

Please accept the following comments of the City of Santa Clara, California, doing business as Silicon Valley Power (“SVP”), in response to the California Independent System Operator Corporation’s (“CAISO”) June 9, 2008 “Draft Final Proposal on Parameter Tuning for Uneconomic Adjustments in the MRTU Market Optimizations.” In general, SVP applauds the CAISO’s efforts to improve its market in a transparent manner that will provide qualitative and quantitative benefits to Market Participants. However, SVP is concerned with some of the components of the CAISO’s Parameter Tuning proposal, as currently drafted. SVP notes that these comments are based only on the information before it, and to the extent more information is obtained through testing of the CAISO’s Uneconomic Adjustments proposal, SVP will likely have further comment.

**As currently proposed, the Parameter Tuning proposal appears to create new, unnecessary risks of curtailment for Existing Transmission Contracts (“ETC”), contrary to the CAISO’s commitment to honor existing rights.**

Despite the CAISO’s claims that the Parameter Tuning proposal does not create any greater likelihood that Self-Schedules will be adjusted (i.e. curtailed) under an effective Parameter Tuning proposal than what exists or occurs today, it would seem that any deviation from using all Economic Bids to clear each market necessarily means that when Uneconomic Adjustments are required, curtailments of Self-Schedules will occur when they previously would not have materialized. If this were not the case, increased flexibility in Tariff language would appear not to be required. As currently proposed, the Draft Final Proposal would permit the CAISO to curtail transmission service pursuant to ETCs prior to exhausting all Economic Bids, which SVP believes does not meet the CAISO’s obligation to “honor existing contracts.” Therefore, SVP urges the CAISO to consider the following suggestions, which will at least allow Market Participants the opportunity to better determine the risk to Self-Schedules associated with the CAISO’s proposals.

As discussed in more detail below, SVP requests the CAISO publish scheduling run parameters in its Tariff and allot adequate time to analyzing parameter values and incorporating stakeholder comments (even if doing so requires an extension of the planned July Tariff filing). Emphasizing quality and accuracy over meeting artificial deadlines would serve to balance the CAISO’s need for flexibility with the Market Participants’ desire to maintain existing rights and priorities. Additionally, the CAISO itself has recognized that more experience with the market optimizations through a variety of test cases will allow the CAISO to establish the initial parameters in a manner that will better achieve the intended results.

**The CAISO should publish both the scheduling run and pricing run parameters in its Tariff.**

As a fundamental component of the Parameter Tuning effort, the CAISO should include both the scheduling run and pricing run parameters in its Tariff, since scheduling run and pricing run parameters have the potential to affect rates, terms and

conditions of service (meeting the Commission’s “rule of reason” test). In the absence of Tariff language regarding scheduling run and pricing run parameters, the CAISO would provide itself unnecessary discretion to curtail Existing Contracts. This discretion is not necessary, threatens rights held under ETCs, and achieves nothing that cannot be achieved through a stakeholder process.

Alternatively, and only with respect to the scheduling run parameters, if the CAISO can demonstrate support for its claims that flexibility regarding scheduling run parameters is necessary due to the volume of scheduling run parameters and the quick response times required, the CAISO should, at a minimum, publish the scheduling run parameters in a Business Practice Manual (“BPM”) after a robust stakeholder process to establish fair and just initial scheduling run parameters that demonstratively do not abrogate the value, and scheduling priority, of Existing Contracts. Doing so would ensure that scheduling run parameters could not be changed without following appropriate BPM Change Management protocol. Coupled with the CAISO’s previous commitment to publish pricing run parameters in a BPM, this relative degree of protection would help ensure that the rights of ETCs are protected. However, without substantial justification, SVP recommends the scheduling run parameters, as well as the pricing run parameters, be published in the Tariff.

**The CAISO’s primary goal should be to test a well-designed Parameter Tuning process (as well as the MRTU process, generally) as opposed to rushing through the process in order to meet a self-imposed implementation deadline.**

The Parameter Tuning effort inherently impacts the rights of ETCs, Converted Rights (“CVRs”), and Transmission Ownership Rights (“TORs”), and the CAISO’s actions regarding the instant proposal determine the severity of these impacts. Hastily conducting analyses of market optimizations to determine parameter values places Market Participants at unnecessary risk, which can easily and responsibly be avoided by investing necessary time and market participant involvement into the process. Additionally, these risks can be exacerbated by a truncated process designed to meet the self-imposed deadline. Since the consequences of Uneconomic Adjustments are uncertain, SVP urges the CAISO to commit to provide sufficient time for simulation testing in order to allow stakeholders the opportunity to verify that the resulting values are rational.

**Establishing effective Parameter Tuning values can only be achieved by balancing the interests of all Market Participants.**

As stated above, SVP applauds the CAISO’s continuing efforts to improve its market’s design and function. We are pleased to see the movement made by the CAISO in response to stakeholder comments to the initial Issue Paper, specifically regarding the placement of pricing run parameters in a BPM. However, we believe additional improvements can be made. Accordingly, SVP is committed to working with the CAISO and other Market Participants to achieve balanced solutions to issues affecting the entire market. We believe our suggestions are a logical and reasonable next

step in the evolution of the CAISO's Parameter Tuning proposal.

We look forward to the opportunity to work with the CAISO and Market Participants to develop and improve these processes in the future. Please contact us if you have any questions regarding our comments.

Sincerely,

Ken Kohtz  
Silicon Valley Power  
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