grid; and
  - c. the ICPM mechanism is intended to be a temporary/interim measure only.
2. Barbara Barkovich, CLECA and CMTA. Ms. Barkovich indicated that ICPM Type 2 procurement should only take place if the reliability criteria cannot be met. She also concurred with Ms. Hatevick that ICPM should be emphasized as an interim measure. In addition, CLECA/CMTA agreed with the comments of DRA (Division of Ratepayer Advocates) on the Opinion, that using an auction is a preferred way to procure resources for a Type 1 procurement. CLECA/CMTA also agrees with statements that the CPUC should order LSEs to make up a Type 1 capacity deficiency, to encourage auction procurement, as opposed to setting an administrative price. CLECA/CMTA would also want the CAISO administrative price to be ceiling price for procurement. MSC Member Bushnell noted that, employing an auction mechanism for a localized deficiency might not be workable, as there is likely to be few participants and thus not much competition for the desired resource.
3. Ali Amirali, Dynegy. Mr. Amirali commented that the mechanism should only address local needs and not system needs and that he objected to the conclusion in the Opinion that ICPM would not affect the RA procurement process.
4. David Schiada, SCE. Mr. Schiada commented that Section 2 [Role of Type 1 versus Type 2 procurement] should apply to both CPUC-jurisdictional LSEs and non-jurisdictional LSEs. MSC members agreed that the Opinion should be clarified to note that all LSEs that are part of the CAISO control area are subject to CAISO tariff local resource adequacy requirements and were subject to assessment for procurement costs under ICPM.

5. Alan Comnes, NRG. Mr. Comnes commented that under the proposed price for payment under Section 5 of the Opinion, which is \$41/k-W-year, it was unlikely that the unit would recover its costs. Chairman Wolak responded that the price point should be adequate to cover going-forward fixed costs, and that a supplier could make a cost-of-service filing at FERC to recover an annual revenue shortfall if a supplier could not recover costs associated with its participation in the ISO market under the ICPM designation.
6. Jack Ellis, Resero Consulting. Mr. Ellis commented that the proposal does not contain a protective mechanism to prevent the CAISO from abusing the designation ability, to the detriment of sellers. In this regard, Mr. Ellis noted that the mechanism had the potential to be confiscatory. In responding to this comment, Chairman Wolak again noted that sellers would have a right to recover all costs associated with their participation, by making a FERC filing
7. Mary Lynch, Constellation Energy. Ms Lynch about a cost of new entry ICPM payment with a method to mitigate market power concerns. Chairman Wolak stated that a backstop procurement approach, as an interim approach, was a simplified alternative to CAISO imposing an administrative demand curve for the situation in which one or few entities own a controlling level of capacity in a given area.

There was no further public comment.

Next, the MSC members discussed making certain modifications to the Opinion.

- Including notation that both IOU and non-IOU LSEs which are part of the CAISO control area are subject to CAISO local resource adequacy requirements; and
- Noting that voluntary participation makes more sense for system-wide resource deficiencies than for local resource deficiencies.

Thereafter, Chairman Wolak asked if there was a motion to adopt the Opinion, with the modifications referenced above. Mr. Hobbs moved to adopt the Opinion with the referenced modifications. Mr. Bushnell seconded.

<b>VOTE</b>
Ayes: 3
Neighs: 0
<b>Approved</b>

### **Executive Session**

No Executive Session was held.

### **Adjournment**

***FINAL:***

*Released February 12, 2008*

Whereupon, Chairman Wolak thanked the market participants for participating in the teleconference meeting and then adjourned the MSC meeting at approximately 9:30 a.m.

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