

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

Meeting Date: **September 25, 2008, 9:00 a.m.**

Held at: **California ISO Offices
North and South Lake Tahoe Conference Rooms**

**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 September 23, 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 an MSC meeting and a CAISO stakeholder meeting for the discussion of uneconomic adjustment policy and parameter tuning.

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 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 July 30, 2008 Minutes

Chairman Wolak then turned to the agenda item for MSC decision on the meeting minutes for the July 30, 2008 joint Stakeholder/MSM meeting. He noted that 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 July 30, 2008 meeting were approved.

2. Overview Discussion regarding Uneconomic Adjustment Policy and Parameter Tuning

Greg Cook, (Manager, Market Design and Regulatory Policy, CAISO) provided an overview of the uneconomic adjustment policy and parameter tuning effort where he clarified the distinction between policy issues that would ultimately need to be approved by the CAISO Board and filed at FERC versus the tuning of the parameters for constraint violations, which would continue through mid-December. He also clarified the scarcity pricing provisions that would exist at the start of MRTU versus those that would be implemented at a later date via the MAP process. Throughout his presentation, stakeholders and MSM members asked various clarifying questions.

3. Clarification of Some MRTU Ancillary Service Pricing Issues

Dr. Shucheng Liu (Principal Market Developer) provided a presentation clarifying some MRTU ancillary services (A/S) pricing issues. Specifically, Dr. Liu explained that the limited form of scarcity pricing for energy under the initial design of MRTU, where energy bids for contingency reserves are set at the bid cap, would not affect A/S prices. He further explained that the CAISO is proposing to set the A/S penalty price at zero instead of the bid cap in the pricing run. Several market participants and some MSM members questioned the merits of this approach and suggested that setting the A/S penalty price at the bid cap when there is A/S deficiency may be more appropriate.

4. Energy Limits in RUC

Dr. Jim Price provided a presentation on the issue of energy limits in Residual Unit Commitment (RUC) and clarified that the RUC optimization will enforce energy limits of resources in RUC. He also indicated that the CAISO will be providing this clarification in a tariff cleanup filing.

5. Pricing Parameters on Transmission and RT Energy Balance Constraints

Dr. Price and Edward Lo (Lead Engineering Specialist, CAISO Market & Product Development) provided presentations on pricing parameters on transmission constraints in the IFM and Real Time Market and on the use of the energy bid cap as the pricing parameter for the energy balance constraint in the Real Time Market. These presentations elicited extensive discussion among market participants and MSC members on the rationale and merits of the proposed pricing parameters. Some market participants expressed concerns that the proposed values would stifle import market price signals, while others raised concern that they were set too high.

6. Price Cap and Floor to Limit Extreme LMPs and ASMPs

Dr. Lorenzo Kristov (Principal Market Architect, CAISO Market & Product Development) provided a presentation on a proposal for price caps and floors for LMPs and ASMPs. Specifically, he presented a proposal to bound LMPs and ASMPs to +/- \$2,500 and argued that these limits would still allow important price signals but would provide a reasonable bound to prevent excessive pricing outcomes. He also emphasized that the proposed limits would not substitute for diligent investigation by the CAISO of extreme price results. This proposal elicited extensive discussion about both the justification for any caps and the rationale for the proposed levels of the caps.

7. Treatment of ETC/TOR Self-Schedules

Dr. Price presented an analysis that had he performed, comparing market outcomes under the CAISO's proposed penalty values for protecting ETC and TOR schedules to market outcomes under an alternative penalty structure proposed by the City and County of San Francisco. Dr. Price's analysis showed that the CAISO's proposed penalty structure yielded more reasonable market outcomes under the various cases he had analyzed.

Doug Boccignone (Flynn Resource Consultants Inc.) provided a presentation showing an example of how the current Default Load Aggregation Points (D-LAPs) could result in inordinate adjustments to ETC Loads under congestion conditions and argued that this would expose the ETC holders to a variety of market charges. He argued that simply trying to hold ETC holders harmless to these adjustments would be an inferior approach to ensuring that the ETC/TOR scheduling priorities are maintained via the penalty prices.

Lorenzo Kristov provided a presentation on how the CAISO proposes to provide financial firmness to ETCs/TORs through providing a settlement mechanism that enables a rights holder to cover any unbalanced IFM schedule with a Perfect Hedge by submitting a supply self-schedule to RTM (HASP). Dr. Kristov discussed the rationale and benefits of this approach and responded to various questions from MSC members and market participants.

8. Ongoing Maintenance of Parameter Values

Dr. Kristov provided a presentation on the CAISO's plans for ongoing maintenance of parameter values. He explained that pricing run parameters will be included in the tariff but scheduling run parameters will be maintained in the BPM. He also explained conditions that might trigger a revision to a parameter value and the processes for how such values would be changed.

Executive Session

There was no executive session.

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

The MSC has approved these Minutes of the September 25, 2008 MSC Meeting at the following MSC Meeting:

Date of approval: December 11, 2008