



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

Meeting Date: May 7, 2008, 1:00 p.m.

Held at: Teleconference Meeting
Call hosted from: Offices of the CAISO, Pyramid
Conference Room (110 Building)
151 Blue Ravine Road
Folsom, California 95630

A meeting of the Market Surveillance Committee (MSC) was held at the time and place referenced above, pursuant to the Public Notice (final released May 5, 2008) posted on the CAISO Web site at www.caiso.com.

COMMITTEE MEMBERS ATTENDING (by telephone)

Frank Wolak	Committee Chairman
James Bushnell	Committee Member
Benjamin Hobbs	Committee Member
Absences:	None

GENERAL SESSION

Keith Casey, CAISO Director of Market Monitoring initiated the telephone conference call from the CAISO conference room, and noted that MSC members, public members and CAISO employees joined by telephone conference. Mr. Casey noted that CAISO representatives Kimberli Perez, Udi Helman, and Steve Greenleaf were present with him in the conference room and that CAISO representatives Sidney Davies and Bill Di Capo were attending by telephone conference call. Other members of the public joined in the conference call; these parties are listed on a conference participant list compiled by the telephone service provider.

Chairman Frank Wolak officially called the meeting to order at approximately 1:00 p.m. with committee members Wolak, Bushnell and Hobbs all in attendance in via telephone.

Chairman Wolak noted that the primary purpose of the meeting was for the committee to consider approval of three MSC opinions which had been posted on the CAISO web site. (These draft opinions were posted along with the Public Notice for the meeting.) Mr. Wolak noted that the opinions had been the subject of discussion in prior MSC meetings and that various parties had also submitted written comments.

1. Approval of MSC Meeting Minutes from April 11, 2008 Meeting

Chairman Wolak noted that the first item on the agenda was review and approval of MSC Meeting minutes for the MSC April 11, 2008 meeting.

Upon motion duly made to approve the meeting minutes, a vote was taken as follows:

<u>VOTE</u>
Ayes: 2
Neighs: 0
Mr. Hobbs had not yet joined the meeting, and so was not present to participate in the vote
Resolved: Meeting Minutes for the date April 11, 2008 are <i>approved</i> .

Prior to the conclusion of the meeting, the MSC members clarified that this approval extended to the Public Session Minutes for the April 11th meeting, and that the minutes of the Executive Session would be reviewed for approval in a future Executive Session.

2. Draft Opinion on Decremental Bid Rules

Summary

Chairman Wolak indicated that the committee would next consider adoption of the MSC Opinion on Dec [Decremental] Bidding Rules (Agenda Item 4 on the meeting agenda). Mr. Wolak began the discussion with a brief summary of the draft opinion.

He noted that the opinion considers the CAISO's proposal to suspend the "DEC Bidding Rule" currently written for use in the Market Redesign and Technology Upgrade (MRTU) tariff. The rule prohibits a Scheduling Coordinator (SC) from submitting decremental (DEC) energy bids to supply less energy than their final Day-Ahead (DA) schedule in the Hour-Ahead Scheduling Process (HASP) or Real-Time (RT) market that are lower than the bid prices offered by that SC and accepted in DA Integrated Forward Market.

Wolak stated that the MSC supported suspending the DEC Bidding Rule because the freedom of suppliers to submit a DEC bids was thought to enhance market efficiency more than restriction on DEC bids combined and the ability of suppliers simply to refuse to submit DEC bids above to the -\$30 /MW floor.

Comment

After providing this summary, Mr. Wolak asked if any committee member wished to add any further comment. The other committee members did not have anything to add. Mr. Wolak then asked if there was any public comment, but no attendee commented.

A telephone interruption occurred, during which Member Hobbs was temporarily disconnected from the call. During the interruption, Chairman

Wolak provided a summary of the Draft Opinion on Exceptional Dispatch (See discussion below, all portions of this summary are set forth in brackets []).

Vote

After Mr. Hobbs was restored to the conference call, a motion was made, and seconded, that the Draft Opinion on DEC Bidding Rules be approved. The following vote was taken:

VOTE
Ayes: 3
Neighs: 0
Resolved: Draft Opinion "The DEC Bidding Activity Rule under MRTU," dated May 7, 2008 is approved .

