

**GENERAL SESSION MINUTES
California ISO (CAISO)
MARKET SURVEILLANCE COMMITTEE MEETING
November 13, 2006
Folsom, California**

Chairman Frank Wolak officially called the meeting to with all committee members in attendance in person.

COMMITTEE MEMBERS ATTENDANCE

Frank Wolak
Jim Bushnell
Ben Hobbs

PUBLIC COMMENT

Glenn Goldbeck of Pacific Gas and Electric Company (PG&E) asked to make a short presentation on MRTU marginal loss surplus allocation. In addition, he indicated the PG&E supported long-term firm transmission rights (FTRs) with terms longer than 10 years.

Jeff Nelson of Southern California Edison (SCE) commented on four issues: (1) SCE's support of allocation of long-term FTRs to load serving entities (LSEs) that have existing or proposed long term power purchase agreements; (2) SCE's position that if the CAISO were to implement virtual or convergence bidding, it should be limited to the load aggregation point (LAP) level; (3) SCE's support of the CAISO's proposal to change Real-Time LAP pricing; and (4) SCE's position that the CAISO's marginal loss surplus allocation as filed with FERC was reasonable but would consider other reasonable approaches.

Sue Mara of RTO advisors supports an allocation process for long term FTRs that is not based on long-term supply arrangements.

APPROVAL OF MINUTES OF OTOPER 6, 2006 TELECONFERENCE

The MSC approved the minutes of the October 6, 2006 teleconference where in the MSC adopted its "Opinion on Alternative Treatment of New Transmission for Interconnection of Renewable Generation."

GENERAL DISCUSSION ITEMS

1. **Long-Term Firm Transmission Rights (LT-FTRs)**—MSC Chairman Wolak gave a presentation on LT-FTRs which engendered additional public comment with Jeff Nelson of SCE and Glenn Golbeck of PG&E both stating support for giving existing and planned long-term supply arrangements preference for eligibility for LT-FTRs. Tony Braun on behalf of California Municipal Utility Association indicated support for allocating LT-FTRs to serve long-term supply arrangements. Steve Williams of San Diego Gas & Electric Company (SDG&E) stating that SDG&E did not support giving priority to existing or planned long-term supply arrangements, but rather a Transmission Access Charge weighted share allocation. Sue Mara of RTO Advisors indicated support for a pro-rate allocation based on TAC payments. Carolyn Kehrein of Energy Management Services supports a TAC weighted allocation at the customer level. The MSC discussed the various proposals and comments.
2. **Convergence Bidding under MRTU**—Gillian Biedler, of the Department of Market Monitoring, made a presentation discussing how other ISOs and RTOs implemented convergence, or virtual bidding, and what market power mitigation tools and monitoring tools were in place. David Withrow, from Market and Product Development, discussed the options for cost allocation and credit policies for convergence bidding under MRTU. Brian Theaker of Williams and Ellen Wolfe of Western Power Trading Forum urged consideration of permitting convergence bidding at the nodal level arguing that benefits of allowing convergence bidding would not be achieved if it were only permitted at a zonal level. Jeff Nelson of SCE responded that nodal convergence bidding could result in infeasible schedules, which could increase Residual Unit Commitment and noted that convergence bidding at the nodal level of much more complicated than at the zonal level. Brian Theaker responded that in PJM and ISO-NE virtual bidding reduced reliance on RUC and did not present significant computational problems. MSC members discussed the presentation and public comments, noting the need for local market power mitigation measures and commenting on credit and cost allocation issues.
3. **Local Market Power Mitigation (LMPM) under MRTU**—Ming Hsu from the Department of Market Monitoring made a presentation analyzing a concern noted by LECG that there could be an opportunity to exercise market power when supplied owned multiple generating units in load center. Although the CAISO modified the LMPM to address the concern, DMM noted that the change does not eliminate the concern entirely. DMM indicated that it would continue to study the extent to which adverse outcomes would occur. MSC discussed whether bids on behalf of all units of an owner should be mitigated whenever bids of any unit are mitigated. Jeff Nelson from SCE asked whether the behavior would violate the ISO Tariff prohibition on market manipulation. Keith Casey, Director of DMM, indicated that instances of such behavior would be referred to FERC.

4. **MRTU Real-Time Load Aggregation Point (LAP) Pricing.** Farrokh Rahimi from Product and Market Development presented the CAISO's proposed change to the computation of the real-time LAP price by calculating a single-price, rather than separate prices for loads above their schedule and load below their schedule.
5. **Marginal Loss Surplus Allocation under MRTU.** Farrokh Rahimi from Product and Market Development reported on the results of the preliminary analysis comparing regional versus system-wide allocation and requested MSC review of the approaches. Glen Goldbeck made a presentation noting PG&E's preference for a regional allocation and requested the CAISO to complete its preliminary study using 12-months of data. Jeff Nelson again stated that SCE would not oppose an improved methodology but noted that the CAISO's filed approach was easy to implement and any change would simply lower allocation of marginal loss surplus to SCE. Committee member Hobbs commented that it would be difficult to identify market efficiency benefits of one approach versus another and increases allocation to one group would result in reduced allocation to another group. Professor Hobbs also noted that the system wide allocation was consistent with the CAISO's move to a system-wide Transmission Allocation Charge.
6. **Locational Marginal Pricing (LMP) Study for MRTU.** Jim Price from Product and Market Development presented and update of the LMP study for 2004.

Chairman Wolak adjourned the public portion of the MSC meeting at 4:30 pm.