

Comments on Cost Allocation Guiding Draft Final Proposal

Submitted By	Company or Entity	Date Submitted
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Powerex appreciates the opportunity to provide these comments on the Cost Allocation Guiding Principles Draft Final Proposal (“Draft Final Proposal”) published on March 15, 2012. Powerex supports the CAISO’s efforts in establishing a set of guiding principles for allocating ISO market costs among market participants.

The Draft Final Proposal modifies the list of proposed guiding principles to include:

- Causation;
- Comparable Treatment;
- Accurate Price Signals (changed from Policy Alignment);
- Incentivize Behavior;
- Manageable;
- Synchronized; and
- Rational.

Causation

Powerex continues to believe that the primary principle that should guide the CAISO in the allocation of market costs should be cost causation.

The CAISO describes cost causation as “(f)or each type of charge in the ISO market, the ISO market settlement generally collects payments from one set of market participants that use a product and then allocates these payments to market participants that provide the product.” Powerex generally agrees with the CAISO’s description of this principle, especially where costs are allocated in a single tier. However where the CAISO uses two tier allocations, Powerex does not believe any residual costs in the second tier should be allocated to those “market participants that provide the product.”

Comparable Treatment

Powerex generally agrees with the CAISO description of this principle.

Accurate Price Signals

Powerex generally supports the revised description of this principle “supports the economically efficient achievement of state and federal policy goals by providing accurate price signals from the ISO market.” As stated previously, Powerex agrees that accurate price signals lead to an efficient and transparent market partly by “informing and influencing development of state and federal policy that are independent of the ISO markets.” Furthermore, Powerex believes that

accurate price signals provide market participants with the needed transparency for their bilateral market transactions.

Incentivize Behavior

Powerex agrees that the transparency provided by “Accurate Price Signals” and allocating costs based on “Cost Causation” will “Incentivize Behavior” leading to economically efficient market outcomes.

Manageable

Powerex agrees that the CAISO “market design should seek to minimize variability and complexity of the allocation and maximize the transparency of cost drivers.” Furthermore, Powerex believes that the CAISO should retain its two-tier cost allocation to ensure costs are never allocated in an unjust or unmanageable manner. However where the CAISO provides for a transition period to accommodate contractual agreements, the CAISO should seek to allocate those transitional costs to parties engaged in those contractual agreements based on Cost Causation principles.

Synchronized

Powerex generally agrees with the description of this principle.

Rational

Powerex continues to believe the description of this guiding principle is inappropriate. As previously stated, if the other guiding principles strongly point to a particular cost allocation approach, the CAISO should implement that cost allocation. Delaying the change in cost allocation will only lead to an inefficient market design and higher costs. Inevitably, the CAISO will need to re-visit the market design and cost allocation at a later date as costs escalate and other unintended consequences become apparent. Additionally, persistent inequities lead to entrenched stakeholder positions as constituencies are created that would stand to lose under a revised allocation. The longer the change is delayed, the more difficult change will be to implement.

This proposed principle also suffers from the difficulty in measuring the “benefits” as well as the more easily-measured “costs” of implementation. The benefits include not only the total dollars to be allocated differently, but the improved behavior of the activities or participants subject to the improved incentives and accurate price signals. Powerex is greatly concerned that this guiding principle, if adopted, could be used to avoid beneficial and appropriate improvements simply due to difficulty in quantifying the benefits.