July 5, 1995

VIA FEDERAL EXPRESS

Office of the Secretary
Federal Energy Regulatory Commission
825 North Capitol Street, NE.
Washington, D.C. 20426

Dear Sir or Madam:

COMMENTS IN RESPONSE TO FERC DOCKET NUMBER RM95-9-000

Enclosed are the original and fifteen copies of the COMMENTS OF THE CALIFORNIA ENERGY COMMISSION IN RESPONSE TO FERC NOTICE OF TECHNICAL COMMENTS AND REQUEST FOR COMMENTS (DOCKET NO. RM95-9-000) REAL-TIME INFORMATION NETWORKS. Please file the original and fourteen of the copies in FERC Docket Number RM95-9-000. Please return the additional copy of the Comments, "file-stamped", in the enclosed postage paid, self-addressed envelope. Also enclosed, as required, is a copy of the Energy Commission's comments on a 3½-inch diskette in ASCII II format.

Thank you for your courtesy in this matter. If you should have any questions concerning this filing, please contact the undersigned at (916) 654-5207.

Sincerely,

JOHN D. CHANDLEY
Assistant Chief Counsel

Enclosures
COMMENTS OF THE CALIFORNIA ENERGY COMMISSION
IN RESPONSE TO FERC NOTICE OF TECHNICAL COMMENTS
AND REQUEST FOR COMMENTS
(DOCKET NO. RM95-9-000)
REAL-TIME INFORMATION NETWORKS

EXECUTIVE SUMMARY

On March 29, 1995, the Federal Energy Regulatory Commission (the
Commission) issued a notice of Technical Conference and Request for
Comments concerning real-time information networks (RINs). The Commission
requested comments on whether RINs "or some other option is the best method
to ensure that potential purchasers of transmission services receive access to
information to enable them to obtain open access transmission services on a
non-discriminatory basis from other public utilities that own and/or control
facilities used for transmission of electric energy in interstate commerce." In
addition, the Commission asked what standards should be adopted if the
Commission requires such public utilities to institute RIN systems. The
California Energy Commission (CEC) provides the following comments on
RINs.

The CEC applauds the Commission's decision to move aggressively to
end decades of discriminatory (or denied) access to the transmission network.
We support a generic requirement that transmission owners (1) file open access
tariffs that will make access available to wholesale entities on terms
comparable to those the owner provides for itself and (2) provide comparable
real-time access to critical transmission-related information. These policy
initiatives are essential to the creation of a fully competitive electricity market,
and we are therefore prepared to assist the Commission in developing effective implementation strategies.

The key to effective implementation strategies is to recognize the critical link -- given the interconnected transmission network -- between the structure and goals of a competitive market and the means of achieving that market through open access tariffs and RINs. No tariff nor RIN can be developed, much less be effective, independent of the market structure in which each functions.

One of the CEC's primary concerns with the Commission's approach to RINs is its implicit reliance on the "contract path" regime as a default for dealing with non-discriminatory transmission services. While the Commission has thoroughly discussed the difficulties associated with reliance on the current contract-path model (based on its own experience with such a model), it nevertheless has fallen back on this inferior method in establishing requirements for non-discriminatory transmission services.1/ This is understandable in light of the fact that restructuring efforts are still underway, and the ultimate structure of the competitive electricity market is still unknown. Yet, the CEC is concerned that the country not go too far down the path to competition using the current market framework, given its numerous inadequacies.

The CEC disagrees with the Commission's conclusion that the information requirements for RINs are independent of the structure of a

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competitive electricity market. We are concerned that full development of RINs based on a contract-path method of defining and allocating transmission rights may preclude efforts underway to implement alternative and -- we believe -- more efficient approaches to transmission services. For this reason we have some concerns with the Commission intention to have RINs implemented at the same time the non-discriminatory tariffs go into place. The information requirements for RINs will be defined by the ultimate market structure. The information needs that would assure non-discriminatory transmission access differ according to how transmission services are defined, how prices are set, and how the electricity market is organized. However, the CEC does not advocate postponing the development of RINs until the requisite structures of the competitive electricity market have been put into place; rather, we urge the Commission to encourage continued progress on restructuring development of achievable market-oriented RINs in phases consistent with industry restructuring efforts.

