

**COMMENTS OF THE ALLIANCE FOR RETAIL ENERGY MARKETS ON THE  
MARKET SURVEILLANCE COMMITTEE'S NOVEMBER 5, 2007  
"OPINION ON LONG-TERM RESOURCE ADEQUACY UNDER MRTU"**

The Alliance for Retail Energy Markets (AReM)<sup>1</sup> appreciates the opportunity to provide comments on the Market Surveillance Committee's (MSC) November 5<sup>th</sup> "Opinion on Long-Term Resource Adequacy under MRTU." At present, AReM has not taken a position on whether centralized capacity markets (CCMs) should be adopted for California. Therefore, AReM's comments focus on the MSC's recommended improvements to the current Resource Adequacy (RA) program Section 5).

In general, AReM supports the MSC's recommended improvements to the current RA program with a few clarifications. AReM's specific response to each of the MSC's recommendations follows.

Standardized RA Product -- AReM has consistently and strongly supported all necessary efforts to develop and implement a standardized, tradable RA product. Unfortunately, the CAISO has stymied progress and has recently stated that it did not plan to address the needed tariff changes until 2009. The lack of a tradable RA product has seriously impaired the current RA market and AReM continues to urge the CAISO to make this a high priority. If a centralized market were to become a reality, it is several years in the future. A tradable RA product is needed now.

Time Horizon for RA Compliance — AReM concurs with the MSC that there is no need to require forward RA commitments, in particular given the associated problems that

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<sup>1</sup> AReM is a California non-profit mutual benefit corporation comprised of electric service providers that serve the majority of the state's direct access load. These comments represent the position of AReM, but not necessarily the view of any affiliates of its members with respect to any specific issue.

arise with forecasting future demand and addressing other uncertainties. Further, the CAISO and the MSC have acknowledged that the RA program is working well and has allowed the CAISO to meet “significant reliability challenges ... with little adverse economic consequences” (Opinion, p. 1).

Need for Must-Offer Obligation (MOO) for all RA Capacity — AReM concurs with the MSC’s assessment that a uniform MOO may not be needed for all RA capacity. In fact, the current RA MOO is already applied differently to energy-limited resources. AReM notes that the Residual Unit Commitment (RUC) process to be implemented with MRTU may solve many of today’s problems. If the CAISO can justify the need for additional capacity, AReM agrees with the MSC that the CAISO should explore replacement reserves as a more cost-effective option.

CAISO Backstop Procurement — AReM agrees that the CAISO needs the ability to initiate backstop procurement under certain circumstances.<sup>2</sup> However, AReM also believes that it is often more cost-effective for others to conduct this procurement. Therefore, AReM would expect CAISO procurement only as a “last resort” when other options are unavailable. In particular, AReM strongly supports the MSC’s emphasis on demand response as a priority option for the CAISO. AReM concurs with the MSC that the CAISO should be evaluating demand-side options as a first step in addressing any potential shortfalls.

*Submitted November 7, 2007*

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<sup>2</sup> AReM again notes that RUC may address a backstop need in part.