



CALIFORNIA MUNICIPAL UTILITIES ASSOCIATION

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JERRY JORDAN, Executive Director

October 27, 2008

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Mr. Mason Willrich
Chair, California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630

RE: MRTU Board Action Items

Dear Chair Willrich:

Members of the California Municipal Utilities Association ("CMUA") have asked me to express their concerns regarding the California Independent System Operator Corporation's ("ISO") Staff's proposal that the Board direct a filing with the FERC on or before December 1, 2008 certifying readiness for implementation of the MRTU market design beginning on February 1, 2009. Although the ISO Staff and Market participants have worked extremely hard to achieve the February 1 go live target for MRTU, CMUA's members are convinced that a Board directive at this time to submit the readiness certification by December 1st would be unjustified and premature. The ISO and the market may yet make February 1st, but much more needs to be shown before Board action on the readiness certification is appropriate.

MRTU should move forward as soon as the operating systems have been shown to be complete and functioning properly in conjunction with each other, and Market participants have had a reasonable opportunity to conform their own systems. CMUA members have participated actively in the many working groups involved in the effort to refine and test the MRTU systems, including the Participant Readiness Assessment Group. Despite the dedicated efforts of the ISO Staff and market participants, there is no reasonable basis to conclude at this time that it will be possible to implement MRTU as of February 1st without significant risk of major market dysfunctions.

The ISO committed to the FERC that it would work with market participants to develop measurable readiness criteria for implementation of MRTU, and such readiness criteria were agreed upon, including "exit criteria" for completion of the simulation and testing processes. As the Memorandum to the Board acknowledges at page 9 and in Attachment A, the exit criteria have not been met. The Scorecard attached as Appendix 1 to this letter describes the criteria and shows that the unsatisfied criteria are substantial. The MRTU start-up guidelines previously agreed upon by the ISO and market

participants also contemplated that market participants would have three months after the MRTU exit criteria were satisfied to gain experience with the new system and make sure their own systems are able to function properly. Since the ISO's MRTU systems are not expected to be completed until at least mid-November, a February 1, 2009 start date for MRTU will not afford market participants the three months needed for testing and training to make sure that their systems and the ISO systems function properly. Until the agreed-upon readiness criteria have been satisfied, any certification of readiness would be improper.

Moreover, the remaining problems are not trivial. CMUA members report settlement statements generated as an output of the market simulation process contain both credits and amounts due exponentially different than predicted and explainable. Under the MRTU Tariff, invoices have immediate consequences, including cash flow impacts and credit support requirements if Tariff provisions are followed. Even though inaccurate settlements invoices are subject to eventual true-up, promulgation of grossly inaccurate settlements invoices may be devastating to individual Market participants and disrupt the ISO's markets overall. This leads to hard questions regarding invoice payment similar to those experienced during the 2000-2001 crisis.

The FERC's September 21, 2006 Order conditionally accepting the MRTU Tariff stated at P 1414 that "it is essential that the MRTU market design be implemented only when the CAISO's **and the market participants' systems, software, and tools have been fully tested** (emphasis added) and the CAISO **and its stakeholders are confident that MRTU will function properly (emphasis added).**" This contemplates a demonstration that the MRTU systems all work properly together — bid to bill — not a representation that the ISO knows what is wrong and expects to fix it. Moreover, a "just in time" resolution for an identified problem will not allow Market participants adequate time to make necessary conforming changes to their own systems and procedures. The FERC directed the ISO to submit a "statement certifying market readiness" sixty days prior to MRTU implementation — not a representation that with additional modifications and testing the markets are expected to be ready.

While the ISO has made significant progress with its own internal systems over the last six weeks, it wasn't until late September that market participants were able to begin viewing and interpreting results associated with simulations performed on these improved systems. It should come as no surprise therefore, that after enduring months of simulation effort that were punctuated with regular software patches, unpredictable system availability and the production of settlement reports that simply could not be used to assess the reliability or readiness of ISO or market participant systems, that market participants will now require some time to evaluate the data that is being generated from the system that is operating in a more stable fashion and to satisfy themselves that the results are indeed reasonable.

CMUA recognizes that the MRTU delay has stretched longer than anyone could have contemplated or desired. This has not been due to a lack of effort from either ISO Staff

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or market participants. After all of this effort, now is not the time to push forward with implementation in the face of significant unresolved issues. California, along with much of the world, already is reeling from the current financial crisis. Financial market volatility is being felt by the electric industry, as noted in CEO Report in your Board materials. An upheaval in the ISO markets due to an unresolved market design problem would be even more devastating in this time of extreme economic stress than under more stable conditions. The Board should not authorize the submission of the readiness certification until there has been a demonstration, prior to such action, that all of the agreed-upon readiness criteria have been satisfied and criteria agreed upon by the ISO and market participants have been fully satisfied.

