

**COMMENTS OF THE  
ALLIANCE FOR RETAIL ENERGY MARKETS  
ON THE CAISO'S FEBRUARY 19, 2010 DRAFT FINAL PROPOSAL  
ON STANDARD CAPACITY PRODUCT II**

The Alliance for Retail Energy Markets (AReM)<sup>1</sup> provides the following comments on the CAISO's Draft Final Proposal on the Standard Resource Adequacy (RA) Capacity Product (SCP) II, issued January 19, 2010. AReM's comments focus on Section 4.2 of the proposal, which addresses elimination of the "replacement rule" for load-serving entities (LSEs), as required by the California Public Utilities Commission (CPUC). AReM continues to be a strong advocate for moving the current LSE obligation to replace RA capacity into the CAISO Tariff. The emergence of a liquid RA capacity market has been long delayed and transferring the replacement obligation to the CAISO Tariff will facilitate development of an RA capacity market. However, the CAISO's proposal, as described in the draft final proposal and discussed in the February 26<sup>th</sup> conference call, requires modification to be fair and workable for all stakeholders.

**CAISO's Requirement To Approve All Planned Outages Should Mean Lessened Concerns About Replacement Capacity**

The CAISO approves whether and when any RA unit is permitted to take a planned outage. Thus, if unexpected outages or system conditions create a concern that the system may be lacking sufficient capacity for the next month, it can "just say no" to new planned outage requests. In particular, the ability to say "no" for Local RA units requesting a planned outage should be sufficient to obviate the need for any replacement obligation for Local RA. As several stakeholders noted on the February 26<sup>th</sup> call, the CAISO determines the Local RA Capacity requirements using an evaluation method that looks at extreme contingencies. Therefore, a requirement to replace Local RA units during planned outages is unwarranted and will create additional, unjustified cost burdens for consumers.

**The CAISO Tariff Should Only Address the Requirement It Replaces**

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. By including an obligation for Suppliers to replace Local RA capacity, as well as System RA capacity, the CAISO has greatly broadened the requirement, introducing new issues and complexities that have not been adequately discussed by stakeholders nor justified by the CAISO.

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<sup>1</sup> 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.

If the CAISO has indeed identified a perceived need for replacement of Local RA during planned outages (which it approves, by the way), the CAISO must first conduct a stakeholder process to discuss this new requirement in an “SCP III” process for the 2012 RA compliance year. However, the CAISO should move forward immediately with the replacement obligation for System RA capacity only, which mirrors the CPUC rule it is intended to replace.

**The Requirement That Any Capacity Not Replaced By The RA Supplier Requires Procurement Of ICPM Procurement Is Costly And Unjustified**

The draft final proposes introduces the concept that, if RA capacity is not replaced, the CAISO will procure ICPM capacity. This approach conflicts with the current rules for ICPM procurement, which specify that capacity is only to be procured if needed. In particular, AReM notes again the fundamental point that the CAISO approves the planned outage. We presume the CAISO would not approve the outage unless there was adequate RA capacity available on the system. Therefore, the CAISO should modify its proposal and specify that ICPM will only be procured if needed, in accordance with the existing rules for procurement of ICPM in the tariff.

**No Further Delays**

During the February 26<sup>th</sup> conference call, CAISO Staff asked stakeholders to comment on delaying a Board vote on SCP II until May. AReM opposes any further delays on the issue of replacement capacity. As we have frequently argued, the concept of a Standard Capacity Product first arose in 2004, when the RA requirements were being debated at the CPUC. Six years later and we still await its emergence. The very first step toward this product was only taken this January with the CAISO’s implementation of its SCP tariff rules. If the CAISO focuses its tariff change on moving the existing CPUC LSE requirement for replacement of System RA capacity into its tariff as a Supplier obligation, AReM believes that the project can move forward quickly with minimal stakeholder opposition. Delaying a vote until the May Board meeting would mean that a FERC decision would be delayed until late July or August, which is too late to allow for this important improvement toward a tradable RA product to emerge for the 2011 compliance year. We have spent many months debating the replacement issue and the CAISO has been fully engaged in the process. Therefore, further delay is unjustified. AReM urges the CAISO to move forward and adopt a replacement obligation for System RA capacity at the March Board meeting and file the associated tariff changes by early April.

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