

**GENERAL SESSION MINUTES
California ISO (CAISO)
MARKET SURVEILLANCE COMMITTEE MEETING
February 13, 2007
Folsom, California**

Chairman Frank Wolak officially called the meeting to order at approximately 9:00 a.m. with all committee members in attendance in person.

COMMITTEE MEMBERS ATTENDING

Frank Wolak
Jim Bushnell
Ben Hobbs

PUBLIC COMMENT

Jeff Nelson from Southern California Edison Company made three comments: (1) that the Market Redesign and Technology Upgrade (MRTU) tariff did not, but should, have caps on start-up costs and minimum load costs that suppliers can bid and urged the CAISO to address this omission; (2) that the CAISO should not modify the MRTU tariff to include additional mechanisms to limit under-scheduling arguing that the MRTU tariff already had sufficient incentives to discourage underscheduling; and (3) that the CAISO must consider competitiveness of any prospective new Ancillary Services Sub-Region and whether any additional local market power mitigation measures are necessary.

APPROVAL OF MINUTES FROM THE NOVEMBER 13, 2006 AND JANUARY 18, 2007 MSC MEETINGS

The MSC unanimously approved the minutes of the November 13, 2006 and January 18, 2007 meetings.

GENERAL DISCUSSION ITEMS

- 1. Bid-Cap for Start-up and Minimum Load Costs.** Ming Hsu, Senior Market Monitoring Analyst in the Department of Market Monitoring (DMM) discussed whether the CAISO should implement bid caps for Start-Up and Minimum Load costs for purposes of Bid Cost Recovery under MRTU. MSC members questioned whether such bid caps were necessary but suggested that bid caps should be based on publicly available data rather than a resource's actual costs.

- 2. Modification of Incremental Heat Rate Calculation.** Ming Hsu, Senior Market Monitoring Analyst, DMM, discussed alternatives for calculating incremental heat curves used for setting Default Energy Bids under MRTU. Of the three options discussed, MSC members focused on Option Two as the preferred option but suggested a modification to ensure that at all levels of output the heat rate used would be greater than or equal to the average heat rate of the unit at any particular level.
- 3. Review of Grid Management Charge.** Ben Arikawa, Senior Consultant in ISO Financial Planning, made a presentation explaining the history of the CAISO's Grid Management Charge (GMC) from inception of the CAISO as a single rate, to the unbundled rates currently in effect. In addition, Mr. Arikawa noted that issues are currently being considered in a stakeholder process to develop the GMC rate structure under MRTU.
- 4. Day-Ahead Scheduling Requirement Under MRTU.** Jacqueline DeRosa, Senior Market and Product Economist with the CAISO's department of Market and Product Development (MPD) made a presentation explaining the history and background of CAISO Tariff Amendment 72, currently in effect as amended, which requires Scheduling Coordinators to meet scheduling requirements so as to limit reliance on the Real-Time Market. The purpose of the presentation was to seek input from the MSC members concerning FERC's requirement that the MRTU Tariff include a mechanism, until convergence bidding is available, to ensure that underscheduling does not occur. MSC members commented that the Resource Adequacy program should be effective to limit underscheduling if there are long-term contracts with fixed prices. MSC members noted that in the absence of adequate long-term contracts, the CAISO tariff may need to have additional mechanisms to deal with under-scheduling.
- 5. Granular Procurement of Ancillary Services under MRTU.** Hong Zhou, Senior Market and Product Economist with MPD, discussed the CAISO's proposal for complying with FERC directives to procure Ancillary Services on a more granular basis under MRTU. MSC members expressed support for more granular procurement of Ancillary Services under MRTU along with more granular allocation of costs. MSC members also noted concern over the need for local market power mitigation in the event of more granular procurement.

Chairman Wolak adjourned the public portion of the MSC meeting at approximately 3:30 pm.

CONFIDENTIAL

EXECUTIVE SESSION MINUTES

DISCUSSION OF EXECUTIVE SESSION ITEMS

At approximately 3:30 p.m., Chairman Wolak called the Executive Session in order with all MSC members in attendance.

1. Approved Executive Session Minutes of November 13, 2006 MSC Meeting

The MSC unanimously approved the minutes.

2. Discussion of Individual Bidding Behavior

The MSC met with CAISO staff to discuss issues pertaining to confidential bidding behavior of Load Serving Entities participating in the Congestion Revenue Rights Dry Run Market Simulation and the outcome of that stimulation.

Chairman Wolak adjourned the meeting at approximately 5:00 p.m.