Williams Power Company, Inc. (“Williams”) thanks the CAISO for the opportunity to submit these comments on the CAISO’s initial competitive path analysis (“CPA”), posted to the CAISO’s web site on May 10, 2007.

1. **The CAISO must begin to address the unjust and unreasonable full-year application of the three pivotal supplier test without waiting a year to assess its performance.**

The results of the initial competitive path analysis confirm what Williams – and likely the entire supply community - feared. The combined application of the three pivotal supplier (“3PS”) test and the lack of dynamic competitive path assessment, appears to mean that for every hour of at least the first year of MRTU suppliers will have their market bids mitigated by the CAISO’s local market power mitigation if their units are dispatched to relieve overloads on any transmission path except for Path 15, Path 26, and the inter-control area transmission paths, regardless of whether the analysis indicated that the constraints were competitive in some, if not the vast majority, of the hours studied. It will not matter, for example, that the analysis indicated that the five studied constraints in SP26 were competitive for the entire spring season; because of the CAISO’s “fail one hour, fail the whole year” approach in MRTU Release 1, all studied constraints will be declared non-competitive for the entire year, including the spring season. In some cases, paths failed the assessment not because the study could not relieve overloads on the transmission constraints being evaluated with the remaining supply but because the excessively conservative 3PS test removed so much supply that the CAISO could not even serve load in that region without violating constraints on paths the CAISO already deemed to be competitive. The results of this initial analysis and the lack of any idea when the CAISO could either amend the 3PS test or apply it more selectively suggests this situation will exist for an indefinite time.

Because the preliminary analysis suggests that paths that are competitive under some if not nearly all conditions will be treated as non-competitive at all times because they fail a tiny fraction of hours, the CAISO must not wait an entire year before beginning a process to evaluate and possibly amend its local market power mitigation.\(^1\) The CAISO must begin to act now to prove its commitment to competitive markets by exerting every possible effort as quickly as possible to either amend or more selectively apply the 3PS test.

2. **Determining that all transmission paths in an area are non-competitive because the CAISO cannot serve the demand in that area is not the purpose of the 3PS test.**

Williams objects to the CAISO’s determination, without previous discussion with stakeholders, that all paths are non-competitive in areas and in hours in which the 3PS removes so much supply from that region that demand cannot be served in that region. Deeming all paths in an area to be non-competitive with no evidence of overloads on those studied paths because the

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\(^1\) For example, in its September 21, 2006 order on the CAISO’s February 9, 2006 MRTU filing, FERC directed in paragraph 1031: “Because the CAISO will have gathered 12 months of historical data in preparation for the second year of MRTU, we believe the CAISO will have enough experience to develop a more comprehensive assessment of competitiveness within 12 months of the initial implementation of MRTU. We support WPTF/IEP’s assertion that the CAISO’s proposal may likely over-penalize market participants by assessing a path as non-competitive for an entire year, even if the transmission path or constraint was competitive in two of the four seasons. We expect the CAISO to develop a competitive assessment study that designates a path as either competitive or non-competitive on a seasonal basis with seasonal designations. We believe this modification will enhance local market power mitigation and allow the CAISO to accurately mitigate pivotal resources in the day-ahead and real-time market. Accordingly, we direct the CAISO to modify the competitive assessments study, as discussed above, and to make a compliance filing with the necessary tariff changes to reflect these modifications within 12 months of the effective date of MRTU Release 1.”
area’s demand cannot be served without violating constraints on the competitive transmission paths into that region is an application of the 3PS test never discussed with stakeholders. There may be no overloaded transmission lines within a local area that is unable to serve its demand due to (1) the removal of supply from three suppliers and (2) enforcing the limit on a competitive transmission path. Arbitrarily determining that all lines within that area are non-competitive under those conditions projects an outcome that may not, in fact, occur.

The CAISO has a genuine conundrum on its hands if the 3PS analysis determines that, because the CAISO enforces hard limits on the so-called “competitive” paths between regions, it cannot serve demand in regions under certain circumstances. This fact points to two conclusions: either the so-called “competitive” paths are, in fact, non-competitive under certain conditions (because there is insufficient supply remaining in the area to serve demand without operating the competitive import paths beyond their ratings), or the 3PS test is, in fact, unjustly and unreasonably conservative by removing too much supply from those areas. Either of these conclusions leads to the inescapable subsequent conclusion that MRTU Release 1, as it will be implemented, will be unjust and unreasonable. It will either be unjust and unreasonable because the 3PS is excessively conservative (as demonstrated by the preliminary results of the competitive path analysis, in which no transmission paths will be determined to be competitive), or because the interfaces assumed to be competitive are not under some circumstances (assuming, again, that the 3PS test is the “right” test to ascertain market power relative to the inability to serve demand in a region – an application of the test not previously discussed). Given that the CAISO has (1) already deemed its current inter-zonal interfaces to be competitive, (2) never suggested or proposed that its current inter-zonal interfaces are non-competitive, and (3) in its history, never operated its congestion management markets as if those inter-zonal interfaces are non-competitive under certain conditions, the only reasonable conclusion is the latter one – that the 3PS test produces unjust and unreasonable results. This conclusion reinforces Williams’ position that the 3PS test must be amended as soon as possible, without waiting a year to first analyze market performance to begin that effort.

3. Not using systems that will be in place in MRTU to conduct the competitive path analysis undermines the validity of these results for use under MRTU.

The CAISO acknowledges, on page 9 of the CAISO’s May 10 white paper, that the preliminary competitive path analysis did not use a Security Constrained Unit Commitment and Dispatch algorithm or consider all the contingencies that will be considered in the MRTU optimization. Williams suggests that this may have resulted in fewer units committed in the preliminary analysis than would actually be committed under MRTU. Committing fewer units may cause some paths to have a negative FI when additional unit commitment might produce a positive FI. Williams believes that the same SCUC engine used in MRTU must be used for the competitive path analysis for its results to be valid for MRTU.

4. Identifying a relatively small number of candidate paths will leave many paths simply deemed to be non-competitive without ever being evaluated.

Identifying a relatively small number of candidate paths for analysis implies that paths not so identified will be presumptively deemed to be non-competitive. That is the CAISO’s foundational premise – that all paths are non-competitive except those deemed to be competitive. While the preliminary results of this analysis, which show no competitive paths, are troubling, the idea that paths will be automatically deemed non-competitive simply because they are not studied is equally troubling. Williams urges the CAISO to evaluate more than a handful of SP26 paths for competitiveness so that paths will not be deemed to be non-competitive by default – a result which, again, is clearly unjust and unreasonable.
5. The analysis must account for supply that is under the operational control of LSEs.

Supply whose operational control has been turned over to a load serving entity (e.g., via a tolling arrangement entered into under the RA program) must be accounted for in this analysis.

Williams appreciates the opportunity to submit these comments and urges the CAISO to begin immediately to address the serious problems with its competitive path analysis.