Finally, the CEC believes the Commission should pursue the development of RINs with two principles in mind. We recommend that the Commission adopt a phased approach to the development of RINs -- thereby making basic transmission information available as soon as possible and in a cost-effective manner while at the same time not limiting or precluding options for expanding and/or revamping information systems as the ultimate electricity market structure emerges. The CEC urges the Commission to recognize that California parties are actively developing the information requirements of an independent system operator (ISO) and the information which an ISO must.

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accordingly, make available to market participants. Nevertheless, we believe the existence of an ISO would assure nondiscriminatory transmission access more effectively than the Commission’s proposed tariff would.

The Commission should explicitly acknowledge and encourage California and other regions pursuing industry restructuring to continue the development of tariffs centered on a regional pool-based system in which transmission congestion is accounted for and transmission congestion contracts (TCCs) are used to compensate for redispatch costs. The Commission should also acknowledge that a pool-based system can function without placing participants at a competitive disadvantage only if all participants in the regional network are required to comply with the pool-based compensation mechanisms for actual flows. This should be done regardless of whether the non-pool participants join the pool or intended to use the pool’s control area. In addition, a reciprocal condition for pool participants would be to require them to compensate for the effects of parallel flows which their transactions induce in other regions. In doing so, the Commission could expedite industry structure and further its goal of a competitive electricity market by announcing that such a condition will be imposed on all tariffs as an essential element of comparable access to the transmission system.

The Commission should authorize justifiable flexibility as it develops standards for RINs in order to allow the implementation of alternative approaches to industry restructuring, such as pools and similar market structures being considered throughout the country, as long as such approaches achieve the Commission’s goals. We believe the Commission
should explicitly recognize and allow for different approaches to defining
transmission rights and assuring open, nondiscriminatory access in different
regions of the United States based on both the regional characteristics of
specific interconnected transmission systems and the corresponding market
structures that ultimately evolve.

OVERVIEW

The difficulty we all face is that the market structure is very much at
issue, with radically different visions of what it should look like. At the same
time, the Commission's proposals for tariffs, and more particularly for the RIN,
appear premised on a contract path vision that, while arguably a better version
of today's structure, seems unlikely to lead to an efficient competitive market.
The Commission is fully aware of the defects of that vision, as they are clearly
articulated in the Commission's open access NOPR. For these reasons, we do
not expect that vision to survive the various industry restructuring proceedings
that are occurring in several states, including California.

As the recent proposals issued by the California Public Utilities
Commission (CPUC) indicate, California is moving inexorably towards a
regional pool-based system that facilitates direct access contracting between
alternative suppliers and both wholesale and retail customers. The California
proposal includes the creation of an ISO whose responsibilities would include
insuring all market participant open, comparable access to the transmission
network and ancillary services. The CEC fully supports this approach. In
addition to providing region-wide dispatch coordinated by the ISO, this
approach is very likely to include some effort to deal explicitly with the consequences of parallel flows, network congestion, and the resulting cost consequences of local redispatch decisions necessitated by such congestion. One method under active consideration involves locational or nodal spot prices, payment of congestion rentals, and the issuance of tradeable TCCs. These elements of the most likely market structure for California (and perhaps surrounding regions) have profound implications for the nature of the open access “tariffs” our utilities will have to file and the type of information that they, or an ISO, should make available to market participants via any RIN.

The premise of the Commission’s vision of RINs is that the most important information wholesale market participants need to know is the amount of “available transmission capacity” (ATC) on any given contract path, along with the price and other terms under which that ATC would be offered. This vision thus defines the nature and scope of the information that would have to be posted on electronic bulletin boards. Were this the same information that market participants will need in a truly competitive market in which parallel flows, congestion, and redispatch costs are fully and efficiently accounted for, we would have no problem wholeheartedly endorsing the Commission strategy. Unfortunately, that is not the case.

