

October 27, 2008

Board Chair Mason Willrich  
Board Member Linda Capuano, Ph.D.  
Board Member Laura Doll  
Board Member Tim Gage  
Board Member Thomas A. Page  
Mr. Yakout Mansour, President and Chief Executive Officer

Subject: Western Power Trading Forum Comments to the Board of Governors on MRTU  
Readiness

Dear Mr. Mansour and CAISO Board of Governors:

WPTF is committed to the near-term start-up of MRTU and will continue to work diligently with the CAISO to this end. However, the CAISO staff has asked that you authorize them to file a 60-day readiness notice to FERC on November 30 without linking that decision to whether or not readiness is achieved between now and November 30. Given where things are with readiness, such a blanket authorization is not prudent. The resolution offered by the CAISO staff must ensure that all of the above issues are addressed. Staff should not be authorized to file a FERC certification notice until all of the following has been accomplished.

1. Systems are complete and software changes have been frozen
2. The great majority of MRTU schedule and dispatch aberrations have been resolved, thereby reducing risks to reliable operations
3. Accurate and complete daily and monthly settlement statements are being produced.
4. Exit criteria have been satisfied and variances have been reduced to nominal levels

The CAISO has not yet proved its systems, nor has it finished modifying its systems, nor has the CAISO proven that it can freeze the software as of November 30 so that market participants will have adequate time to finalize their preparations for go-live on February 1, 2009. As summarized above, before the CAISO files its 60 day readiness certification the following milestones must be reached.

1. The CAISO must complete the MRTU functionality and then freeze its systems.

The CAISO continues to change its systems and does not plan a code freeze until December 6. It makes no sense to tell FERC MRTU is ready before the software is

complete, and it is premature for the CAISO to ask you to approve a certification notice until the software is complete and frozen.

2. The CAISO's market systems must produce sensible market outcomes that result in reliable operation of the grid.

Instead WPTF members are seeing outcomes such as the following

- a. A unit receives an MRTU dispatch that fails to recognize its ramping and minimum run time constraints;
- b. Rather than leaving a unit running after a real-time dispatch, MRTU shuts down the unit down with insufficient time remaining for it to start up again and run consistent with its DA schedule.
- c. Units that are scheduled to run by MRTU even though plant's operators have recorded them as being on outage in the CAISO's SLIC outage reporting system.
- d. Reliability unit dispatches that completely ignore physical limitations of the unit.
- e. Black start awards (a service for units to start when the grid has no power flowing) to units that cannot perform black start.
- f. Mid-hour changes to intertie schedules that are supposed to be fixed for the entire hour.
- g. Physical Trade schedules that are rejected by the system for no apparent reason.

In fact the recently released LECG report has indicated that LECG observed a number of instances where units were not scheduled and dispatched consistent with their submitted schedules and economic bids. There is no indication that the CAISO has a plan to resolve these issues. (See for example the "inconsistencies" described in pp. 31 and 32). Similarly the DMM in its September report suggests that further analysis is needed before deciding whether to delay the February 1 start-up date.<sup>1</sup>

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<sup>1</sup> See for example DMM's statement: "These analyses, which would require a collaborative effort between DMM and the MRTU Project Team, could be completed over the next 4-5 weeks and would help to confirm whether there are any market performance issues that would warrant a delay in market implementation." Review of CAISO MRTU Market Simulation Results September 2008 – Performance, p.2.

3. The CAISO must be able to produce accurate and complete daily and monthly settlement statements

Instead, SCs are receiving MRTU settlement statements that include incorrect charges, inappropriate charges, and charges that make no sense.

- a. SCs are charged for MRTU congestion but the settlement for the congestion revenue right hedge produces a zero offsetting payment.
  - b. SCs are dispatched for RMR but are receiving no payments for it.
  - c. Settlement files are changing unannounced preventing SCs from accessing them.
  - d. SCs charges for "rounding" can amount to up to 40% of their total bill.
4. The exit criteria need to be satisfied

The exit criteria were designed to indicate when the CAISO's systems are complete enough for SCs to finish their preparations. There are consistently around 200 high priority variances waiting to be fixed and a number of the other exit criteria have still not been satisfied. It seems premature to submit a certification notice to the FERC with so many critical software issues still pending.

Thank you for your consideration.

Sincerely,



Ellen Wolfe

For WPTF