



September 11, 2012

Steve Berberich, CEO
Karen Edson, Vice President, Policy and Client Services
California Independent System Operator
VIA email

Dear Steve and Karen:

As you both know, WPTF has worked very closely with the CAISO in its stakeholder processes. We are a group committed to a collaborative stakeholder process that benefits the CAISO and its market participants. Generally the stakeholder process has met those objectives. However, the CAISO staff's recent termination of the Intertie Pricing stakeholder process had the unintended effect of damaging the credibility of the stakeholder process. That is why I am writing. I want to describe the events as my colleagues and I saw them unfold, and propose that the CAISO pursue specific activities to avoid a similar situation going forward.

In February of 2012 the CAISO staff briefed the Governing Board on market design initiatives and told the Board that it would address certain issues through a stakeholder process and bring the outcome of those deliberations to the Governing Board in the form of a policy recommendation by May 2012:

"The ISO commenced a new stakeholder process in October 2011 and is seeking solutions to address the real time imbalance energy offset uplift costs and to find a near term solution that would facilitate reinstating convergence bidding on the interties. Management intends to provide a proposal for decision to the Board in May that addresses these issues."¹

In March of 2012, the CAISO also indicated its intention to FERC to complete the Intertie Pricing stakeholder process and offer a solution to the Commission in the fall of this year:

"For all these reasons, the Commission should allow the ISO to complete the ongoing stakeholder process and soon bring to the Commission a proposal for the prudent reinstatement of intertie convergence bidding. As discussed further below, the ISO anticipates this process will yield a proposal for the Commission's consideration as early as September 2012 that addresses the issues identified in this proceeding."²

Since the time these commitments were established, the CAISO held a number of well-attended stakeholder meetings and working group meetings. Several rounds of papers and responding comments were produced. From all indications in the CAISO's white papers the issues were

¹ Board Briefing on Market Design Initiatives, February 9, 2012, p. 2.

(<http://www.caiso.com/Documents/Briefing-MarketDesignInitiatives-MemoFeb2012.pdf>)

² *Reply Comments of the California Independent System Operator and the Department of Market Monitoring*, submitted March 30, 2012, ER11-4580-000, at 3.

being honed down, although controversy existed between different sectors. (This is not uncommon in the CAISO's market design processes).

In June of this year, FERC issued an Order on Variable Energy Resources ("VER Order"). This order was discussed in one or more of the work groups, and at the end of June the CAISO issued a stakeholder template asking stakeholders for their input on expected impacts of the VER order and the next steps in the Intertie Pricing stakeholder process. In response, two of twelve stakeholders suggested the CAISO should stop the Intertie Pricing stakeholder process as a result of FERC's VER Order, nine supported continuing and one was silent on the topic. Two weeks after that the Department of Market Monitoring issued a memo that also supported not continuing.³

On July 27, without providing any further comments or holding a stakeholder meeting, the CAISO issued a market notice stating that it was no longer pursuing the initiative and that the CAISO would begin a new stakeholder process associated with the VER Order.⁴ In a subsequent stakeholder call on August 7 the CAISO simply indicated that it would begin a new process in September and that they expected to complete such roughly a year later.⁵ It was apparent at that time that the CAISO was not going to reconsider its internal decision to terminate the original stakeholder process.

This series of events led WPTF to the following observations:

- The CAISO can unilaterally stop or significantly change the course of stakeholder processes independent of stakeholder wishes and/or;
- The CAISO bases its decisions on which stakeholder processes to initiate, which to prioritize work on, and which to terminate based on information not available for review and discussion by stakeholders.

WPTF believes strongly that for the CAISO's process to have credibility stakeholders must be able to trust that: (1) their input, including input on which processes warrant priority, is relevant, and (2) the process for initiating, prioritizing and terminating stakeholder processes is transparent and cannot be unduly influenced by a minority of stakeholders.

As a result of this experience and given our commitment to ensure the stakeholder process is robust and credible we ask you to codify the stakeholder process including:

- Clarify the steps the CAISO must take to initiate and terminate a stakeholder process,

³ Comments to the CAISO's Third Revised White Paper can be found at:
http://www.caiso.com/informed/Pages/StakeholderProcesses/IntertiePricing_Settlement.aspx

⁴ Market Notice can be found at:
http://www.caiso.com/Documents/IntertiePricing_SettlementInitiative-StakeholderCall8712.htm

⁵ Presentation (http://www.caiso.com/Documents/Presentation-IntertiePricingSettlementAug7_2012.pdf), p. 4.

- Provide a public meeting for CAISO management and stakeholders regarding initiation, termination or significant changes in direction. Stakeholders should be able to provide input and make appeals;
- Provide a collaborative process to determine how CAISO stakeholder processes are prioritized; and
- Publish guidelines outlining the conditions under which the CAISO staff will recommend approaches not consistent with the stakeholder positions supported through the transparent process proceedings (e.g., stakeholder comments, stakeholder offered presentation materials) and the burden of public review that such approaches carry (e.g., staff or DMM positions subject to public discussion prior to a Board recommendation).

WPTF believes taking these action will help improve the perception of the CAISO's stakeholder process, ensure robust participation, and – as a result – produce exceptional work products. That is our desire.

We very much appreciate your careful consideration and we look forward to working with you on this item.

Sincerely,

Gary B. Ackerman
Executive Director
Western Power Trading Forum

CC: Chairman Robert Foster,
Governor Ashutosh Bhagwat,
Governor Angelina Galiteva,
Governor Richard Maullin,
Governor David Olsen