In the contract-path vision implied by the Commission’s RIN discussion, critical information relates to “physical” capacity on discrete segments of the grid. Efforts to provide this information will lead to attempts, inherently problematic, to define ATC under unrealistic conditions. Moreover, the information will tend to be focused on the ATC for specific links along
designated contract paths, without acknowledging that this ATC bears little if any relationship to actual real-time flows, let alone the cost consequences of redispatch decisions. Because the transmission-owning utilities fully understand this, and because they know the financial risks they run from ignoring these effects, calculations of the ATC will inevitably be highly conservative. Transmission owners will be encouraged by this system to understate the true ATC, in order to minimize parallel flows, avoid congestion and mitigate their cost consequences. The result will be a system in which market participants will get information about ATCs, but the ATCs will be consistently smaller than a more efficiently operated regional network could accommodate. In short, notwithstanding the Commission's desire to foster a competitive wholesale market, the path on which the Commission is embarked will inherently result in limiting competitive trades below feasible or efficient levels.

Our concerns are heightened by the prospect that the Commission's initiative will encourage individual transmission owners to develop and file individual tariffs and RINs, even under generic Commission standards, without dealing with the fundamental issues of regional parallel flows and network interactions. Dealing with these issues is the absolute prerequisite to creating an efficient competitive electricity market. It is not enough to have every transmission owner file a basic tariff and post ATC amounts and prices. To create an efficient market, the Commission should be promoting a system that fully recognizes the region-wide network effects of individual transactions and requires full compensation for those effects, rather than a system that either
encourages utilities to limit trades to avoid those effects or forces them to accommodate such trades without fair compensation.

These difficulties pose a major dilemma for those regions, particularly California, that are moving down a different path. We cannot oppose the Commission’s efforts to end discriminatory access and require across-the-board open access, nor can we argue against efforts to provide market participants with the information they need to effectuate trades. But neither can we provide unqualified support to efforts to develop tariffs and RINs that are premised on a faulty market structure and which, if fully implemented, could preclude the development of a more efficient market. All of our comments on proposed RINs and their informational requirements must be understood with this dilemma clearly in mind.

Comments that will be submitted by parties in the Western region are likely to urge the Commission to take a phased approach to the development of RINs and to focus first on development of uniform regional, if not national, standards for information, RIN formats, and protocols. In general, we support these concepts. Phase ins are appropriate and common standards are clearly needed. However, implementing these broad principles depends entirely on the market structure and its treatment of parallel flows, and the questions we need to ask are very different, depending on which structure we envision.

Before we can implement a phase-in strategy and develop uniform standards, we need to ask some key questions. What are we phasing in: Is it a contract-path vision that ignores congestion and cost shifts, or is it a congestion pricing scheme that fully accounts and compensates for these
shifts? What information needs to be standardized: Is it the size of the ATC for individual transmission links and the embedded price for each uncommitted ATC link, or is it the ISO’s day-ahead expectations regarding congestion between supplier and consumer nodes and the list of current holders of TCCs? And what “products” are we talking about: Is it “firm” and “non-firm” capacity, “recallability,” and other terms left over from the current regulatory regime, or is it “congestion contracts” and contracts for differences? In other words, what, given the structure of the market and the needs for network coordination, do market participants really need to know?

Our support for the Commission's efforts must therefore be tempered by the fundamental difference in these two visions. We have no desire to focus California efforts on a general set of ATC-like information requirements, consistent with contract-path visions, only to have that initial phase followed by even more detailed or interactive informational RINs focused on the same faulty vision. That is the wrong path for California and, we believe, the wrong path for the Commission and the nation.

Just as the interconnected network creates the possibility for parallel flows, so we urge the Commission to explicitly acknowledge and encourage parallel development paths for open access tariffs and RINs. California and other regions actively pursuing industry restructuring should be free to continue the development of tariffs centered on a regional pool-based system in which transmission congestion is accounted for and congestion contracts are used to compensate for redispatch costs. These efforts should be encouraged even as other regions pursue the creation of tariffs and RINs based on
contract-path visions.

