



GENERAL SESSION MINUTES MARKET SURVEILLANCE COMMITTEE MEETING

May 25, 2012, 10:00 a.m.

General Session Teleconference Meeting

Offices of the ISO

250 Outcropping Way

Folsom, CA 95630

A meeting of the Market Surveillance Committee (MSC) was held at the time and place referenced above, pursuant to the Public Notice announcing the meeting (final notice released May 23, 2012), posted on the CAISO Web site at:

<http://www.caiso.com/Informed/Pages/BoardCommittees/MarketSurveillanceCommittee/Default.aspx>.

ATTENDANCE

The following members of the Market Surveillance Committee attended via teleconference:

James Bushnell
Scott Harvey
Benjamin Hobbs, Chair
Shmuel Oren

The following ISO staff members were present: Brad Cooper, David Zlotlow, Greg Cook, Don Tretheway, Karl Meeusen, and Kimberli Lua. Other members of the public joined the conference call; those parties are listed on a conference participant list compiled by the telephone service provider.

GENERAL SESSION

The following agenda items were discussed in general session:

PUBLIC COMMENT

Receiving no public comment the MSC moved on to the next agenda item.

DECISION ON MINUTES

Motion

Committee member Bushnell:

Moved, that the Market Surveillance Committee, Advisory Committee to the Board of Governors of the California Independent System Operator Corporation, approve the draft general session minutes from May 7, 2012.

The motion was seconded by Committee member Harvey, and approved 4-0-0.

Discussion on Intertie Pricing

Karl Meeusen gave a brief summary of the current status of the intertie pricing proposal and the various issues surrounding it. Mr. Meeusen stated that the first part of the ISO's proposal involves changes to the current settlement methodology for intertie resources (both physical and virtual). The ISO is proposing to change from using a HASP settlement price to a settlement system that uses the real-time system marginal energy costs, real-time losses and the HASP congestion component. The basic rationale behind this is that HASP is the real last opportunity for the ISO to truly price congestion on the interties.

The ISO is aware that there remain concerns that the proposal would still allow some bidding strategies that previously lead to the original suspension of convergence bidding. However, use of the proposed methodology would limit the opportunities to engage in such strategies, in particular limiting them to arbitraging the congestion component of the LMP alone instead of the energy and loss components. The ISO feels that this proposal would significantly reduce arbitrage opportunities. However, the ISO also wanted to recognize that using a settlement methodology that would price intertie resources using a significant portion of real-time prices may lead to times where resources actual final settlement is below its HASP bid price. The ISO is looking into creating a "make whole" payment for resources that settle below their HASP bid.

Opening the call up for discussion, Chairman Hobbs asked a clarifying question regarding the systematic differences between HASP congestion components and real-time congestion components.

Dr. Hobbs then followed up his original question by asking if the ISO has put together an analysis or past data to take a look at to review the differences. Mr. Meeusen confirmed the ISO is currently conducting such analysis.

Dr. Bushnell next asked if there were any questions or comments on the phone.

Receiving no comments from the phone discussion continued.

Next, Mr. Meeusen briefly mentioned an intermediate step that the ISO will need to address involving whole payments for both the imports and exports then concluded with a discussion on dual pricing constraints.

Discussion on Flexi-Ramp Product

Mark Rothleder began the discussion by providing a brief outline of the flexi-ramp product schedule from a policy development standpoint. Based upon stakeholder comments and MSC input, the ISO will be taking a step back to evaluate the design of the flexi-ramp product and to get a common understanding of the product and procurement approach. The ISO would like to wrap up the design considerations for either a September or possibly a December Board meeting. Implementation would be moved to Fall 2013, and the proposal would be taken to the Board in November.

The ISO felt some design issues need further consideration. A technical workshop is being planned for the following week in which the ISO will focus primarily on the technical details. Mr. Rothleder went on to say the ISO is open to hearing what type of analyses would help inform the policy development.

Next, Mr. Rothleder turned the discussion over to Lin Xu. Dr. Xu started by summarizing the two major objectives for the flexi-ramp product. The first objective is to improve real-time dispatch flexibility. The ISO would like the product to handle the net load variations happening on a 5-minute time frame in the RTD market. The second objective is to manage market cost-effectiveness. The ISO would like to procure this product in a cost-effective way that does not create a burden.

Dr. Xu went on to define four product design issues on which the ISO would like to get comments from the MSC. These include: 1) What is the best procurement approach? 2) How should the energy bid be factored into flexible ramp decisions? 3) How can the compensation mechanism be defined to avoid double payments for capability and energy? 4) How should flexible ramp capability be managed in RTD?

Chairman Hobbs then described an example of two 60 MW plants, one that can ramp 60 MW in 10 minutes, and another that can only ramp 5 MW per minute. The ISO proposal would, in the IFM market, value them exactly the same, and Dr. Hobbs asked whether in fact there would be a preference between the two? Chairman Hobbs turned to see if there were any questions or comments on the phone.

Susan Schneider, representing Phoenix Consulting, asked a clarifying question regarding the definition of "net load" and if this definition is consistent throughout the proposal. In response, Mr. Rothleder stated that typically "net load" refers to load minus wind and solar.

Kurt Hansen, representing PG&E, thanked the ISO for their additional analysis and then asked a clarifying question regarding the example Dr. Hobbs presented of two 60 megawatt plants. Mr. Hansen asked whether there would be a difference in the bids that these two plants could submit for the flexi-ramp product.

Alex Morris, representing Southern California Edison, made a comment regarding Edison's involvement in crafting rules for this solution. Southern California Edison has

been working on some options and would like to get the ISO's feedback, from a technical standpoint, regarding how difficult their options would be to implement. Mr. Morris further stated Southern California Edison would look forward to some discussion on this issue at the June 22 meeting.

ADJOURNED

There being no additional general session items to discuss, the general session of the Market Surveillance Committee was adjourned at approximately 12:00 p.m.

The MSC has approved these Minutes of the May 25, 2012, MSC Meeting at the following MSC Meeting:

Date of approval: June 22, 2012