

**COMMENTS OF THE ALLIANCE FOR RETAIL ENERGY MARKETS ON THE
CAISO's DRAFT FINAL PROPOSAL REGARDING A STANDARD RA
CAPACITY PRODUCT**

January 14, 2009

The Alliance for Retail Energy Markets (AReM)¹ appreciates the opportunity to provide comments on the CAISO's draft final proposal for the Standard Resource Adequacy (RA) Capacity Product (SCP), which was issued on January 9, 2009. AReM is pleased at the CAISO's efforts to bring the SCP work to a conclusion so that market participants can begin to benefit from this important market improvement. AReM supports nearly all aspects of this draft final proposal. In addition, AReM continues to strongly support the current SCP schedule, which would include a February Board decision and FERC filing. The following comments focus on the new provisions in the CAISO's proposal and the points on which AReM is requesting modification or clarification.

1. Transition/Grandfathering Proposal

As AReM understands the CAISO's transition proposal, any contract exempted from the SCP rules would not be "tradable." AReM is concerned that this could reduce the availability of RA that Electric Service Providers (ESPs) need to comply with their RA requirements. ESPs have load in all three utility service areas and thus are assigned RA obligations in all local areas. To comply with Local RA requirements, ESPs may have to procure small and fractional quantities of RA capacity in various locations. Consequently, ESPs often seek to buy available RA from other load-serving entities (LSEs) or suppliers with excess local RA. For example, for the San Diego Local Capacity Area, the utilities had procured all the Local RA capacity for the 2010 compliance year, even though some of their procured resources were only needed to satisfy their System RA requirements. Accordingly, to meet their Local RA requirements, the ESPs were required to procure excess Local RA capacity from the utilities. If the CAISO's transition proposal had been in effect, it is unclear whether ESPs would have been unable to enter into these transactions, because all the RA capacity held by the utilities may be grandfathered and, therefore, not "tradable" to the ESP. It is critical to compliance with the RA program that this outcome be avoided.

It appears that the "no trading" clause is intended to provide an incentive for entities to conform their existing RA contracts to the SCP. While such incentives may be well intended, the prohibition on trading is likely to have harmful consequences for market development that outweigh the potential benefits. Moreover, AReM knows of no such prohibitions on other grandfathered contracts (e.g., RA import allocations, source-verified CRRs). AReM, therefore, proposes eliminating the "no trading" clause to eliminate these adverse consequences on ESPs.

¹ AReM is a California non-profit mutual benefit corporation formed by electric service providers that are active in the California's direct access market. This filing represents the position of AReM, but not necessarily that of a particular member or any affiliates of its members with respect to the issues addressed herein.

In addition, AReM also believe that it will be necessary for the CAISO to include in the NQC list a designation as to whether capacity listed there has been exempted from the SCP. This information is necessary in order for market participants to understand how widespread the exemption is. For instance, is utility-owned generation exempt from the SCP?

2. Deferral of SCP Rules for Wind/Solar, QFs, and Demand Response (DR)

AReM can support the deferral of SCP rules for these resources so that concerns about double counting can be fully addressed in the ongoing Phase 2 RA proceeding and DR proceedings.

3. Mandatory Obligation to Use SCP and SCP Effectiveness Date

The draft final proposal does not address the CAISO's previous requirement that the LSEs be required to use the SCP for all RA showings and the effective date of the SCP. Given that the draft final proposal includes deferral of its applicability to certain resources and grandfathering of some existing contracts, AReM assumes that the CAISO will not make the SCP mandatory for RA showings initially. LSEs would, therefore, be allowed to provide a mix of SCP resources, grandfathered resources, resources procured through other bilateral arrangements (that meet the CAISO's RA tariff provisions), and resources allocated to LSEs by the CPUC, such as the Demand Response, Reliability Must Run and Cost-Adjustment Mechanism (CAM) resources, in their RA showings. Further, because the SCP would not be mandatory initially, AReM also assumes that the SCP could be available for optional use as soon as the market develops the product. Assuming a February filing date, the FERC decision would be expected by April 2009 and the market could be expected to develop the SCP within one to two months. Therefore, AReM's members would like to use the SCP, as an *option*, beginning with monthly RA compliance showings in July or August 2009. AReM would appreciate confirmation of its understanding on these points.

4. Availability Standard for Imports – AReM supports the CAISO's proposal to measure performance for Imports by tracking offers of capacity into the market and exempting transmission de-rates from affecting availability. However, AReM requests clarification regarding the application of the penalty. For example, if an LSE uses its RA Import allocation to meet a portion of its RA requirements and procures an RA Import from Supplier A, will Supplier A be subject to the performance penalty if it fails to offer the RA capacity into the CAISO markets?

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On Behalf of AReM