

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

California Independent System)
Operator Corporation) Docket Nos. ER06-615-002

**PREPARED SEAMS TECHNICAL CONFERENCE REMARKS OF YAKOUT
MANSOUR, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

Mr. Chairman, welcome to the West! Commissioners Kelly, Moeller, Spitzer, and Wellinghoff, welcome home!

My name is Yakout Mansour, the proud President and Chief Executive Officer of the California Independent System Operator Corporation (“California ISO”). I believe there are some invaluable lessons learned from previous efforts to address seams issues in the West. I urge you to consider the concerns and recommendations I outline here today as we make our way forward, toward what I believe is our shared goal of a seamless west-wide market.

Seams are not new. I, along with others in the Northwest, spent the six years preceding my short tenure at the California ISO addressing seams challenges faced by market participants in the Northwest for many years, along with other major operational and commercial issues in the region. Actually, efforts began in 1996 under the proposed “Indego” grid operator – an effort that ended in just a few years. Similar efforts – Grid West - were triggered by Order 2000, which represented hope and contained guidelines for many of us.

The Grid West effort was driven entirely by the reliability, economic, commercial, and market power issues facing the Northwest. Let me quote a few of the findings of the Grid West staff based on the issues identified by various members of the Regional Representatives Group in a paper (“RRG Paper”) posted on the Grid West website in August, 2003:

“The Northwest has seams with California now. The California ISO has a market-based system. Seams arise from the lack of consistent rules and price transparency”

“Participants expressed views on two general problems related to this area: (1) at times there is unused capacity that customers would want to use if they could get access to it; and (2) when the system is overloaded, we can not always count on the effectiveness of tools we use currently to manage congestion. On the latter point, one participant offered an example of a recent incident in which transmission provider cut all transmission schedules to zero to deal with an overload, and still there was no reduction in line loading. The incident reflects problems with the contract path regime we currently use for scheduling transmission service, in which the actual flows resulting from the dispatch of a particular resource do not correspond to the “contract path” over which the energy is scheduled.”

So you can understand our sensitivity about claims that California is causing seams by adopting a flow-based approach. It is like having three flat tires on your car and one good one, so you take the air out of the good one to fix the imbalance. Let me further quote a few of the findings from the RRG Paper under “Operational and Reliability Concerns”:

“We have poor tools for managing overloads on the system. There are conflicts among different operators’ existing curtailment procedures. Curtailment procedures are often ineffective for managing flows.”

“There is a need for a more efficient method for managing loop flow.”

“Fragmented operations (multiple control areas) produce a lack of system wide visibility in day ahead”.

“The security coordinator can’t see all the needed data to monitor system conditions. Data available is limited to the control area that created the security coordinator.”

“In some cases, there is no process for financial settlement of re-dispatch used to address reliability issues in real time.”

“Generation response to curtailments or other actions when system is stressed are unpredictable. There is a weak linkage between changes in schedules and actual changes in physical generation”.

This is a sample of the types of seams and inefficiencies that have existed in the West in general, and the Northwest in particular, for years.

In the course of trying to address those issues among many others, the California ISO extended its hand to RTO West and West Connect very early in the development of MRTU to work toward harmonizing the proposed market designs of each in order to minimize new, and eliminate old seams. ***The California ISO stood ready***, as the organizational and market design proposals of both RTO West and WestConnect meandered through many iterations.

In 2003, I was one of the founders of the so called “Seams Steering Group of the Western Interconnection (SSG-WI).” SSG-WI was supposed to coordinate the three sub-regions: California, Northwest, and Southwest. In 2002, the three entities signed a memorandum of understanding, committing to resolve a broader set of seams issues – many of them similar to the issues now inappropriately characterized as “MRTU-related” seams issues. While this process seems to have not prevailed, ***still the California ISO stood ready*** - committed to these efforts and ready to take action.

