

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

**Meeting Date:**           **October 1, 2007, 10:00 a.m.**  
**Held at:**               **California Public Utilities Commission**  
                                  **Auditorium**  
                                  **505 Van Ness Avenue**  
                                  **San Francisco, California 94102**

---

A meeting of the Market Surveillance Committee (MSC) was held at the time and place referenced above, pursuant to the Public Notice (final released September 26, 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
Absences:	None

**GENERAL SESSION**

It was announced that the day's event constituted a joint proceeding of CPUC staff (as a workshop for CPUC Proceeding R05-12-013) and of the CAISO Market Surveillance Committee, and that the event would be presided over by the MSC.

Chairman Frank Wolak officially called the meeting to order at approximately 10:00 a.m. with all MSC committee members in attendance in person.

Chairman Wolak asked if there was any public comment unrelated to the topics of the day. Chairman Wolak also advised the meeting was being Webcast to participants who wished to view the event on the Web.

There was no public comment.

**1. CPUC Staff Overview of Schedule & Scope of Phase 2 Proceeding**

CPUC staff members presented an overview of the schedule and scope of Phase 2 of the R.05-12-013, commonly referenced as the CPUC Resource Adequacy Proceeding.

**2. Objectives and Vision/Panelist Discussion of Deficiencies and Strengths of Current Resource Adequacy Process.**

Chairman Wolak stated that the meeting notice materials had included a paper outlining Key Issues for Discussion at this meeting. He further explained that, as the paper noted, the MSC had asked each panelist to discuss at this meeting those items that the panelist has identified as the deficiencies and the strengths of the current Resource Adequacy (RA) process.

Panelist Constellation, Mary Lynch. Ms Lynch said that one of the things well in place is the procedures for establishing RA resource qualification and the process for establishing the local requirements in the load pockets. Constellation thinks that what is not working well is providing other elements needed for market transparency, such as pricing mechanisms. There is no centralized capacity market. Also, the current new generation investment paradigm in California relies too much on utility backing.

PG&E, Todd Strauss. Current energy environment is long-term oriented and has complicated interactions. Weakest aspect of the current resource structure is cost allocation. Costs are not allocated properly among direct access, community choice aggregators, and others. IOU is procurer of last resort in its service territory. Reliability is in relatively good status in the current resource structure. Key issue for PG&E is customer costs, which is largely determined on an incremental basis, and is largely triggered by events outside of the capacity market, such as the price of natural gas.

Bilateral Trading Group, Michael Florio (TURN). The BTG sees much strength in the current RA paradigm. Two summers where there have been strains on resources, but the resources have been adequate to meet load. Trend from CAISO procurement back to LSE procurement has been beneficial. LSE procurement also maintains state jurisdiction over RA. Concern that the centralized capacity markets proposed put additional upward pressure on rates in California, which are already high.

Mirant Corporation, Kerry Hatevick. Ms. Hatevick stated that the CPUC has done a good job of specifying certain parameters of the capacity market, such as planning reserve levels and counting rules, but that price signals for new generation investment need to be more transparent.

California Forward Capacity Market Associates (CRA International). The CFCMA representative stated that the concern that capacity market is a series of non-integrated rules and is too heavily IOU-based, which crowds out the merchant-based. If IOU-based is what going to be the stated policy, then this should be explicitly stated by CPUC.

Electricity Oversight Board (member of BTG), Eric Saltmarsh. Current RA process is a good from a viability and cost management perspective (except as to some local area deficits) for the near term. However, it does not provide a market mitigation mechanism, and future load migration could cause IOUs and/or default customers to be liable for stranded investments.

Aglet Consumer Alliance (Coast Economics Consulting, Jan Reed). Mr. Reed noted that the resource adequacy program has been a success. However, Aglet has three basic criticisms of the program: the program is not sufficiently focused on cost to ratepayers as a criterion for resource selection; there is often an artificial separation of the value of capacity versus the value of energy; and that there has been a departure from some key risk management principles.

### **3. Panelist Question and Answer Session.**

Next there was a question and answer session in which MSC Committee members asked various questions to the panelists, for the purpose of stimulating a discussion. CAISO Principal Market Analyst Lorenzo Kristov joined the panel for question and answer session, at the request of the MSC Committee, to provide input on CAISO's perspective.

### **4. MSC Discussion of Key Long-Term Resource Design Trade-offs.**

Next there was a discussion related to certain key issues identified in a listing entitled "Key Issues for Discussion at October 1, 2007 MSC Meeting," which was provided to the meeting attendees and posted along with the Notice of the meeting. (A copy of the Key Issues listing is attached to these minutes).

### **Executive Session**

No Executive Session was held.

### **Adjournment**

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

The MSC has approved these Minutes of the October 1, 2007 MSC Meeting at the following MSC Meeting:

Date of approval: Friday, February 8, 2008

The meeting was also webcast for viewing on the Internet, and an archive of the meeting is posted to the California Public Utilities Commission website at <http://www.californiaadmin.com/cgi-bin/cpuc.cgi> (last visited February 5, 2008).