

Memorandum

To: ISO Board of Governors
From: Frank A. Wolak, Chairman, ISO Market Surveillance Committee
cc: ISO Officers
Date: January 18, 2008
Re: *Market Surveillance Committee Activities from November 20, 2007 to January 14, 2008*

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

The Market Surveillance Committee (MSC) has worked with ISO staff on several issues and participated in stakeholder conference calls during the past two months. This memo summarizes these activities.

Interim Capacity Procurement Mechanism

The MSC has been involved in discussions with staff from Market and Product Development on further refinements to the November 2007 design of the Interim Capacity Procurement Mechanism (ICPM). The ICPM will provide the ISO with a backstop to the California Public Utilities Commission (CPUC) Resource Adequacy (RA) process. If the ISO determines that a load-serving entity (LSE) has not procured its full RA requirement in advance of the delivery year, the ICPM process will allow the ISO to purchase the needed RA capacity and charge this cost to the market participant. The ICPM product also allows the ISO to procure additional RA capacity within the delivery year if a "significant event" occurs during the year that renders the RA requirements set at the start of the year inadequate. A major point of debate among stakeholders has been the design of the appropriate compensation for a generation unit owner receiving each type of ICPM designation and whether acceptance of each designation should be voluntary or mandatory.

Exceptional Dispatch Market Power Mitigation Under MRTU

The MSC has been involved in discussions with the Department of Market Monitoring (DMM) staff on a market power mitigation mechanism for generation units called under the ISO's Exceptional Dispatch authority. Under the current MRTU tariff, a generation unit owner called under the ISO's Exceptional Dispatch authority receives the higher of its bid price, the locational marginal price at its location, or its default energy bid for the amount of energy it supplies under an Exceptional Dispatch instruction. The DMM is concerned that a generation unit owner that knows one of its units is needed for an Exceptional Dispatch instruction could submit a bid at the ISO offer cap and be paid as bid for this energy. Consequently, the DMM is in the process of formulating a market power mitigation mechanism for preventing generation unit owners from exploiting the significant local market power they might have as a result of a transmission or generation outage that results in a significant number of Exceptional Dispatch calls for a generation unit.

Greenhouse Gas Emissions and California Electricity Market

The MSC has continued to follow the issue of how to implement California's Greenhouse Gas Emissions (GHG) control goals in a manner that best utilizes the strengths of the CAISO market design and does not adversely impact the performance of the California and Western Electricity Coordinating Council (WECC) electricity markets. The MSC strongly favors a source-based relative to a load-based cap-and-trade GHG-control mechanism. The MSC believes that a load-based cap-and-trade GHG emissions permit mechanism is likely to impact adversely California ISO markets and unnecessarily increase the price of electricity to California consumers relative to other mechanisms available for limiting GHG emissions. Over the past two months, MSC members have met with or made presentations to CPUC, California Energy Commission and California Air Resources Board staff to discuss the impact of different mechanisms for achieving California's GHG emissions control goals on the performance of the California electricity market.

Dr. Frank Wolak (MSC Chair) will be available at the January Board meeting to answer any questions the Board may have on the above market issues.