RTO West, after obtaining approval from FERC for its proposed design, reversed gears, changed the fundamentals of the structure approved by FERC,

removed the bad word “RTO” from its name, and created “Grid West.” ***Still the California ISO stood ready.*** Then West Connect largely disconnected from the original track and Grid West made yet another turn. ***Still the California ISO stood ready.*** In all of six years, no organization has put as much effort in trying to deal with the issues more than the California ISO and your own FERC staff.

I am reviewing this history with you today so as to advise you not to repeat a process that failed miserably in the past. In all of those years, I have not seen an open-to-all stakeholder process for these issues be either objective or productive in resolving them. Always seated at the table were hundreds of people, some there because they had to be, some there because they wanted to be, and others there to make sure that nothing happened. Please do not send us back to a process like that again.

Furthermore, I become frustrated with intermediaries and other professionals who do not have an interest in promptly resolving issues. The entities and accountable personnel that have identified the issues and are capable of addressing them must be the only ones around the table, be they control area operators, scheduling coordinators, or market participants. We wasted years working with people who are not empowered to address the issues. We do not have time to do it again.

Out of today’s meeting and based on the record before you, I urge you to identify, and direct those accountable, to resolve the handful of seams issues that you see truly threatening reliability or negatively impacting trade. In every process I have been through for a decade, there was never a person or entity accountable for the result. It was left to a hypothetical consensus reaching process that never materialized. You now have a unique opportunity to move forward and constructively address seams issues in the West. I applaud your efforts toward that goal, as demonstrated by the two days you have dedicated here.

Virtually all of seams issues identified to date exist under the existing market structure (or lack thereof) in the West. Most of these seams occur in one

of two places –where transparent wholesale markets border vertically integrated utilities, or, to even a greater extent, where one vertically integrated utility borders another vertically integrated utility.

I believe that MRTU will in fact ameliorate many of these seams issues and thus increase benefits to consumers and participants:

1. MRTU ensures that day-ahead schedules into and throughout the ISO control area are physically feasible and reduces the amount of re-dispatch between day-ahead and real-time. This reduces uncertainty in ISO's real-time operation for neighboring control areas.

[Benefit: Improves reliability by fully managing congestion in the day-ahead market.]

2. MRTU eliminates pay-as-bid for imports and exports. Importers and exporters will receive the appropriate market-clearing price in the day-ahead and real-time markets--the same as internal resources.

[Benefits: Eliminates the need for importers and exporters to forecast day-ahead or real-time prices when they submit bids into ISO markets in order to receive the best possible price for their energy. They can simply bid the opportunity cost of supplying energy into and out of the California market and receive the market-clearing price.]

3. Under the current ISO market, there are uplift charges for intrazonal congestion, out-of-market energy, out-of-sequence energy and other non-market expenses that market participants are assessed for purchases from the real-time market. These uplift charges are only known after settlement has taken place and can be very large on a dollar per MWh basis for given hour of the day. MRTU utilizes locational marginal pricing, which includes all costs of meeting an increased load at a node in the transmission network in the LMP at that location.

[Benefits: Increases transparency in costs and benefits of injecting and withdrawing energy from each location in the transmission network. This should reduce hundreds of millions of dollars in uplift costs that are currently socialized and paid by load and exports.]

4. MRTU will provide greater opportunities for participants to hedge the locational price risk associated with serving load from distant generation sources. Congestion revenue rights will be allocated to load-serving entities based on generation injection and withdrawal (load) points.

[Benefit: In today's market, participants can only hedge locational price risk over Inter-Zonal pathways. Participants cannot hedge the cost of Intra-Zonal Congestion, nor any other uplift costs (such as Reliability Management Costs). MRTU will transparently "price" all congestion and offer CRRs on a point-to-point basis—including injection to Load Aggregation Points, thus enabling participants to potentially hedge the cost of most congestion.]

In conclusion, seams exist and will always exist. They can only be resolved by the will to resolve and defining the accountability to resolve them properly, in time. With all the issues California and the West are facing today, we can only complicate things by slowing MRTU further.