

Memorandum

To: ISO Board of Governors

From: Benjamin F. Hobbs, Chair, ISO Market Surveillance Committee

Date: March 12, 2014

Re: Briefing on MSC Activities from January 17, 2014 to March 7, 2014

This memorandum does not require Board action.

Over the period covered by this memorandum, the Market Surveillance Committee adopted a draft formal opinion on the full network model proposal of the ISO during a general session teleconference meeting on January 30. The opinion was then submitted to the Board of Governors at its February 6, 2014 meeting.

The Committee also prepared a draft of a formal opinion on the flexible resource adequacy criteria and must offer obligation (FRACMOO) initiative. The draft FRACMOO opinion was posted on March 7, 2014, prior the general session meeting of the Committee to be held in Folsom on March 11, 2014, at which time the final opinion is scheduled to be adopted. The opinion is scheduled to be submitted to the Board at its March meeting.

Opinion on the Full Network Model

In the opinion submitted to the Board of Governors at its February meeting, we discussed two issues:

- The use of the expanded full network model to improve the representation of loopflows in the California ISO day-ahead market; and
- The determination of schedules and prices for interchange transactions with adjacent balancing authority areas using this expanded full network model while continuing to model interchange as sourced on the tie lines connecting the California ISO with adjacent balancing authority areas.

In the submitted opinion, we concluded that testing and implementation of a full network model is an important, indeed, essential first step on the road towards better regional integration and more accurate system modeling. These modeling improvements are necessary in order to achieve the goals of the energy imbalance market as well as to

comply with obligations stemming from the September 8, 2011 blackouts. We expect that a successful implementation will help to reduce the cost of meeting load in real-time as well as the energy imbalance market charges currently borne by California load.

In the opinion, we also stressed that creating and testing the full network model is likely to be a difficult and complex task. Other ISOs have similarly attempted or are currently attempting to represent flows outside their areas, and have experienced serious challenges in improving the accuracy of their estimates.

We expressed our full support for the steps proposed in this initiative, with the recognition that the California ISO must remain flexible in the specifics of its implementation. We anticipate that the ISO will be successful in developing an improved modeling of loopflows but that the results of the initial efforts will need to be carefully monitored and followed by further adjustments.

Besides expressing strong support for the proposal, in this opinion we also examined five sets of stakeholder concerns, and concluded that none of them are a sufficient reason for delaying or significantly revising the plan for developing and testing the full network model. We also identified several reasons why predictions of loopflows by the full network model may not be completely accurate. However, these possible sources of inaccuracy can only be assessed and corrected for if development and testing of the full network model proceeds now.

Opinion on Flexible Resource Adequacy Criteria and Must Offer Obligation Initiative

This initiative has previously been discussed in MSC general meetings in Folsom on January 17, September 6, and November 15, 2013 and January 16, 2014. MSC members have also participated in stakeholder calls on the initiative, have reviewed stakeholder comments submitted to the ISO, and have attended a FERC Technical Conference held on July 31, 2013 in Sacramento, California concerning the joint CAISO/California Public Utilities Commission (CPUC) Multi-Year Reliability Framework proposal.

The Opinion is scheduled to be considered for adoption at the March 11 Committee general session meeting in Folsom, in time for submission to the Board at its March 19-20 meeting. The Opinion will summarize the ISO's proposal, and discuss the two basic problems being addressed by flexible capacity procurement: the need for investment and the need to incent offers to the ISO's short-run markets. The Opinion will include general comments on the proposal as well as a discussion of specific features.