In addition, the Commission should more explicitly acknowledge that its apparent support for pool-based solutions can succeed only if market participants cannot bypass pool-based solutions by resorting to contract-path solutions, while ignoring parallel flows through pool-based systems. For example, suppliers in the Pacific Northwest should not be able to piece together ATCs and pay for questionable physical rights to a designated contract path around California in order to reach a customer in Arizona, while bypassing any congestion rental compensation requirements from actual parallel flows through a California pool-based system. If the California pool-based system is to function without placing California market participants at a competitive disadvantage, then all participants on the regional network should be required to comply with the pool-based compensation mechanisms for actual flows, regardless of whether the non-California participants "join" the pool or intended to use the pool's control area transmission. Of course a reciprocal condition for California participants would require them to compensate for the effects of parallel flows which their transactions induce in other regions. That is what true comparability means.

This example strongly suggests that the Commission's goal of a competitive market cannot be achieved on a utility-by-utility, or transmission owner-by-owner basis. Even a generic rule to require all such utilities and owners to file open access tariffs cannot solve the problem of uncompensated parallel flows unless such compensation is made a condition for approving every tariff. In short, there are certain region-wide, network-wide
requirements that must be imposed on all network users to make even the
Commission's contract-path remedies work well.

The Commission could therefore expedite industry restructuring and
further its goal of a competitive electricity market by announcing that such a
condition will be imposed on all tariffs as an essential element of
comparable access to the transmission network. It is our belief that such a
condition would encourage region-wide pool-based systems that explicitly deal
with parallel flows, congestion, and compensation through congestion pricing.

Further, we urge the Commission to explicitly allow and encourage state
and regional efforts to pursue alternative mechanisms other than the contract-
path approach. Where state regulators -- such as California's -- or regional
bodies are clearly committed to alternative mechanisms that promote open,
comparable access while dealing efficiently and fairly with parallel flows,
congestion, and compensation for redispatch, the Commission should allow
those jurisdictions to proceed on their own reasonable schedules, without
requirements to pursue tariffs and RINs structured exclusively around the
problematic contract-path approach. The Commission can still move forward
on contract-path-based mechanisms in those states and regions that are not
actively pursuing restructuring and not yet committed to acceptable alternative
mechanisms. This dual approach will give state commissions and regional
entities the correct policy signal about where the Commission, and ultimately
the national electricity market, are heading. In our view, the sooner this reality
is accepted by all parties, the sooner the Commission's goal of a competitive
electricity market will be achieved.

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CALIFORNIA'S APPROACH TO RESTRUCTURING THE ELECTRICITY MARKET

Under the California approach, utilities would turn over the network-coordination functions they now perform to an ISO. The ISO would provide such monopoly services as coordinating grid access, and maintaining system reliability, stability and safety. The ISO would be an unbiased entity, neither owned nor controlled by any utility or other market participant, to ensure that all market participants received network access on comparable, nondiscriminatory terms. Because the ISO would be exclusively responsible for assuring open and comparable access to network and ancillary services, the ISO would be regulated by the Commission.

Any supplier would be free to offer its generation to the ISO for dispatch and system balancing, but would not be required to do so. Any generator would be free to use the service to purchase additional supplies as needed. Consumers could also offer their dispatchable loads to the ISO or purchase electricity directly from the ISO's spot market. A generator having a bilateral contract with one or more customers could choose to be a part of the dispatch and respond to variations in spot prices, or it could choose to be outside the dispatch by scheduling deliveries. Upon notification by generators of their planned operating schedules, the ISO would accommodate all feasible schedules subject to network constraints and curtailment rules. To the extent practical, the ISO would also accommodate efforts by generators and third parties to follow, shape and match specific loads associated with bilateral contracts.
NETWORK APPROACH TO TRANSMISSION SERVICES

The CEC notes that one of the requirements of a competitive market is for clearly defined and efficiently allocated property rights. Providing transmission rights within a contract-path framework does not meet this requirement. Assuming that transmission services can actually be provided along a designated path in the network, defined by a contract, will not promote an efficient, competitive market.

