Williams Power Comments on ISO Local Capacity Study Results
July 15, 2005

Williams appreciates the opportunity to offer comments on the CAISO's local capacity analysis, presented at the June 29, 2005 meeting.

Williams supports the CAISO's efforts to quantify all of the generating capacity the CAISO deems necessary to reliably operate the systems within the CAISO's operational control. To that end, Williams supports the 1-in-10 demand forecast and the contingency criteria used for these analyses.

Based on comments at the June 29, 2005 meeting, Williams expects that some parties may express a desire to use remedial action schemes to trip firm load to meet some of the more stringent contingency criteria. Williams offers that unless the use of such schemes to involuntarily curtail load is discussed openly and publicly, consumers cannot and will not understand the tradeoffs, costs and risks involved with using these remedial action schemes. While using true demand response, *i.e.*, the willingness of load to ***voluntarily*** curtail use of power in response to either the price of power or to maintain system reliability, would allow market participants to know and understand the reliability and cost tradeoffs involved, involuntary curtailment of load through remedial action schemes will not advance such understanding, absent a public discussion of the issues. To promote the transparency necessary to foster competitive markets, and to the extent involuntary load curtailment schemes are used to address the contingencies evaluated in this study, Williams urges that the use of such remedial action schemes be discussed in an open, public forum with all affected and interested parties.

Williams reminds the CAISO that regardless of whether generation that is identified as necessary to meet the CAISO's reliability criteria at peak demand is needed for ten hours or a thousand hours, such resources have fixed operating costs that the resource owner must have a meaningful opportunity to recover over the long term, or such resources may not remain in service.

Williams also reminds the CAISO that transmission line ratings are key inputs for the local capacity studies and can greatly affect the amounts of generation needed to meet reliability criteria. As such, Williams again urges the CAISO to establish a process in which transmission line rating changes are communicated to and reviewed by all affected parties, generators and load serving entities alike, before they are put into service or used as the basis for analysis.

Williams supports the CAISO's stated position to end RMR procurement. However, Williams strongly believes that the additional generation requirements that stem from the local capacity studies beyond the current levels of RMR generation, coupled with the CAISO's stated desire to enhance the scope of any "backstop" capacity contract and the CAISO's inability or unwillingness to comment on what the pricing underlying the proposed "backstop" contract should be, will simply perpetuate – and perhaps even expand – RMR procurement, albeit under another name – *e.g.*, LARC. Any backstop mechanism that the CAISO creates to make up for deficient LSE procurement must be priced in such a way as to encourage LSE forward contracting, not encourage the LSEs to default to the CAISO backstop mechanism. For these reasons, Williams greatly prefers the Reliability Capacity Services Tariff approach proposed in the June 8, 2005 joint protest and comments of the Independent Energy Producers and the Western Power Trading Forum to the CAISO's May 13, 2005 MRTU conceptual filing to an ISO contract.

On balance, Williams believes that local capacity areas should be defined more narrowly, to ensure that generating resources that are truly needed to meet reliability criteria are identified, rather than more broadly, in the hopes of fostering competition among suppliers to mitigate local market power. If a generating resource is needed to meet reliability criteria, defining areas more broadly will only increase the likelihood that such units will not be contracted for and will end up procured by the CAISO through a CAISO-administered backstop mechanism. Local market power, to the extent it actually exists, can and should be dealt with through terms of an LSE

contract, or through administrative pricing mechanisms such as the demand curve, not through CAISO contracting.

Williams supports other market participants' request that the CAISO produce a table comparing the RMR designation, Grid Planning, and Local Capacity reliability criteria.

Finally, in response to the concern SCE raised at the June 29 meeting about how an LSE would acquire local capacity that has already been sold to another party, Williams suggests that the LSE and the party to whom the rights to the capacity resource have been sold negotiate an arrangement to acquire the capacity/dispatchability needed to meet the CAISO's reliability criteria. The owner of the generating resource may have already transferred all rights to that unit to the party that purchased the rights.