

Alliance for Retail Energy Markets
925 L Street, Suite 1490
Sacramento, CA 95814
January 25, 2008

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

Dear Governors:

SUBJECT: Board Decision on Interim Capacity Procurement
Mechanism (ICPM)

The Alliance for Retail Energy Markets¹ ("AReM") respectfully submits these comments on the CAISO's final proposal for the Interim Capacity Procurement Mechanism ("ICPM"). AReM is a regulatory alliance of electric service providers ("ESPs") that are active in the California retail direct access market as load-serving entities ("LSEs"). AReM's members are also active participants in the CAISO's markets, including the buying, selling or scheduling of power on a wholesale basis.

Stakeholder discussions began in April 2007 on a successor to the existing capacity procurement mechanism, the Reliability Capacity Services Tariff ("RCST"). AReM has actively participated in these discussions and can verify the CAISO staff's statement in its memorandum to the Board that they have engendered significant controversy. AReM has greatly appreciated the CAISO staff's continued willingness to listen to stakeholders' concerns and balance often conflicting interests. The current ICPM proposal is the outgrowth of this lengthy process and AReM supports the majority of the ICPM as a reasonable and balanced proposal.

As this process began, AReM's most significant concerns were that: (1) the pricing for the ICPM should not drive prices in the primary Resource Adequacy (RA) market; and (2) LSEs should receive an RA credit for any ICPM capacity procured by the CAISO.

As to the first issue, AReM's concerns derived from its experience in the 2007 and 2008 RA markets, in which prices established for capacity procured through the RCST drove prices in the RA market, adding millions of dollars in costs for consumers with no increased benefits in reliability. In response to this concern, AReM proposed an auction for setting the ICPM price. AReM's suggestion was not adopted by the CAISO. Nonetheless, with its ICPM proposal, the CAISO has balanced AReM's concerns with those of other stakeholders and established a price that should not significantly affect the

¹ AReM is a California non-profit mutual benefit corporation comprised of electric service providers that serve the majority of the state's direct access load. This filing represents the position of AReM, but not necessarily the view of any affiliates of its members with respect to any specific issue.

prices in the RA market. Accordingly, AReM strongly supports the proposed ICPM approach, which is based on the going-forward costs of existing generation.

However, AReM disagrees with the ICPM on one key point – the failure of the CAISO to provide an RA credit for Significant Events longer than 30 days. The CAISO states that RA credits should not be provided for procurement for Significant Events because it may lead to a reduction in reliability. AReM strongly disagrees. Although there may be some unique and rare cases where this could occur, AReM believes that, for the vast majority of the time, CAISO ICPM procurement without associated RA credits would leave consumers overpaying for reliability.

In conclusion, AReM supports the CAISO's proposed ICPM and respectfully requests one minor modification that will save money for California consumers – an RA credit when the CAISO procures in response Significant Events that extend beyond 30 days. AReM appreciates the Board's consideration of AReM's request.

Sincerely,

Sue Mara

Sue Mara
RTO Advisors, L.L.C.

ON BEHALF OF THE ALLIANCE FOR RETAIL
ENERGY MARKETS

cc: Yakout Mansour, CEO, CAISO