

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

Meeting Date: July 30, 2008, 9:00 a.m.

**Held at: Lake Natoma Inn
702 Gold Lake Drive
Folsom, California 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 July 25, 2008), posted on the CAISO Web site at <http://www.caiso.com/meetings/index.cgi?showonly=BOARD> . This meeting was a joint CAISO stakeholder with regard to topics on the public notice.

COMMITTEE MEMBERS ATTENDING

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

GENERAL SESSION

Chairman Frank Wolak officially called the meeting to order at approximately 9:00 a.m. with all MSC committee members in attendance in person.

Chairman Wolak also advised the meeting was being Web cast to participants, as had been stated on the Public Notice, and via Internet and telephone access prescribed in the Public Notice.

It was noted that the meeting was intended to serve both as a CAISO stakeholder meeting for the discussion of scarcity pricing and MRTU parameter tuning and a meeting of the MSC.

Public Comment

The meeting then proceeded with Chairman Wolak asking if any member of the public wished to make general public comment before the committee, before the committee addressed the items on the agenda. As no party came forward to make public comment, the committee then moved on to the agenda items.

1. Decision on the MSC June 30, 2008 Minutes

Chairman Wolak then turned to the agenda item for MSC decision on the meeting minutes for the June 30, 2008 teleconference meeting. He noted this item called for the members to review and approve the meeting minutes.

Upon motion duly made and seconded, to approve the draft meeting minutes for the meeting, a vote was taken as follows:

Yes: 3
No: 0

Meeting minutes for the June 30, 2008 meeting were approved.

2. Discussion regarding Linkages between Scarcity Pricing & Parameter Tuning

Chairman Wolak gave a presentation on the relationship between CAISO's parameter tuning process and reserve scarcity pricing. Mr. Wolak noted that reserve scarcity pricing is a special case of the parameter tuning process, which is a necessary feature of a locational marginal pricing market, to ensure that market-clearing prices can be computed, regardless of the bids and offers submitted by market participants and the configuration of the transmission network. Chairman Wolak then emphasized the importance of high levels of fixed-price forward contract coverage of final demand and active participation of final demand in the wholesale market, for two purposes: i) to limit the consumer harm that could occur from reserve scarcity pricing and ii) to limit the frequency to which penalty parameters set in the parameter tuning process would impact market-clearing prices.

3. Discussion regarding Ancillary Service Price Determination

Mr. Shucheng Liu, from the CAISO Department of Market and Product Design, described the Release 1 MRTU ancillary services pricing under reserve deficiency conditions. Mr. Liu emphasized, through a series of three examples in his presentation, that there are no ancillary service scarcity pricing deficiency conditions during the first 12 months of MRTU

4. Discussion regarding Analytical Results on Pricing Run Parameter Values

Next, Mr. Jim Price and Mr. Ed Lo, who are also from the CAISO's Department of Market and Product Design, presented the results of market simulations associated with the parameter tuning process in the day-ahead and real-time markets under MRTU. Mr. Price's presentation focused on results for integrated

forward market (IFM) and the residual unit commitment (RUC) process. Mr. Lo's presentation focused on the real-time energy market. These presenters indicated that the goal of the simulations had been to investigate the relationship between penalty parameter values and the incidence and magnitude of relaxation of the various scheduling and transmission constraints. Both presenters noted that the preliminary conclusion, derived from both of the sets of simulations that they described, was encouraging, in terms of the ability of CAISO to find penalty parameter values that honor existing scheduling priorities. However, both presenters emphasized that their analysis of this issue is ongoing.

Executive Session

There was no executive session.

Whereupon, the MSC meeting was adjourned at approximately 5:00 p.m.

<p>The MSC has approved these Minutes of the July 30, 2008 MSC Meeting at the following MSC Meeting:</p>
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<p>Date of approval: September 25, 2008</p>
