



Template for Submission of Comments on 5-Year Market Initiatives Roadmap

The CAISO is requesting that Stakeholders submit the following comments to the 5-Year Market Initiatives Roadmap using this stakeholder comments template.

1. Pick three market enhancements you believe should have the highest priority for implementation and describe the reasons why tied back to the high-level prioritization criteria using the provided tables below. These top three may include FERC mandated market enhancements or non-mandated market enhancements that are described in the Roadmap.
2. Prioritize the list of FERC mandated enhancements listed in the table below with a rank of 1-10 based on the order of priority you believe these enhancements should be addressed by the CAISO.

Comments are requested by close of business Friday, April 18, 2008 and should be submitted to mmiller@caiso.com. Please contact Margaret Miller at mmiller@caiso.com or 916 608-7028 with any questions.

Instructions for Part 1 – Ranking top three market enhancements

- 1) At the top of the template please provide your name and the name of the company you represent.
- 2) In the left-hand column identify the section number associated with the enhancement you want to propose, as identified in the Five Year Market Initiatives Roadmap. If you are proposing a new market enhancement that is not captured in the Roadmap please indicate "New" in the left-hand column.
- 3) In the second column provide the name of the enhancement and a description of the important features you are proposing.
- 4) In columns three through six provide justification for your proposed enhancement based on:
 - Grid Reliability-please rank high, medium or low and describe why.
 - Market Efficiency – please rank high, medium or low and describe why.
 - Implementation/cost impact to CAISO please estimate (High, Medium, or Low)
 - Implementation/cost impact to market participants please estimate (High, Medium, or Low)

In providing your justification for a proposed market enhancement it is extremely important to describe why you believe a market enhancement ranks high, medium or low in the specified category. The CAISO will use this information when evaluating these market enhancements in the ranking process.

Company represented: CPUC Person submitting comments: Elizabeth Dorman

Date of submission: April 23, 2008

Part 1 – Top Three Market Enhancements (Mandated or Non-Mandated)

Roadmap section number, or specify “New”	Title and description of proposed enhancement	Does this market enhancement have a High, Medium or Low impact on improving Grid Reliability and why?	Does this market enhancement have a High, Medium or Low effect on improving market efficiency and why?	Estimated Implementation /Cost Impact to CAISO Please specify (High, Medium or Low)	Estimated Implementation/Cost Impact to Market Participants Please specify (High, Medium or Low)
3.2.7	Standard RA Capacity Product	High	High	Medium	Medium

First, the CPUC appreciates the opportunity to input on the CAISO’s priorities in market enhancements for the next five years.

In a letter to the CAISO Board of Governors submitted on March 26, 2008, numerous market participants¹ expressed that they not only want, but rather need, the CAISO to address the development of a standardized capacity product in its tariff. The CPUC has already the CAISO to engage in the development of such language within the scope of its Resource Adequacy (“RA”) proceeding, with no apparent effect. The CPUC agrees with the signatories’ assertions that a standardized RA capacity product and generator performance obligation metrics would increase grid reliability by clarifying resource obligations, increase transparency in compliance and reduce administrative burdens on the CAISO, CPUC as well as other market participants.

¹ Representatives from the Alliance for Retail Energy Markets, California Manufacturers & Technology Association, California Large Energy Consumers Association, Constellation Energy Commodities Group and Constellation NewEnergy, Coral Power, L.L.C., Division of Ratepayer Advocates California Public Utilities Commission, Energy Users Forum, J. Aron & Company, Mirant California, Pacific Gas and Electric Company, The Utility Reform Network, and the Western Power Trading Forum all endorsed the document.

A means of measuring and tying generators compensation to their performance is both a deficiency of the current capacity market, and a necessary component of any future capacity market. Without a performance metric, a generator that is unavailable during 50 percent of peak hours receives the same capacity payment as a generator that is available during 100 percent of its commitment. This provides incentives to generators to perform minimal maintenance and keep unreliable generation in service. The CPUC does not here suggest that any generator owner is not performing all appropriate maintenance or intentionally selling unreliable capacity. It is incumbent on the market designers, however, to align economic incentives with desired performance. A large number of parties have come to believe that a CAISO operated performance metric is a critical part of a reward/consequences system and would improve market efficiency and grid reliability. The CPUC staff believes developing a performance metric for capacity is a critical step toward improving the current market and is a necessary first step toward moving to a centralized capacity market, if that becomes the state's adopted policy.

The CAISO's master stakeholder engagement plan² provides for an initiative, starting in mid-May, for consideration of a "Centralized Capacity Markets Pricing Mechanism." Under Public Utilities Code section 380, the Federal Power Act and other legal authority, the power to establish a long term resource adequacy mechanism lies with the CPUC. Pursuant to a notice to the service list in Rulemaking 05-12-013 issued on April 8, 2008, the CPUC will not issue a final decision on whether and/or how to progress towards a Centralized Capacity Market and/or other long-term RA issues until after May of 2008. The CAISO's schedule should be adjusted to reflect the appropriate authority over long term RA. In light of this necessary change in schedule, the CPUC recommends that the CAISO focus instead on a standardized capacity product with the staff resources currently allocated for a centralized capacity market pricing mechanism. Regardless of whether the CPUC ultimately adopts a centralized or bilateral capacity market design, a standardized RA performance metric within the CAISO tariff is necessary to improve capacity market conditions. The CAISO should therefore reallocate its resources to focus on standard RA generator obligations to be included in its tariff rather than getting ahead of CPUC processes.

² <http://www.caiso.com/1fa4/1fa4ee2c9750.pdf>

Significant stakeholder discussion has already taken place to develop a straw proposal, including draft tariff language, which was the product of industry-led workshops, in which the CAISO participated. Thus, the energy and resources needed for stakeholders to further develop the proposal and tariff language would certainly be significantly less than the process CAISO had scheduled for this time period to address Centralized Capacity Market development. The CPUC therefore recommends that the CAISO, in launching its stakeholder process, circulate the existing straw proposal and request identification of needed topics and priorities for discussion at the first stakeholder meeting in May. Such an effort is necessary regardless of how the CPUC decides to progress in the development of longer term RA program. Focus on such a necessary element for the current system and any future developments should take priority over hypothetical stakeholder processes.

The CPUC commends the CAISO for its efforts to involve stakeholders in the Five Year Roadmap process.