

Comments of the California Public Utilities Commission Staff on the Results of the Ranking of High Priority Enhancements

The CAISO has requested written comments on the *Results of the High Level Prioritization of Market Enhancements* discussed on the June 11th Stakeholder conference call. These comments were requested by close of business Tuesday, June 17, 2008 and were submitted to mmiller@caiso.com.

The CPUC staff appreciates the opportunity to comment on the CAISO's Market Initiatives Prioritization Process. The CPUC staff has participated in this process, and initially filed comments on April 28, 2008 on the Roadmap Prioritization process, expressing support for the development of a standardized tradable capacity product. More recently, the CPUC staff submitted comments on the High Level Prioritization process, supporting initiatives that would strengthen local market power mitigation measures, including the standardized Resource Adequacy capacity product, and the creation of a 30-minute operating reserve product.

The CAISO's June 4, 2008 Report on Ranking of High Priority Enhancements (June 4th Report), is a detailed ranking of the previously identified "High Level" market initiatives. The CAISO's June 4th Report identified the following areas as High Priority items: (1) Standardized Resource Adequacy Capacity Product; (2) Long Term CRR Auction; (3) Sale of CRRs in the CRR Auction; (4) Ancillary Services Substitution; (5) 30 Minute Operating Reserve Product; (6) Hourly Designation of Ancillary Services Contingency; (7) Market Power Mitigation of Start Up and Minimum Load Bids; (8) Modeling Constraints of Combined Cycle Units; (9) Multi-Settlement System for Ancillary Services. These priority items were based on twelve detailed criteria, which included an evaluation of the benefits (such as grid reliability, market efficiency, and stakeholder desirability) and feasibility (such as implementation and operation costs) of these initiatives.

The CPUC staff finds that the priorities identified in the June 4th Report include those items that the CPUC staff has supported. In particular, the CPUC staff is very pleased that the CAISO has ranked the Standardized RA Capacity Product as the top priority, and has indicated that this process will begin this summer, with an issue paper issued in July of this year, and a stakeholder meeting held in August. This process will result in improvements across the board for the CAISO, stakeholders, and the CPUC's Resource Adequacy program. Currently, the CPUC staff has no objections to the other high ranking priorities identified in the June 4th report will help mitigate local market power.

One item that did not appear on the June 4th Ranking, but is of growing concern to CPUC staff is the A/S Regional Procurement and Cost Allocation. This item was part of the CAISO's 5-Year Market Initiatives Roadmap (April 15, 2008) and ranked in the top 10 (score of 20 out of 40) in the Preliminary Results of High Level Prioritization of Market Enhancements (April 23, 2008). These issues are currently being addressed in the Scarcity Pricing stakeholder process, and the June 4th Report proposes that they remain there. CPUC believes that there is strong stakeholder support for addressing A/S Regional Procurement issues, which may not have been expressed, due to the fact that this issue has been designated a part of an In-progress/Planned Item. However, A/S Regional issues may be more complex than indicated in the summaries in CAISO's prioritization reports, and broader than what is currently being considered for discussion in the Scarcity Pricing stakeholder process. For example, there is still a great deal of confusion regarding regional A/S requirements and the triggers that would determine when and if CAISO needs to impose a local A/S requirement; and whether or how

CAISO Catalogue of Market Initiatives and 5-Year Roadmap

June 17, 2008 CPUC Comments

those requirements would be reflected in Resource Adequacy procurement requirements. CPUC staff suggests that the CAISO remove this item from the Scarcity Pricing stakeholder process and consider holding additional stakeholder meetings to address the broader concerns and questions surrounding A/S regional procurement requirements and the triggers. Additionally, CPUC staff believes it is critical to resolve the cost allocation issues sooner rather than later. CPUC staff believes that this issue warrants high priority among the CAISO's stakeholder processes.

The CPUC staff commends the CAISO for conducting a transparent stakeholder process and providing a forum for discussion of the CAISO's evaluation and ranking criteria and processes. The CPUC staff notes that on the CAISO's most recent stakeholder conference call, the CAISO clarified that the Catalogue of High Priority Market Initiatives will provide input for the development of the CAISO's 5-Year Roadmap, but that the Roadmap will be the result of additional Strategic Planning processes by the CAISO. Moreover, the High Priority Market Initiatives are separate from Market Initiatives in Progress (such as Scarcity Pricing and Demand Response), Non-Discretionary Corporate Objectives, and FERC Mandated Enhancements. The CPUC staff urges the CAISO to keep in mind the Energy Road Map Loading Order, CPUC renewable resource requirements and GHG emission reduction goals, in formulating its 5-Year roadmap plans. The CPUC staff looks forward to coordinating with the CAISO in the future to ensure compatibility and consistent goals as the 5-Year Roadmap is developed.