

California Department of Water Resources Comments on California Independent System Operator's Release of 2009 CRRs and the Start-up of the MRTU Markets Revised Whitepaper

August 29, 2008

The California Department of Water Resources (DWR) appreciates the opportunity to provide this second round of comments on the California Independent System Operator's (CAISO's) revised whitepaper "Release of 2009 CRRs and the Start-up of the MRTU Markets" dated August 26, 2007 and discussed during the August 27, 2008 CRR stakeholder conference. DWR submits the following comments:

Delay in the Opening of Nominations

DWR appreciates the CAISO's recognition of stakeholders' requests to delay the September 3rd opening date for Tier 1 and that this date would be infeasible. We also point out that there still exist some outstanding issues with seasonal eligible quantities (SEQ) and ask that these and any remaining source and sink verification issues be resolved prior to the CAISO's new September 10th opening date for Tier 1.

DWR is currently working with the CAISO on such issues and believes that data affecting CRR eligibility (and that will be used as inputs into the CRR system) should be determined robust and accurate before opening the market. We would, therefore, support and be willing to work with the CAISO to delay Tier 1 at least one additional week in order to ensure that these issues are resolved in enough time for LSEs to finalize their nominations.

Sequencing of Tiers

The revised whitepaper did not appear to add any new reasons by CAISO as to why it believes changing the sequence of tiers is important and worth the extra work of a tariff amendment at this time in the CRR process. In fact, if the sequence were not important then we would advise not changing it to begin with.

The revised whitepaper also did not present any distinguishable problems the CAISO believes it will incur if it follows the current Tariff sequence as opposed to its proposed sequence. DWR requests that CAISO provide this distinction using clear examples in a future whitepaper.

DWR believes that the CAISO can develop a workable schedule using the current sequence of tiers that would only add one to two more weeks to its schedule, as suggested by PG&E in its August 21, 2008 comments on the CAISO's original whitepaper.

Other Issues

Finally, DWR would like to point out that the desire for expediency should not compromise data quality and data security. We appreciate the CAISO working to its

fullest to ensure that proper security protocols are adhered to and that market data, i.e. Full Network Model, is carefully formulated before its release to Market Participants.

In light of CAISO's intention to file tariff amendments and waivers that stakeholders largely do not appear to support, CAISO has stated during conference calls that it is acting under a very short timeline. We agree and are concerned that decisions made in very short time-frames could produce unfavorable long-term affects for Market Participants, i.e. the disadvantage created from not allowing Market Participants to know what they received in Tier LT before formulating their nominations in Tier 2 and then Tier 3 for Seasons 2, 3, and 4. This will be the result of CAISO's expected tariff amendment, based on the same idea presented in the original whitepaper that the sequencing of tiers is not important. We ask then, if it is not important, why does CAISO also state in its revised whitepaper that it will be reverting the sequence of tiers back after Year Two? We can only conclude that, since this sequence change is only planned for 2009, CAISO does recognize that the sequencing of tiers is important. We, therefore, support conforming to the tariff.

DWR understands, however, that the CAISO is trying to maintain as close as possible a schedule it feels it must meet, but this schedule has not provided adequate time to stakeholders to analyze the issues and provide to comments or for the CAISO to consider these comments and to provide sufficient reasons for its decisions. DWR strongly support initiation of another stakeholder process should the MRTU start-up be delayed beyond the estimated February 1, 2009 date. We also recommend that the CAISO proceed with a "lessons learned" approach and strive to provide stakeholders the opportunity to thoroughly review and work with the CAISO to resolve any outstanding issues.

Respectfully submitted,

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