

**COMMENTS OF THE
ALLIANCE FOR RETAIL ENERGY MARKETS
ON THE CAISO's MARCH 18, 2010 PAPER ON ALTERNATIVE OPTIONS
FOR THE STANDARD CAPACITY PRODUCT II**

The Alliance for Retail Energy Markets (AReM)¹ provides the following comments on the CAISO's paper on "Alternative Options" for the Standard Resource Adequacy (RA) Capacity Product (SCP) II, issued March 18, 2010. AReM's comments focus on Section 3.2 of the proposal, which addresses proposed replacement rules for RA capacity on approved planned outages. In summary, while the CAISO's alternative "option" for a replacement rule is an improvement over the February 19th version, it does not go far enough to address AReM's concerns.

AReM Supports Optional Procurement of Replacement Capacity and Revised ICPM Procurement Rule

AReM supports the CAISO's return to an optional procurement requirement in the March 18th paper. In addition, although not completely obvious in the March 18th paper, the presentation for the March 24th conference call (slide 17) made clear that the CAISO will no longer require procurement of ICPM if the CAISO has sufficient capacity to meet 115% planning reserves, even if the RA resource is not replaced by the supplier. AReM supports this change as well.

The CAISO Tariff Should Only Address the Requirement It Replaces

AReM reiterates its concern that the CAISO's proposal goes far beyond the existing CPUC requirement. The CPUC replacement rule only requires LSEs to replace System RA capacity (under certain conditions). The intention of AReM, the party initiating the review of this issue at the CPUC, was to *transfer*, not *re-invent*, this requirement. On the March 24th conference call, CAISO staff acknowledged that, by adding a replacement obligation to Local Areas that is not part of current CPUC rules, the CAISO is attempting to apply the 115% planning reserve requirement specifically to the Local Areas – a proposal that was never discussed with the stakeholders or justified by the CAISO. Not only does the CAISO have sole approval authority over whether and when planned outages are taken, the requirements for Local RA are calculated based on an extensive contingency analysis, calculation of megawatts and generating facilities that relieve the limiting contingencies, and an annual peak requirement, unlike System RA, which is based on monthly peaks. Until stakeholders can thoroughly review and discuss modifications to the current CPUC replacement rule, the CAISO should move forward immediately with an optional replacement obligation for System RA capacity only, which mirrors the CPUC rule it is intended to replace.

¹ AReM is a California non-profit mutual benefit corporation formed by electric service providers that are active in the California's direct access market. This filing represents the position of AReM, but not necessarily that of a particular member or any affiliates of its members with respect to the issues addressed herein.

CAISO Controls When Planned Outages Are Taken

AReM reiterates that the fact that the CAISO approves whether and when any RA unit is permitted to take a planned outage should significantly diminish the need for *any* replacement requirement. If the CAISO is concerned that unexpected outages or system conditions could leave the system lacking sufficient capacity for the next month, it can “just say no” to new planned outage requests. This alone could justify having no replacement requirement for RA capacity for either load-serving entities (LSEs) or RA sellers. Moreover, the ability to say “no” for Local RA units requesting a planned outage should be sufficient to eliminate the need for any replacement obligation for Local RA. As discussed above, the CAISO’s proposal to require replacement for Local RA creates a new obligation that all Local Areas must meet 115% planning reserves each month. This obligation does not appear in any CPUC or CAISO RA requirement and was never discussed with stakeholders.

No Further Delays

As stated many times in previous comments, AReM opposes any further delays on the issue of replacement capacity. If the CAISO focuses its tariff change on moving the existing CPUC LSE requirement for replacement of System RA capacity into its tariff as an optional Supplier obligation and procuring ICPM only if needed, AReM believes that the project can move forward quickly with minimal stakeholder opposition.

Submitted by:

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On Behalf of AReM

April 1, 2010