Under the Commission's nondiscriminatory access proposal, ATC would be defined by simultaneous "interface limits" on individual lines or sets of lines. Potential suppliers (or consumers) on the system could identify a block of ATC on the RIN and make a decision to commit to using that block without giving any consideration to simultaneous transfer limitations or adverse impacts due to loop flow that the transaction may cause. While such a system would work reasonably well if the supply of ATC is sufficient, it would not work so well as the external effects of ATC commitment brings the system closer to simultaneous transfer limits or causes adverse impacts due to loop flow. The contract-path model ignores these network interactions which are complicated and large. Under the contract-path regime, when all contracted power flows cannot be accommodated due to congestion, the transmission provider/operator determines capacity allocation -- i.e., which service to interrupt and which to authorize according to often subjective priority rules.

2/ Parties should not confuse our criticism of the contract-path approach to transmission with an implicit rejection of bilateral contracts. To the contrary, the California market model explicitly recognizes that a competitive electricity market requires both a spot physical market and a longer-run commercial or contract market.
The contract-path model does not assure a nondiscriminatory approach to allocating constrained transmission. Allocating access to constrained transmission raises market-power issues if the decision and determination of priority service rests with a transmission owner, rather than an ISO. Related problematic issues under the contract-path model are how to define ATC and what criteria to use in determining whether constraints exist. Under the current system, ATC is based on highly subjective and probably conservative judgements by transmission owners, which will not become any less problematic under the nondiscriminatory transmission tariffs. Many parties believe that defining ATC will be the central issue in determining whether access is indeed being provided by transmission owners on a nondiscriminatory basis. While standards will be important in trying to create a level playing field for transmission services, there are still many subjective judgements and decisions with respect to transmission services that raise market-power issues. The Commission's proposal would require that utilities also use the ATC they post in conducting transactions. While this may provide a counter-balancing measure, it may not be adequate.

While a contract-path approach relies on the fiction that electricity flows according to paths defined by contracts, electricity actually flows within a network which requires careful coordination having little to do with moving power from one location to another along a designated path. Transmission and ancillary services are a network phenomenon. The definition, measurement, management and pricing of transmission and ancillary services must be viewed from a network perspective. Network interaction can greatly complicate the play
of competitive forces. Generators must compete via the transmission network, yet defining how to allocate transmission among the different buyers and sellers throughout the grid is extremely complicated.

For these reasons, the CEC is advocating a new approach to transmission and network services, proposed by Professor William Hogan and others, under its California market model. This approach relies on a pool-based, spot-market framework which will better suit the competitive market than current methods of defining and allocating transmission services. The combination of locational spot prices and TCCs form the foundation of this network approach to transmission services.

Least-cost dispatch based on participant bids under a pool-based spot market provides an ideal short-run outcome that would appear in a competitive market if it were possible for all the many participants to define the appropriate property rights and conduct all the complex trades in the network. Due to the complexity of these trades and the lack of a workable definition of key physical property rights, an ISO is needed to schedule and coordinate dispatch. Under the California market model, the ISO also serves as the market clearinghouse for the hourly energy market using locational pricing to settle spot market transactions.

In this context, TCCs can serve as the mechanism to untangle the

3/ William W. Hogan, Coordination for Competition in an Electricity Market. Response to an Inquiry Concerning Alternative Power Pooling Institutions under the Federal Power Act, FERC Docket No. RM94-20-000, March 2, 1995. These concepts have also been supported by SCE and SDG&E in comments on FERC NOPR on alternative pooling institutions.
transmission network and convert short-run, opportunity-cost prices into long-term transmission arrangements. Transmission services under a pool-based spot market would be defined in terms of financial contracts or TCCs that convert complicated network interactions into locational price differences and simple financial settlements. Under a pool-based spot market, physical transmission rights would not be guaranteed. However, the pool-based, least-cost dispatch would provide the foundation for a transmission contract that would serve the same purpose as a physical right by defining a financial transaction that would not depend on matching physical flows in the actual dispatch. TCCs could be defined for a financial payment equal to the difference in the dispatch costs between locations, thereby recognizing the inter-relationship between generation and transmission. TCCs would allow a party to arrange a power contract with a distant customer and be assured of the delivered cost of the power.

