

California Department of Water Resources State Water Project's Comments on Draft Straw Proposal for Scoping Future Market Releases

September 24, 2007

On September 18, 2007, the California Independent System Operator (CAISO) published on its website a document entitled "Draft Straw Proposal for Scoping Future Market Releases" dated September 14, 2007. In the straw proposal the CAISO seeks stakeholder input on the proposal for Market Redesign and Technology Upgrade (MRTU) Release 1A and plans for future market releases presented in the draft. The deadline for the comments is September 24, 2007. The California Department of Water Resources State Water Project (SWP) appreciates the opportunity to provide comments and respectfully submits the following comments:

SWP applauds CAISO for its proposal to assign high priority for the implementation of Dispatchable Demand Response (DDR) as a Release 1A item. SWP believes implementation of DDR in Release 1A rather than Release 2 would mitigate the scarcity situations which will most likely trigger the Scarcity Pricing. Although the straw proposal indicates that straw proposal on DDR would be posted on the CAISO website on the week of 9/17/2007, it appears that the straw proposal is yet to be posted..

SWP supports the CAISO proposal of implementing the Federal Energy Regulatory Commission (FERC) mandated enhancements, namely, Convergence Bidding, Scarcity Pricing, and Seasonal Competitive Path Assessment in Release 1A. The CAISO proposal of Release 1A implementation also includes non-mandated enhancements, namely, Relaxing DEC Bidding Activity Rule, and Resolving Real Time prices due to Constrained Output Generation. SWP believes ample opportunities will be provided to the market participants to address their respective issues during the process leading to implementation.

However, the straw proposal does not include the non-mandated enhancements proposed by market participants, perhaps due to the fact that those enhancements will be processed further prior to floating the straw proposal on each of them. In this regard, the CAISO has posted a white paper on the revised Five-year Market Initiative Road Map dated September 14, 2007. According to the whitepaper CAISO has identified and listed non-mandated SWP's proposal for market enhancements, namely, (§2.2.29) Consideration of Unaccounted For Energy (UFE) as part of Metered Demand for Cost Allocation, and (§2.5.3) Spinning reserve from Participating Load. SWP appreciates CAISO's recognition and further believes that the CAISO could implement (§2.2.29) as Release 1A because the WECC/NERC charges will be applied to UFE prior to the MRTU implementation.

Regarding the enhancements to CRRs that will be subject to prioritization (i.e., candidates for consideration in CRR Year Two and beyond), the SWP looks forward to participating in the stakeholder process and submits the following preliminary comments:

- Software for bundling individual PNode CRRs into Trading Hub CRRs: SWP opposed the current "disaggregation" method. Following the posting of the CRR Dry Run Simulation's Yearly CRR Allocation Tier 1 and Tier 2 results, SWP indicated to the CAISO that the fix for the shortage of available CRRs from EZGTH to LSEs' loads is to match source and sink upper bound percentages evenly for the Yearly CRR Allocation process. The CAISO's CRR Dry Simulation Sensitivity Run proved that the problem was resolved when CAISO matched source and sink upper bound percentages. SWP does not understand why the CAISO has not looked into implementing this method, as an alternative to complicated disaggregation methods, and had chosen the "disaggregation" method. SWP's comments and suggestion on this issue submitted on 11/13/2006 to crrdata@caiso.com and resent on 12/20/2006 to both crrdata@caiso.com and the MRTU Implementation mailbox have not been answered.
- CRR Source verification after CRR Year One: SWP strongly supports further verification and believes that retaining a source verification process in Year Two and beyond will appropriately benefit LSEs with obligation to serve load who need to have their CRR sourced at a particular location and can demonstrate such need.
- Flexible Term Lengths of LT-CRRs: In light of the recently proposed 20% limitation for LT-CRRs, SWP supports flexible term lengths.
- LT-CRR Auction. SWP does not believe that an auction for LT-CRRs is necessary to ensure adequate release of LT-CRRs and does not support auctioning of LT-CRRs.
- Exploring feasibility of implementing option CRRs in subsequent MRTU releases: SWP encourages the CAISO to look into implementing Option CRRs for future enhancement to CRRs.
- CRR optimization algorithm based on "weighted least squares: SWP agrees with the concept of fairness that the weighted least squares method is intended to achieve, however, SWP looks forward to greater detail and example calculations in the stakeholder process to better understand the methodology.

Regarding the CAISO committed mandates, SWP has the following comments:

- Sale of CRRs in CRR Auction: SWP generally supports an allowing an LSE to sell its CRRs in the Auction.
- Stakeholder process for Multi-period optimization algorithm for LT-CRRs: SWP supports this although it may be a long and time consuming process but would reflect the reality.

Finally, SWP does not support setting aside capacity for CRR and LT-CRR auctions.