

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

Meeting Date: November 27, 2007, 2:00 p.m.
Held at: Via Teleconference, conference host located at
Offices of the CAISO
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 November 21, 2007), posted on the CAISO Web site at www.aiso.com.

Keith Casey, Director of Market Monitoring, and telephone call host for the teleconference meeting, immediately 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 2:05 PM Pacific Standard Time. Chairman Wolak explained that the purpose of the meeting was the discussion and adoption of the Draft "Load-Based and Source-Based Trading of Carbon Dioxide in California."

COMMITTEE MEMBERS ATTENDING

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

CAISO representatives Keith Casey, Udi Helman, Kimberli Perez and Bill Di Capo were present in the CAISO Collins Conference Room, from which the teleconference was being hosted.

GENERAL SESSION

DISCUSSION OF NOVEMBER 20, 2007 DRAFT "LOAD-BASED AND SOURCE-BASED TRADING OF CARBON DIOXIDE IN CALIFORNIA"

Chairman Wolak summarized the draft Opinion as one addressed to the CPUC/CEC Joint Greenhouse Gas Proceeding (GHG) (CPUC Docket R.06-04-009) discussing the economic consequences of alternative points of regulation for GHG emissions.

He noted that the Opinion distinguished two extremes among a choice of regulatory approaches, the Load-Based Cap approach versus the Source-Based Cap approach.

Chairman Wolak summarized the Opinion's conclusion that the benefits of a Load-Based approach may be overstated as well as why it is generally inferior to a Source-Based or hybrid approach. He mentioned three reasons supporting this conclusion

- 1) A GHG policy must eventually be adopted over a large geographic area to be effective, and the regulatory approach will likely be a Source-Based approach. There are likely to be significant challenges integrating with a national or regional policy and if California's pursues a load-based approach;
- 2) It is also necessary to evaluate the impacts that a California-only GHG policy would have on the operation of the western states wholesale electricity market. The MSC believes that there would be less risk of adverse impacts from California's GHG policies on the western states wholesale electricity market under a Source-Based system; and
- 3) Administrative costs of ensuring compliance with the GHG cap would be less and the reliability impacts on electricity supply in the western states would be less under a Source-Based versus Load-Based system.

MSC Member Ben Hobbs noted that some have argued that a Load-Based regulatory approach would result in less costs to consumers than a Source-Based approach, but he presented general model in the Appendix of the opinion demonstrating that under the most favorable conditions to a Load-Based approach, the costs to electricity consumers should be the same under either approach.

Following this discussion, Mr. Wolak then asked if there was any 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. Norman Pedersen, SCPA. Mr. Pedersen stated that the opinion outlines 4 options for regulatory approaches, and then the question is which of those does the MSC favor. He noted that the Concluding Comments section of the Draft Opinion seems to indicate that the MSC favors the fourth approach, which is to wait and integrate California GHG cap and trade into a federal or regional policy, rather than preceding such policy.

Chairman Wolak responded that the MSC had not reached an opinion on whether to defer to a regional/federal scheme, but that the thrust of the Draft Opinion was more that the MSC was recommending against adopting a Load-Based cap.

2. Ellen Wolf, Resero Consulting. Ms. Wolf asked if the MSC could quantify the incentive to self schedule. Chairman Wolak responded that the MSC had not done the quantitative analysis necessary compute an estimate magnitude of the incentive, but it would depend upon the price of carbon, the price of fossil fuels and a number of other factors.

Thereafter, Chairman Wolak asked if there was a motion to adopt the Opinion. A motion was made and seconded.

VOTE
Ayes: 3
Neighs: 0
Approved

Executive Session

No Executive Session was held.

Adjournment

Whereupon, Chairman Wolak thanked the market participants for participating in the teleconference meeting and then adjourned the MSC meeting at approximately 2:35 P.M.

The MSC has approved these Minutes of the November 27, 2007 MSC Meeting at the following MSC Meeting:

Date of approval: Friday, February 8, 2008