The ISO would collect congestion payments whenever the system was constrained and disburse those payments to the holders of the TCCs, with the ISO keeping none of the payments. Participants could protect the ability to deliver power at an agreed price as if there were physical delivery from the source to the destination. TCCs would theoretically be easier to define than physical transmission rights based on contract paths. In addition, the full capacity of the network gets used more efficiently with the actual flows moving.

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according to the least-cost dispatch.

Under the California market model, any market participant would be free to become the owner of the rights to receive congestion rentals under TCCs. Initially, such contract rights could be allocated to the current owners and to those who had previously obtained various transmission rights. But current owners and contract holders would be placed in a system in which all transmission contracts could be freely traded. Consumers or generators who faced a requirement to pay congestion rentals under TCCs would be free to purchase contracts for these rentals, thus avoiding the payments. Holders of these contract could sell them to any market participant to whom they were more valuable. In this way, those who placed the highest value on this protection could acquire the contracts, using them to avoid the congestion rentals or to collect them from whose who used the system.

NETWORK APPROACH TO PRICING TRANSMISSION

The theory behind locational or nodal pricing is that a competitive market should rely on price signals which reflect supply conditions, demand conditions, and transmission constraints. Most parties view this market-based approach to pricing as a better solution than quantity constraints and planning processes currently relied on in the regulated, vertically integrated market. A fundamental underlying premise to locational pricing is that due to its physical properties and limitations, the transmission system plays a key role in determining the location-specific cost of supply. A competitive market must have a workable method for integrating the transmission system with
competitive forces driving the rest of the industry. Ideally, price signals should, at a minimum, reflect the short-run marginal costs due to losses and congestion associated with transmission.

Locational pricing provides a mechanism for including the costs of transmission constraints or network congestion more accurately in the short-run spot prices by identifying those factors that affect the electricity prices at different points in the network and incorporating them into a local spot prices. Locational pricing is based on a loose analogy with the pricing of transportation in other commodity markets. There it is assumed that different prices of a commodity at different locations are a function of the costs of transportation. By analogy, in an unconstrained electricity system, absent any transmission or network limitations, electricity prices would be the same throughout the system. In reality, however, electricity networks are almost always subject to constraints.

In the electricity network several factors influence transmission-line capacity constraints. There are distance-related factors (losses), thermal line limits and voltage limits (when all facilities are in service), and reliability (or contingency) constraints which all must be considered when dispatching the system. In a typical transportation systems, such as a roadway or pipeline, putting more supply through a path than is physically possible may cause the supply to seek other paths, but it would not destroy the congested link. For example, electric power does not automatically respond to the fact that a link is near its thermal limit and seek another route, it just melts the wire. Thermal limits must therefore be taken into account when dispatching the system and
loading transmission lines.

Contingency constraints involve restricting the transmission network to operate at levels that can instantaneously withstand the loss of key elements. These types of constraints generally require dispatching the network in a way that may appear to be sub-optimal when viewed from a static snapshot of the system. However, such constraints in the WSCC are very significant and regularly constrain dispatch below thermal limits of certain lines. For example, transmission paths between Northern and Southern California are identified and the maximum flow on any line traversing that path is constrained such that if any given line fails, other lines serving that path will be able to handle the increased load.

Changing network conditions, such as increasing load at some locations or increasing generation at other locations, coupled with transmission limitations, increase congestions at one or several locations in the network relative to others. Higher-cost generation may have to be dispatched to serve constrained loads resulting in higher electricity prices at those locations. Prices at different locations therefore vary as a result of system conditions. Spot prices that incorporate the costs of overcoming network congestions would approximate the marginal costs of electricity at different locations in the system more accurately than a single price.

Including the costs of network effects in locational spot prices, in theory, offers a relatively straight-forward method of determining the generation or dispatch-related costs of transmission services. Locational prices capture the interaction between network constraints and the nodal supply and demand
functions, including both the cost of energy and congestion. Efficient nodal or locational spot prices should equal the change in net costs to the system of an increment of supply at that node or conversely the marginal change in benefit from an increment of demand. In other words, in order to consider the network as a whole, including all suppliers and demanders, you need to look at the net benefit of the system. The net benefit is the sum of the benefits to all consumers, determined by integrating the area under their demand curve, minus total cost of supply. The optimal spot price at a node is then the average of the prices at all other nodes weighted by their relative change in supply when power is injected to the system at that node.