Sincerely,

A handwritten signature in black ink, appearing to read "Gerald Jordan", written over a light blue horizontal line.

Gerald Jordan
Executive Director, CMUA

CAISO Board of Governors
Mr. Yakout Mansour
Ms. Nancy Saracino

Attachment

IOU Criteria To Be Met By December 1, 2008 for Feb 1, 2009 Go-Live As Of 10/17/2008

Criteria #	Criteria Description	CAISO *							IOU	Anaheim	Riverside	Banning	Pasadena	Powerex	By Oct 1 NCPA	
		C	C	C	C	C	C	C	S	C	C	C	C	C	C	
U2.02	CAISO will allow all SCs to participate.	C	C	C	C	C	C	C	C	C	C	C	C	C	C	
U2.04	Publish daily settlement statements and supporting documentation by TD+5BD.	C	C	C	C	C	C	C	C	C	C	C	C	C	C	
U2.05	Publish two monthly settlement statements and supporting documentation by TD+25BD.	C	C	C	C	C	C	C	C	C	C	C	C	C	C	
U2.06	Publish CRR Auction settlement statements and supporting documentation.	C	C	C	C	C	C	C	C	C	C	C	C	C	C	
U2.07	Publish two accurate monthly invoices.	C	C	C	C	C	C	C	C	C	C	C	C	C	C	
U2.08	DAM successfully solves and publishes by 1300 for 7 consecutive days.	C	C	C	C	C	C	C	C	C	C	C	C	C	C	
U2.09	No more than 5 consecutive 5 minute RT cases fail for 7 consecutive trading days.	C	C	C	C	C	C	C	C	C	C	C	C	C	C	
U2.10	97.5% availability of external facing applications and interfaces.	C	C	C	C	C	C	C	C	C	C	C	C	C	C	
U2.13	90% AC solution over the last 4 weeks.	C	C	C	C	C	C	C	C	C	C	C	C	C	C	
U2.14	Every charge code exercised and valid.	C	C	C	C	C	C	C	C	C	C	C	C	C	C	
U2.15	Scenarios successfully completed.	C	C	C	C	C	C	C	C	C	C	C	C	C	C	
U2.17	CAISO systems patches will be fully tested, installed, and validated.	C	C	C	C	C	C	C	C	C	C	C	C	C	C	
U2.18	HASP successfully solves and publishes online 95% of the time for 7 consecutive days.	C	C	C	C	C	C	C	C	C	C	C	C	C	C	
U2.19	RTM successfully solves and publishes online 95% of the time for 7 consecutive days.	C	C	C	C	C	C	C	C	C	C	C	C	C	C	
		Number of Priority 1 Exit Criteria Met							7	2	2	3	3	3	2	3
		By Dec 1														
Priority 2 Exit Criteria		No open Critical and Very High variances. Mitigate or repair High variances.							S	S	S	S	S	S	S	S
U2.01	CAISO to publish a daily participation list.	C	C	C	C	C	C	C	C	C	C	C	C	C	C	
U2.11	CAISO backup and restore plans executed.	C	C	C	C	C	C	C	C	C	C	C	C	C	C	
U2.12	CAISO archiving and data retention plans performed.	C	C	C	C	C	C	C	C	C	C	C	C	C	C	
U2.16	Market results based on inputs and consistent across external applications.	C	C	C	C	C	C	C	C	C	C	C	C	C	C	
		Number of Priority 2 Exit Criteria Met							2	1	1	1	1	1	1	
Additional Criteria		CR.01	CR.02	CR.03	CR.04	CR.05	CR.06	CR.07	MRTU Tariff and Policy issues are finalized	C	C	C	C	C	C	C
		CAISO systems performance and stability are proven reasonable	Market Prices are Reasonable	Resource ID issue is resolved and tested	CAISO achieves satisfactory progress towards providing a high level of confidence in the CAISO's market gaming prevention processes and protocols and market monitoring tools**	Number of charge codes passing Bid to Bill Shadow Validation at acceptable Level (C is above 60, S is between 30 and 59, N is less than 30)	System changes controlled by production quality change management process			C	C	C	C	C	C	C

C Completed
S Started, not completed
N Not Started, or not tracking to complete by December 1, 2008

Priority 1 Exit Criteria was to be met prior to 90-day market participation testing phase.
 Priority 2 Exit Criteria can be met after 12/1/2008.
 Additional Criteria must be met by 60-day FERC readiness filing.

* The CAISO assessment of Exit Criteria is interpreted based on published exit criteria statistics and daily conference calls.
 ** CAISO needs to complete Readiness Criteria ORG - 3.3: "A Market simulation tool (the MRTU Sandbox/DMM Tool) that is based on the actual CAISO market software will be developed and tested by the CAISO MRTU Team and made available to the DMM three months prior to Go Live." For February 1 go-live, this is November 1.