3. Draft Opinion on Exceptional Dispatch Bid Mitigation

Summary

During the period of time that Mr. Hobbs was temporarily disconnected from the conference call, Chairman Wolak provided a summary of the MSC "Draft Opinion on `Exceptional Dispatch: Options for Market Power Mitigation and Supplemental Pricing under MRTU,'" dated May 7, 2008.

Wolak first noted that the matter had been previously discussed with ISO stakeholders at the April 1, 2008 Joint MSC/Stakeholder meeting and also during a joint MSC/CAISO Stakeholder conference call on conducted on April 17th.

Wolak noted that the current MRTU Tariff allows resources dispatched for energy under an Exception Dispatch (ED) instruction to be paid the higher of: (1) their offer (Energy Bid price), whether submitted to the integrated forward market (IFM), the reliability unit commitment (RUC) process, or the real-time (RT) market, (2) their Default Energy Bid (DEB) price, if they have no offer in these markets, or (3) the real-time (RT) locational marginal price (LMP) at their node. He explained further that, under the current MRTU tariff, ED instructions are not subject to the MRTU local market power mitigation mechanism or reliability requirement determination process.

The CAISO proposal, that the MSC was asked to consider, would apply a market mitigation mechanism to the ED instruction. However, the CAISO would not apply the market mitigation mechanism on ED instructions issued 1) for system-wide energy requirements, or (2) to resolve congestion on transmission constraints that have been deemed to be competitive transmission paths.

For RA units, the CAISO would apply a price cap which would be the higher of (1) the LMP and (2) the default energy bid.

For non-RA units, the CAISO proposes two mitigation options.

Option 1: The first will cap the price a resource owner receives at

- (1) the higher of the LMP at that unit's location; or
- (2) the DEB plus the \$24/MWh frequently mitigated unit (FMU) bid adder.

Option 2 would allow the supplier to be paid as bid, up to the amount of monthly payment made to the supplier under the ICPM designation.

Wolak explained that, with respect to the Non-RA units, the draft MSC Opinion states that MSC favors the Option 2 and would allow the generator to be paid as bid. He noted that this option allows the generator the flexibility of recovering the cost of the ED, and that the Default Energy Bid option might not cover costs in some circumstances. Also the MSC had a concern regarding the capping feature of Option 1, which might create a disincentive for the generator-owner to accept a voluntary ICPM designation.

Finally, Wolak noted that local power mitigation exists in the local energy market—and that the need for the mitigation measure this carries over to ED and applies to extent that the mitigation mechanism doesn't interfere with market signals to add new supply in areas of scarcity.

During the course of the Chairman's summary above, Committee Member Hobbs was re-connected to the call. The Committee Members returned to the DEC Bidding matter above and voted to approve the DEC Bidding opinion as reflected above. The Committee then returned to the subject of public comment on Exceptional Dispatch.

Comment

Chairman Wolak asked for any Public Comment on the ED Opinion, and the following comment was made.

Mr. Glen Goldbeck, from PG&E made a short comment on MSC Draft Opinion on ED. He noted that the stakeholder process had been extensive and that the CAISO had come up with workable decision with respect to the market mitigation mechanism. He noted that PG&E supports adoption of the MSC Opinion on the subject.

There was no other public comment

Vote

Committee Member Bushnell made a motion to approve the draft ED Opinion, and also added the comment that, in forward market and in the RT software, he hoped that that as few constraints as possible would be missed, so that there were as few ED calls as possible. Committee Member Hobbs seconded the motion. Thereafter, the following vote was taken:

<u>VOTE</u>
Ayes: 3

Neighs: 0
Resolved: Draft Opinion ““Exceptional Dispatch: Options for Market Power Mitigation and Supplemental Pricing under MRTU,” dated May 7, 2008, is approved .

4. **Draft Opinion on Integrated Balancing Authority Areas (IBAA).**

Summary

Wolak noted that CAISO has certain neighboring Balancing Authority Areas (BAA) closely integrated with the CAISO control area, and that there are concerns with continuing the radial modeling of these BAAs under MRTU. If certain BAAs are not modeled using a looped network model under MRTU then this could lead to inaccurate schedules in the DA market relative to what CAISO experiences in terms of power flows in real time.

