



## **Northern California Power Agency Comments on the Benefit and Feasibility Criteria & Suggested Additional Market Initiatives for the Post-Release-1 MRTU Scoping Study**

**July 28, 2006**

Northern California Power Agency (“NCPA”) would like to thank the CAISO for the opportunity to provide comments on the CAISO proposed benefit and feasibility criteria that were discussed during the July 18, 2006, CAISO stakeholder meeting. NCPA has also identified some additional market initiatives for the post-release-1 MRTU scoping study that should be added to the list of items being considered for implementation.

### **General Comments on the Proposed Benefit and Feasibility Criteria**

NCPA believes that developing a standard set of benefit and feasibility criteria will help improve transparency within the CAISO decision making process. Developing benefit and feasibility criteria will allow both the CAISO and stakeholders to more effectively evaluate the costs and benefits of implementing new functionality into the MRTU design. The initial list of candidate features and functions that have been identified are diverse, and could potentially impact market participants differently. This type of cost / benefit analysis must not only consider the potential impact on the market as a whole, but must also recognize the potential impact on individual market participants.

### **Response to Stakeholder Input Requested in the CAISO White Paper**

- **Do the proposed criteria effectively capture the import benefit and implementation characteristics of new design initiatives?**

NCPA believes that the proposed criteria could be used to evaluate the benefits of implementing new design characteristics, but the criteria appear to be more qualitative rather

than quantitative. Many of the criteria, such as Improving Market Efficiency and Reputation, are extremely difficult to evaluate using a cost / benefit analysis. The proposed criteria also appear to be CAISO focused rather than market participant focused. There are multiple criteria that evaluate the impact of implementation on the CAISO's strategic goals rather than focusing on the benefits that could be realized by the market. For example, the Reputation criteria may be important to the CAISO's strategic goals, but NCPA does not fully understand how this measurement will help determine that the feature or functionality improvements benefit market participants. Corrects Design Flaws criterion is subjective because the design flaw could be viewed differently depending on the eye of the beholder. Expanding ISO Participation may be an important strategic goal for the CAISO, but the benefits from this criterion should already be captured in the Improving Market Efficiency and Annual Cost Reduction GMC criteria. Criteria such as Grid Reliability, Promote Infrastructure Development, MP Implementation Cost, and Mandate seem to be more relevant to market participants. NCPA would like the CAISO to develop criteria that focuses on the costs and benefits of a proposal, and provide data which identifies the benefit to market participants, rather than focusing on the strategic goal of the CAISO.

The criteria fail to recognize the impact on individual market participants. In general, the CAISO is a conduit for money to flow from one market participant to another market participant. The implementation of a new feature or functionality could improve the market as a whole, but could also have a detrimental impact on individual market participants, and possibly result in significant cost shifting between market participants. The criteria do not appear to capture this risk to individual market participants. Improvements to the MRTU design should be focused on benefits to the market as a whole, however not at the expense of individual market participant.

The criteria may discount the importance of certain issues that are imperative to smaller market participants. The criteria measure the impact of a new feature or functionality from a general market perspective, but fail to recognize the needs of individual market participants. Limited issues that are important to smaller market participants may not receive a high enough ranking, based on the generalized criteria, to be considered for implementation. Even though the queue of issues is not infinite, additional issues will be added as time goes by, and those limited

issues could be continually pushed down the stack of items waiting to be address. The criteria must either be modified to consider this situation, or additional criteria should be added to address this issue.

- **Has the CAISO assigned the appropriate weights to the prioritization criteria?**

Considering that many of the criteria are qualitative in nature, the appropriate weights will be subjective. Criteria that directly reflect the costs and benefits that may be incurred by market participants should be given the highest weight. For example, criteria such as Grid Reliability, Annual Cost Reduction GMC, Complexity, Promote Infrastructure Development, MP Implementation Impact, and Implementation Cost could have a direct impact on stakeholders, while items such as Reputation and Expanding ISO Participation may not have a direct impact on market participants.

NCPA is still unclear about how the Mandate criterion fits into this prioritization. When FERC orders that a specific feature or functionality must be incorporated into a market design, it is expected that the CAISO will comply with the order. In this ranking model, the Mandate criterion is given a weight of ten, but depending on how the other criterion is weighted, the mandatory nature (in terms of prioritization) of the FERC order can be indirectly ignored. The high, medium, low, and none rankings seem misplaced considering that the controversial nature of these issues should have been addressed through the FERC process. It would seem logical that Mandated FERC orders be treated separately than other issues at hand.

- **Is this an effective way to prioritize new market design initiatives?**

NCPA agrees that a clearly defined process would be beneficial by providing transparency to the market, but the process must consider not only the issues identified above, but should be fully developed to help remove some of the ambiguity associated with the qualitative nature of the criteria. The CAISO should also give market participants the ability to provide feed back to the CAISO. This feedback could be used by the CAISO to help guide the qualitative nature of the proposed criteria.

- **Do you agree with the CAISO's proposed application of the prioritization criteria?**

As stated above, NCPA generally agrees with the intent of the process, but believes that the criteria and the assignment of weights should be refocused on the costs and benefits that will impact market participants, rather than focus on the costs and benefits that will impact the strategic goals of the CAISO.

### **Additional Market Initiatives for the Post-Release-1 MRTU Scoping Study**

NCPA suggests that the following two market initiative for the post-release-1 MRTU scoping study be added to the current list of items:

- Implementation of Long Term Firm Transmission Rights
- Implementation of Dynamic Scheduling (Import and Export) – Load and Generation

NCPA realizes that long term firm transmission rights were previously suggested during the CAISO stakeholder meeting, and NCPA strongly believes that long term firm transmission rights are necessary for a fully functional market structure.