

April 4, 2003

The Honorable Doug Ose  
Chairman, Subcommittee on Energy Policy, Natural Resources and Regulatory Affairs  
United States House of Representatives  
2157 Rayburn House Office Building  
Washington, D.C. 20515

RE: California Market Design 2002

Dear Chairman Ose:

My name is Gary Ackerman, and I am executive director of the Western Power Trading Forum (WPTF), a non-profit California trade association dedicated to enhancing competitive energy markets in the Western States. We are pleased to offer these comments in response to your invitation to testify before the Subcommittee on Energy Policy, Natural Resources and Regulatory Affairs on April 8, 2003.

### **WPTF Comments on the CAISO Stakeholder Process**

In fairness to the CAISO staff, they have certainly solicited and received enormous amounts of stakeholder input. Quite often, much of this input is in mutual opposition, guaranteeing that a large segment of stakeholders will be upset, regardless of the choices the CAISO makes.

However, the CAISO should establish a stakeholder advisory committee with representatives from the various stakeholder constituency groups (IOUs, municipals, generators, etc) and a formalized voting structure. Such a committee would be advisory only, but it would provide stakeholders with a direct voice in the market redesign process

and a mechanism for communicating directly with the CAISO Board. Finally, a committee of stakeholders would simplify the CAISO's overwhelming burden of trying to develop new design elements while having to "educate all market participants" simultaneously through numerous, lengthy and time-consuming meetings. A stakeholder advisory group would provide the appropriate platform for CAISO personnel to discuss new market-design elements, and to quickly seek resolution of existing market problems.

There are some differences of opinion amongst the WPTF members whether or not the lack of an independent Governing Board, as it currently stands, would impede the successful implementation of a Stakeholder Advisory Committee. Whereas a few members believe that a stakeholder advisory committee could be established within the current CAISO governance structure, most WPTF members believe that the current California Governor-appointed CAISO Board does not seem to listen to the market participants. The Board follows the political whims of the State Government. Hence, the current CAISO Board would not weigh properly the advice given by an advisory committee

### **Comments on Sequencing the Order of Design Elements in MD02**

Given the history of resource inadequacy in California, WPTF believes that this issue should be addressed with the highest level of priority. A resource adequacy mechanism will allow the CAISO to monitor the level of demand and available supply on a forward looking basis, and if necessary, take actions to ensure that adequate reserve margins are maintained. The CAISO proposed a resource-adequacy mechanism in its initial MD02 filing in June 2002, but has since requested that FERC defer consideration of its proposal pending resolution of the State's efforts to develop a workable mechanism. These initiatives, however, do not displace the need for a comprehensive resource adequacy mechanism administered by the CAISO, and we have urged FERC to require CAISO to continue its development efforts.

Congestion management reform is also a key priority and should be implemented as expeditiously as possible. The current congestion management process is not transparent and requires the CAISO to perform all congestion management in real time using manual procedures. What is the purpose of spending millions of consumer dollars on software programs to automate congestion management when in the final analysis the CAISO uses pencil and paper to resolve the crowded usage of critical transmission paths?

### **Comments on Price Controls, Mitigation, and Incentives to Invest**

We believe the MD02 development efforts are primarily aimed at establishing price controls, and do not address the root cause of inadequate supply in a useful manner. Local market power arises from either i) a lack of infrastructure or, ii) concentration of generation ownership. These factors are unique to the local area and differ from statewide or regional market conditions.

Cost-based mitigation is inappropriate for several reasons. First, such a restriction provides no financial incentive for anyone to rectify the situation, and merely entrenches the problem. Second, resources located in places that are especially advantageous to the grid deserve financial recompense to recognize that value.

Price mitigation and cost-based compensation measures only increase regulatory uncertainty and reduce the potential for private investment. Price control measures, and punitive regulatory and legislative initiatives always discourage investment.

## **Comments on an Isolated Market Design**

Due to California's dependence on electricity imports from the Pacific Northwest and the Desert Southwest, any market design that does not include input from other states will be disadvantaged. There must be a market design that seeks to address, not only California's specific issues, but also other issues that will have an impact on power flows throughout the entire region.

A single market design for the entire Western Interconnect would maximize efficiency, and consumer benefits for the entire area. Currently, California and the rest of the Western Interconnect have substantially different market designs. The three RTO's in the region have created the Seams Steering Group – Western Interconnection (SSG-WI) to develop an integrated Western market. One of SSG-WI's primary tasks is the development of a standard market interface mechanism through which market participants throughout the West can transact business in all three RTOs. This market interface is intended to account for the different market design proposals of each RTO.

The regional planning feature of the FERC's Standard Market Design (SMD) proposal offers the best hope for integrated resource planning and market development, which is the solution to efficient energy markets. While the FERC seems willing to allow at least three RTOs to move forward in the West, WPTF believes the importance of region-wide resource planning and market development cannot be overstated. Also, we hold that a more integrated regional planning function for transmission would highlight some of the existing problems. For example, there are significant amounts of new generation in Arizona (and of course the Border region of Mexico) that are essentially stranded in the Southwest due to the lack of new transmission facilities, and therefore limited in meeting the energy needs of California and the Pacific Northwest.

## **Comments on Regional Market Monitoring**

WPTF strongly supports the creation of an independent West-wide market monitor that is the primary source of analysis to FERC regarding the efficiency of RTO-operated markets and the behavior of RTOs and RTO market participants. It is vital that a regional market monitor be in place to monitor West-wide market issues as well as the performance of the RTOs themselves (to the extent that the local market monitors are not independent of RTO management). A regional monitoring and mitigation program will be less susceptible to political influence from any particular state.

## **Comments on the Impacts from Open-Access Transmission and Competition**

WPTF believes without reservation that open access transmission not only increases competition in electricity markets, but also is absolutely crucial for their existence. A policy of standardized, non-discriminatory open access transmission service is vital to creating a robust wholesale electric power market that will ultimately lead to lower prices and more reliable service to end-use customers. Standardized transmission service increases competition in electricity markets by eliminating discriminatory treatment of market participants, removing barriers to entry by non-incumbents, and allowing suppliers to compete based on economic efficiency. Standardized transmission service has a positive impact on reliability by facilitating new infrastructure development and optimizing the commitment and dispatch of resources within the regional market. Because open access ensures a level playing field, it provides opportunities for environmentally beneficial resources to compete effectively.

With regard to reliability, as long as parties are not artificially restricted in their contracting activities, competition improves reliability because it increases options. This is true from both a “planning ahead” perspective, and from a “scrambling in real time” perspective. The potential negative to reliability from a restructured, competitive market

comes about when it is “overly administered” with restrictive rules that have unintended consequences, and actually reduce resource availability.

Finally, competition provides an additional opportunity for environmental benefit. Pilot programs have consistently proven that, if consumers have retail choice, a moderately high percentage will voluntarily choose to purchase “green” power, even when it raises their rates to a moderate degree. What could be more in tune with American principles and values than obtaining significant environmental improvement via individuals exercising freedom of choice?

Thank you for the opportunity to share with you and your Subcommittee the thoughts of our membership. I look forward to answering any questions during the hearing in Washington, D.C.

Sincerely,

Gary B. Ackerman

Executive Director