Chairman Wolak explained that the purpose of the change in modeling is to get greater accuracy between day-ahead schedules and real-time flows on the interties between the ISO and these BAAs. He also noted that the BAAs of interest for the proposal and the MSC Opinion are the SMUD/WAPA/MID and TID areas.

Chairman Wolak also noted that there have been a number of stakeholder meetings and joint MSC-CAISO meetings on the subject, including the April 11th joint meeting, which allowed input regarding the experience from eastern ISOs. Chairman Wolak also noted that the CAISO proposal presented to the MSC was a result of that process and had evolved from a proposal with a 6-pricing-point of interconnection to a single pricing approach, with a separate import and export pricing points. Chairman Wolak noted that the CAISO change in approach was partly due to comments provided by Mr. Scott Harvey, a consultant, who pointed out that it could be impossible to identify the true source of imported power to ISO control area from these BAAs.

Committee Member Bushnell noted that the CAISO proposal might be better described as removing an incentive to schedule inaccurately. Committee Member Hobbs noted that there was perhaps an incentive to schedule inaccurately, but that the situation was a result of the way seams are managed in the West, and not related to the approach in the CAISO proposal. He noted that, until the West undertakes necessary refinements, that the BAAS must protect against repeating the situation in the East, which occurred when there were multiple scheduling points between the ISO and each BAA.

Chairman Wolak also noted that the draft contained a typing error on page 7, where a reference to IBAA should be changed to ISO. He noted that this would be changed in the final version.

Public comments

Peter Scanlon, from the law firm of Duncan, Weinberg, et.al., on behalf of Santa Clara, noted that they had sent comments to the CAISO in the stakeholder

process, and wanted to reiterate their disagreement with approach. The fact that they did not repeat the points of disagreement here did not mean that they agreed with the CAISO approach referenced in the Draft Opinion.

Laura Lewis, of SMUD, wanted to echo Mr. Scanlon's comment. She noted that SMUD also submitted several comments on IBAA and on the single hub approach, and stated that "we don't have anything to add, but "silence is not consent/approval."

Tony Braun, of CMUA, requested that the MSC Opinion be clarified to state that the MSC was not asked to opine on the application of the proposal to the SMUD and Western IBAA's.

Committee Member Bushnell responded that, in reaching their opinion, the MSC did consider what the impact would be on the efficiencies of the market both inside and outside of the CAISO markets.

Gifford Jung, of Powerex asked whether the result of the CAISO proposal was that imports (i.e. from SMUD into the CAISO) should be priced at the Captain Jack point of delivery.

MSC members Wolak and Hobbs responded that the issue of what prices are charged under a contract for power is between the parties. Mr. Hobbs noted that the CAISO proposal was setting a price for injections from the IBAA into the CAISO, and in this regard, it was setting the price as if the power came from the Captain Jack location. In this regard, the CAISO has no visibility on where within the IBAA the power is coming from, and it had to set a point.

CAISO representative Steve Greenleaf added that, if a contractual scheduling point is Tracy, the schedules will continue to be scheduled into Tracy. Under the CAISO proposal, Capt Jack will be used for the purposes of modeling the impacts on the CAISO-grid, in the absence of better info as to true nature of the source of the import.

Vote

Following the discussion generated by public comment, Committee Member Bushnell made a motion to approve the draft IBAA Opinion, and Committee Member Hobbs seconded the motion. Thereafter, the following vote was taken:

<u>VOTE</u>
Ayes: 3
Neighs: 0
Resolved: Draft Opinion "Modeling and Pricing Integrated Balancing Areas under MRTU," dated May 7, 2008, is <i>approved</i> .

Executive Session

No Executive Session was held.

Adjournment

Whereupon, Chairman Wolak adjourned the MSC meeting at approximately 2:07 pm.

The MSC has approved these Minutes of the May 7, 2008 MSC Meeting at the following MSC Meeting:
Date of approval: March 18, 2011