



Comments submitted in response to:

***Generated Bids and Outage Reporting
for Non-Resource Specific
Resource Adequacy Resources
Straw Proposal***

February 4, 2010

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1. Introduction

We are submitting these comments in support of the proposed policies and procedures for Generated Bids and Outage Reporting for Non-Resource Specific Resource Adequacy Resources for CAISO market participants.

Revamping of these procedures should serve to remind all market participants about need for specialized skill sets and the operational and financial transparency in the handling of outages and submission of bids on behalf of generators -- tasks typically performed by a scheduling coordinator (SC) in California.

As a registered SC with CAISO, Viasyn is proud of the professional service, cost containment and auditable transparency we provide day-in and day-out for our generator clients.

But this market transparency role is currently being undermined by investor-owned utilities (IOUs) in California, in a complete change in stance from RPS procurement prior to 2009.

In 2008 and prior contract years, IOUs required respondents to contract with their own choice of SC. Now they have decided to make force generators to use their services, and the costs of those services are not at all transparent to the generators or to the ratepayers.

2. The SC's Responsibilities

SC's have fiduciary responsibility to their generator clients to ensure that physical and financial transactions are settled correctly. In doing so, the SC incurs financial risk by engaging in operations on behalf of generators, and is compensated for this service and risk by their clients.

That puts a price on SC services – they're neither free nor valueless transactions.

When an IOU requires generators to use the IOU's SC services, and bundles this costs into a single contracted price, transparency is lost to the generator and to the ratepayers who may inevitably foot the bill with the IOU.

While "one-stop" pricing in power purchase agreements may seem to make the generator's accounting needs simpler, they may never realize they could get better service levels and clearer financial and operational data for audit purposes by having a third-party SC take on these tasks.

3. The impacts of mandatory IOU scheduling -- 3 scenarios

Generators signing power purchase agreements (PPAs) with all three IOUs in California are now required use their buying utility's SC services. But let's take a look at what impact of this requirement could have on California's ratepayers and on the management of the grid operations as a whole.

3.1. Scenario where IOU assumes cost of SC services which are charged to generators in a non-transparent manner.

This would most likely result in a lower all-in price paid to a generator, as these non-transparent costs and liabilities would be passed back to them.

In the short term, the effect is uncertain, but in the long term, it could result in higher cost of energy procurement for ratepayers, as new generators adjust to higher operational costs.

3.2. Scenario where IOU assumes cost of SC services and costs are passed through to ratepayers.

While the cost of energy procurement may not change, new costs relative to past years are being incurred by those IOUs if they are handling SC duties. There is a shortfall that must be made up. The issue could be in the transparency of how those charges will be calculated and passed on to ratepayers.

3.3. Scenario where IOU assumes cost of SC services and costs are not passed back to either ratepayer or generator, directly or indirectly.

This assumes the IOU is willing to incur new costs for no marginal benefit. But IOUs are not non-profits. As publicly traded entities, they are required to be as transparent to their shareholders as possible, and what shareholder would prefer to see additional expense cutting into margins?

In the short-run, there would be no effect on cost of energy procured, but IOUs are now incurring risk and liability for no compensation under this scenario. Over the long term, we believe this leads to an increase in cost of energy procurement.

4. Obvious conflicts of interest

The conflict of interest in IOU-provided SC services between IOU, generator and ratepayer is simple to see.

The SC function is as fiduciary for both the buyer and seller of energy. The sale of energy occurs between the ratepayer (as buyer) and the generator (as seller). How can the IOU serve as fiduciary for both parties without a conflict? It can't. The IOU cannot serve the best interests of the buyer and the seller simultaneously in the same trade.

In other industries, this type of conflict of interest has caused problems and has been solved via regulation and designation of intermediaries. For managed investment funds, for example, clients' assets are handled by a fund administrator, who then makes the funds available to the portfolio manager to invest as he needs. But at no time do clients directly send assets to the portfolio manager, in an effort to avoid fraud, commingling with a portfolio manager's own personal funds, and so on.

With bank-owned proprietary trading desks, similar issues arise around executing clients' trades before executing proprietary trades with the bank's own money. If a stock's price is volatile, the short time period it takes to enter a trade could cost the stock's owner to lose value. So who's getting the best stock price at any moment in time – the bank's clients or the bank's own capital?

This is still an issue on trading floors, despite their industry being heavily regulated, and even with this additional transparency, the economic benefit is still tempting to bank employees who are paid for profit. Securities industry regulatory bodies prosecute thousands of cases of this kind of inappropriate activity every year.

So can you expect an IOU utility handling with a contracted generator's energy and a ratepayer's usage pattern to always ensure that both sides got the best price? And if the IOU performs its SC service poorly, who incurs that liability?

If it's the generator, is there any mechanism available to the generator to recoup these costs? No. So that leaves two remaining outcomes for covering these penalties – via ratepayers or by having the IOU "eat" the cost. Again, as publicly traded companies, passing new costs onto IOU shareholders without some means of offset would be highly unfavorable and unlikely.

5. The force of market dominance

California's IOUs are using their market power to force renewable generators to use IOU SC services. Since IOUs are the major source of PPAs for new

renewable resources – and without the PPA for financing needs, the generator’s project may never get off the ground – and IOUs are supposed to be procuring energy for the benefit of the ratepayers, most new renewable energy generators are being forced to accept services that are currently available in a competitively priced market from a provider who is working in the best interest of the buyer and not theirs.

The result is a dangerous situation where market transparency is reduced and competitive service providers are unable to compete for business from new generators, leading to dangerous monopolistic market conditions for SC services.

Allowing IOUs to force generators them the default SC via the terms of their contract creates these multiple conflicted interests and there are few incentives to perform well.

6. Where the independent SC comes in

Allowing the SC service provision to be open to competition and transparent as a disclosed cost to generators should lead to these services being priced as efficiently as possible. Specialized independent firms focusing on SC services can help contain costs for rate-payers and provide superior service to generators

As a provider of these services – with an enviable track record and a client roster who appreciates the operational feedback and transparency they get with working with us – we believe market policy should enable a transparent and efficient market, defending the interests of rate-payers and new renewable generators from the abuses of market power.

Thanks for your attention to this. The Viasyn team is always available to explain our position on this matter in more detail. Please let us know how we can be of assistance.

Best regards,



Sam Enoka
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