

COMMENTS OF RTOAdvisors

July 28, 2006

As requested by the CAISO in its Market Notice of July 24, 2006, RTOAdvisors submits the following comments. RTOAdvisors represents several Electric Service Providers (ESPs).

Additional Market Initiatives

We have two additional initiatives or clarifications to suggest, as mentioned at the July 19th meeting. Our comments focus on the “Post Release 1” list of issues.

- New Issue -- Partial RA units – MRTU Release 1 is expected to accommodate units that are only partially sold to Load-Serving Entities (LSEs) to meet their Resource Adequacy (RA) requirements. Some portion of the capacity will not have any RA obligation and somewhat different rules and pricing will apply to it. Some generators and LSEs may also want to enter into arrangements in which some or all of the capacity is RA for a period of time (for example, the peak hours of a day) and not RA for other periods of time. The CAISO should study what modifications are required to MRTU to allow these types of arrangements.
- Clarification to Post Release 1 Issue #4 – Participating Demand Response (DR) – ESPs are particularly concerned with ensuring that any DR programs they elect to install for their customers will count toward meeting their RA requirements, as specified by the CPUC. ESPs would like to include in Issue #4 any additional issues that arise that would affect RA counting for DR.

In addition, SCE raised several new issues at the July 19th meeting. Although we are unsure of the details of most of these proposals, we have identified two of the proposed additions that are worthy of further consideration, but do not belong on the list of Post Release 1 issues:

- Long-Term Firm Transmission Rights (FTRs) – This is a FERC compliance issue that should be addressed separately.
- Payment Acceleration – We agree with SCE that this CAISO Initiative is highly desirable for market participants and seems to have disappeared in recent months. For example, it does not appear in the Market Initiatives Roadmap, issued June 5, 2006. This is not a Post Release 1 issue, but should be included in the category, “Current Market Initiatives (pre-MRTU).” We urge the CAISO to add this to the list of active Market Initiatives and to discuss progress on this effort at future meetings.

Methodology for Ranking

First, we would like to thank the CAISO for its proposal for a process to solicit stakeholders' views before deciding which new issues or projects to tackle. However, as discussed at the July 18th meeting, we find the proposed process cumbersome and time-consuming. Further, we do not believe that the results will provide any meaningful "cost/benefit assessment." We also oppose the notion of "work groups" simply to decide on the rankings. While work groups would be useful to engage stakeholders in the projects once they are selected, they are time-wasting to use them for setting qualitative rankings.

Because the CASO staff also indicated that this stakeholder feedback process would just be one part of its internal process to select new projects, we believe that the approach should be greatly scaled-back to quickly and easily provide high-level stakeholder views to CAISO staff and management. Here is our recommended approach:

- Ask all stakeholders to rank the Market Initiatives (including the Post Release 1 issues) into three categories – High, Medium and Low. The stakeholders should be asked to rank them according to how important this issue or project would be to improve the market or their participation in the market. This will not be exact by any means, but it would provide a high-level "read" of the market's views. The CAISO could also aggregate the results by type of market participant (e.g., LSE, generator, munis, importer) to see if there are significant differences. We expect there will be, but it will also clearly demonstrate the projects on which the market agrees, providing valuable information to the CAISO.
- The CAISO can aggregate the results (by type of market participant) and discuss it at a future meeting to determine next steps, if any.

Comments on Proposed Ranking Criteria

As discussed above, we do not agree that a complicated ranking structure is appropriate for the CAISO's purpose, which is to use this information as part of its own internal decision process. In addition, we do not agree that the qualitative ranking numbers, multiplied by qualitative "weightings," and further manipulated to calculate the "benefits," "costs," and "benefit/cost ratio" for each issue provide any meaningful results. If the CAISO wants to use some kind of ranking, however, we have some additional comments on the proposed criteria.

"Benefits":

- "Mandates" – This should not be a criterion for ranking purposes. These projects are mandated by regulatory or legal fiat. These projects should just appear on a "Must Implement" list outside of any ranked list.
- "Corrects Design Flaws" – This also seems to fall into the category of "Must Implement." We question whether this is a valid criterion, given

that ranking it implies you have discretion as to whether you will implement it.

- “Reputation” -- The CAISO can certainly choose to use this criterion in any internal assessment, but it just plain looks bad for the public to see this as one of eleven key criteria.
- “Addresses Corporate Risk Inventory” – Again, the CAISO could use this as an internal criterion, but it has little meaning for and was not well-explained to the outside world. It should be deleted.

“Flexibility” or Costs: The CAISO stated that the “flexibility” category was being used to calculate the “costs” portion of the benefit/cost assessment.

- “Implementation Costs” and Ongoing Operating Costs” – These seem to be the key criteria for the CAISO and the market participants. If the market participants all agree that a particular project ranks “High” but the CAISO’s projected costs to implement it are also “High,” that result is useful information for the market and the CAISO. We question whether any more detailed refinement or weightings of the results would provide more useful information.
- “MP Implementation Impact” – Although this may be useful information for the CAISO, we question whether any market participant will be able to assess this with any accuracy BEFORE the project is selected and details known about its implementation.

Multiple Scheduling Coordinators at One Meter (MSCS)

If we were asked to rank this project, we would rank it “Low.” However, unless the CAISO can change FERC’s mind, it appears that FERC has mandated this change. If the CAISO must proceed with this project, we ask that you implement it in a non-discriminatory fashion – multiple Scheduling Coordinators should be allowed at *any* meter, not just generator meters. In other words, if the CAISO is going to make this change, it should make it for both loads and generators. For example, if there were a large direct access customer (such as a University) with several large facilities behind one meter and different facilities wanted to be served by different ESPs (say, the Law School by one ESP and the Business School by another), the CAISO should allow that and make the necessary system changes to accommodate it.