

GENERAL SESSION MINUTES
California ISO (CAISO)
MARKET SURVEILLANCE COMMITTEE (MSC) MEETING
April 12, 2007
Via Teleconference
Folsom, California

Keith Casey, Director of Market Monitoring, provided a brief introduction at the outset of the conference call and turned the call over to MSC Chairman, Frank Wolak.

Frank Wolak officially called the meeting to order at approximately 3:00 pm Pacific Time with all committee members in attendance. Chairman Wolak explained the purpose of the call as the discussion and possible adoption of the April 9, 2007 draft “Opinion on Recent Changes to the ISO Congestion Revenue Rights Proposal.”

COMMITTEE MEMBERS ATTENDANCE

Frank Wolak
Jim Bushnell
Ben Hobbs

DISCUSSION OF APRIL 9, 2007 DRAFT “OPINION ON RECENT CHANGES TO THE ISO CONGESTION REVENUE RIGHTS PROPOSAL”

Chairman Wolak summarized the draft opinion on changes to the CAISO’s congestion revenue rights (CRRs) proposal, thanked interested parties for their comments, and then asked other committee members if they had any comments to add to the summary. Other committee members indicated that Chairman Wolak had summarized the draft opinion satisfactorily. Chairman Wolak then advised listeners that the MSC notice and comment process is not a stakeholder process but stakeholder input is welcome and important to the MSC’s consideration and asked for any additional public comment.

Additional comments

Mr. Gifford/Powerex followed up on the draft opinion’s suggestion that the CAISO “go slow” with respect to the release of long term CRRs and asked the MSC for a specific recommendation on what the limit should be for the first year. The MSC members discussed this issue but did not suggest a specific limitation. The MSC reiterated its recommendation that the CAISO reduce the quantity of long-term CRRs proposed for year one.

Jeff Nelson/Southern California Edison Company asked whether the MSC would be updating the draft opinion in light of CAISO's new Trading Hub proposal. Chairman Wolak responded that there would not be time to modify the draft opinion. Mr. Nelson further asked the MSC to comment on the proposal to allow substitution of contracts signed by 2006, the historical period used for purposes of CRR allocation, but that provided for delivery in the future. Chairman Wolak commented that substitution, if allowed, made the most sense for contracts that provided for delivery close to the year in question. Member Bushnell responded that substitution was an equity issue, not an efficiency issue. Mr. Nelson commented that inter-tie allocation does not follow historical use and that revenues flow to Transmission Owners. Chairman Wolak responded that the allocation of inter-tie capacity to load is for the purpose of limiting the amount going to auction that could end up controlled by entities that could exercise market power.

Anjali Shefferin, CAISO Director of Market and Product Development, commented that after the initial allocation, the CAISO hopes that parties will trade. Chairman Wolak indicated that the MSC agreed, but that there is an equity concern to ensure that the initial allocation be fair.

Glen Goldbeck/Pacific Gas and Electric Co. asked about an expanded verification beyond 2006. Chairman Wolak addressed the issue noting that there is no real efficiency gain to expanding the verification period because some market participants might acquire more CRRs and others fewer, noting that the issue was really an equity issue and the MSC would have no rationale for advocating changing the verification period. Member Bushnell suggested that stakeholders should discuss this to see if a consensus emerged.

Laura Manz and Don Garber from San Diego Gas & Electric Company stated that the CAISO-proposed allocation was "extremely inequitable" and that there should be a minimum standard of equity. Mr. Garber stated that caution should be exercised with the initial allocation so that adjustments could be made. Chairman Wolak commented that the MSC had no special expertise on the initial allocation, so long as load was allocated to the CRRs—the manner of allocation was left to stakeholders. Mr. Garber noted that the California Department of Water Resources (CDWR) energy crisis era contracts would expire in a few years, but the investor-owned utilities would get valuable long-term CRRs beyond the terms of the CDWR contracts, disassociating the CRRs from the contracts. Chairman Wolak responded that market participants can get the CRRs they need from the secondary market. Mr. Garber further commented that the CDWR contract allocation was arbitrary and inconsistent with SDG&E's procurement plans. Chairman Wolak responded that the stakeholder process produced the results. Member Bushnell noted that the CPUC could take action and commented that owners of CRRs that did not need them should sell them. Member Hobbs agreed. Mr. Garber suggested that CRRs associated with CDWR contracts should be reallocated after those contracts terminated. Chairman Wolak and Member Hobbs spoke in favor of this approach and again commented that a "go slow" approach regarding allocation of long term CRRs would help address these concerns.

ADOPTION OF OPINION

Chairman Wolak asked for a motion to adopt the opinion. Member Hobbs moved to adopt the draft opinion. Member Bushnell seconded. Chairman Wolak called the vote and the opinion was adopted by a 3-0 vote.