

March 26, 2008

Board of Governors
California Independent System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630

Dear Governors:

SUBJECT: Seeking CAISO Action on Standardized Capacity Product for Resource Adequacy

The Joint Parties listed below respectfully submit this request seeking immediate California Independent System Operator Corp. (CAISO) attention to the tariff changes needed to implement a standardized capacity product for Resource Adequacy (RA). A standardized capacity product would provide immediate benefits to all concerned: clarifying resource obligations to the CAISO and thus enhancing reliability; reducing administrative costs and burdens to the CAISO, California Public Utilities Commission (CPUC), and other agencies; and enabling more cost-effective satisfaction of RA goals by every facet of the market, all of which are represented within the Joint Parties: generators, investor-owned utilities, electric service providers, marketers, and end-use customers.

Since 2004, when the first RA requirements began to be discussed at the CPUC, parties have consistently agreed that efficient RA markets require a standardized, tradable RA capacity product. Much of the drafting of the needed generator performance obligations has already been accomplished on the market participants' own initiative, and widespread consensus has been achieved on nearly all issues. However, one major task remains – adopting CAISO tariff amendments that would clarify the RA supplier obligations. A coalition of more than 20 market participants has already proposed

illustrative CAISO tariff amendments that would form the foundation of stakeholder discussions at the CAISO.¹

The Joint Parties strongly agree that a standardized, tradable RA capacity product is needed now to enhance efficiencies in the current RA market. The CPUC has supported the development of the standardized RA product and requested that the CAISO take the necessary steps to facilitate its development. In its June 2007 RA decision, the CPUC specifically noted that a “key” element of the standardized RA product is to have RA suppliers be “responsible directly to the CAISO, through explicit requirements in the CAISO tariff...”² A direct relationship between the CAISO and RA suppliers would obviously benefit the CAISO in its work to ensure reliability, rather than relying on third-party individual contracts.

The Joint Parties note that the CAISO has not yet engaged on this issue. Most recently, the CAISO has taken the position that the standardized RA product is just one of many “market initiatives” that will be addressed in order of priority in a yet-to-be-announced stakeholder process; in fact, the CAISO urged the CPUC to substantially postpone further proceedings on standardized RA — causing Assigned Commissioner Peevey to state:

I share the concern of several parties regarding the CAISO’s seeming reluctance to move forward on this matter. I request that the Energy Division consult with the CAISO to explore how this topic can be moved forward. At this time, I am not sympathetic to the CAISO’s proposal to delay the Commission’s consideration of this important topic beyond Phase 2 of this proceeding.³

¹ *Proposal of Calpine et al for a Standardized Resource Adequacy Contract and Associated Resource Obligations*, R.05-12-013 (Nov. 16, 2007).

² D.07-06-029 at p. 50 (June 25, 2007).

³ Assigned Commissioner’s Phase 1 Ruling and Scoping Memo, R. 08-01-025, at p. 3 (Feb. 22, 2008).

The undersigned Joint Parties strongly disagree with the approach that CAISO has taken to date. We are concerned that the substantial benefits to California's energy system and California customers that would be realized by the standardized RA product are being needlessly delayed, and that the CAISO is not prioritizing efforts that would yield immediate, tangible results for its own customers. The CAISO should be responsive to the functions it, and only it, can provide to satisfy the needs and desires of its customers and the best interests of the state.

The Joint Parties request that the Board direct the CAISO to take the following actions:

1. Immediately convene a stakeholder process to discuss the illustrative standardized RA tariff amendments submitted by the coalition in November 2007;
2. Reach consensus with interested stakeholders on standardized RA tariff amendments for the currently-effective tariff and the MRTU tariff; and
3. Commit to a practical but expeditious schedule for the earliest possible submission of standardized RA tariff amendments to the Board for approval, and for filing those standardized RA tariff amendments at FERC.

Sincerely,

Sue Mara
Principal, RTOAdvisors
On Behalf of the Alliance for
Retail Energy Markets

Karen Lindh, Consultant
On Behalf of the California Manufacturers
& Technology Association

Dr. Barbara Barkovich, Consultant
On Behalf of the California
Large Energy Consumers Association

Mary Lynch
Constellation Energy Commodities Group and
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cc: Yakout Mansour, CEO, CAISO