Locational spot prices, in conjunction with TCCs, also provide a mechanism to encourage efficient investments in generation and transmission. Under the pool-based spot market, prices will be low when capacity is in surplus, but will rise as the need for new capacity approaches. Increases in the spot prices, or in expectations about increases in future price levels, will signal those who would construct new generation that it may be profitable to do so. In this way, new generation will be constructed when the expected level of future prices exceeds the projected costs of new generation. With transmission, increases in marginal losses and congestion costs will provide efficient signals as to when new transmission should be added. New transmission will be constructed when the benefits of doing so exceed the costs of construction.

Locational pricing offers promise in providing a mechanism for more accurately reflecting transmission cost directly in spot prices. However, there are still a number of methodological and practical problems that need to be
resolved. Hogan, SCE and SDG&E, and CEC contractors, among others, are still in the process of developing proposals to deal with specific issues associated with locational pricing.

**RECOMMENDATIONS FOR DEVELOPING RINS**

The CEC supports the Commission's efforts to assure that customers have access to information about the transmission system that is comparable and available simultaneously to what utilities rely on in conducting transactions on the transmission system. 5/ The CEC is convinced that a network approach to transmission access and pricing under a pool-based spot market has significant advantages over the contract-path method of dealing with transmission services. Recent activity in California leads us to believe that a pool-based spot market may develop in response to market desires. The CPUC recently issued a majority statement which relies on a pool-based spot physical market, using an economic dispatch service that would be offered by an ISO. The ISO would be responsible for assuring open, comparable access to the transmission network and providing the network coordination function necessary to maintain reliability, stability and safety. A CPUC minority opinion, issued concurrently with the majority opinion, emphasizes the consumer-choice aspects of the electricity market. However, it does encompass system coordination and implies spot physical market functions necessary to complement and support consumer choice through direct access.

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The CEC urges the Commission to acknowledge and accommodate the development of alternative market structures explicitly in its efforts to develop RINs. Parties in California continue to develop and refine their proposals for a pool-based spot market and an ISO with the goal of filing for Commission approval in the next few months. The CEC believes that parties in California who seek to participate in a pool will need to develop and refine the information requirements that will be necessary to implement nondiscriminatory access successfully in a pool regime. Information requirements under a pool-based model will be very different from information requirements under the contract-path model. The specific information requirements for a pool-based market are not well known at this time. The Commission's process for the development and implementation of RINs must be designed to accommodate the needs of parties who choose to pursue nondiscriminatory access to transmission services through pools and other alternative structures.

**Phased Approach to Developing RINs**

Based on the CEC's conclusion that information requirement for nondiscriminatory transmission services are not independent of the market structure, the CEC urges the Commission to adopt a phased approach to development and implementation of RINs. The CEC believes that a phased approach would satisfy the near-term goal of the Commission for simultaneous access to the same information available to transmission owners. The key to getting the necessary information to market participants in an increasingly competitive market is to develop achievable, market-oriented RINs in phases
that are consistent with industry-restructuring efforts.

The CEC acknowledges that, in the near-term, development of RINs is a necessary step in implementing the Commission's nondiscriminatory-access tariffs and conditions. At this point in time a contract-path model appears to be the default on which to base the initial work on RINs. However, in the not-too-distant future, as we move forward with different restructuring efforts throughout the nation, very different kinds of RINs may be necessary. A phased approach would enable the Commission to assure that basic information is made available to potential transmission-service customers as soon as possible and in a cost-effective manner. At the same time it would avoid costly revamping of RINs to accommodate new market structures and institutions, such as pools. In addition, the phased approach would assure that time, money and effort are not wasted in the development of sophisticated and expensive RINs that are no longer useful in the market that emerges.

Accordingly, the CEC recommends the following phases for developing RINs:

**Phase I.** Initial work would involve development of standards, databases, communication protocols for implementation on local systems. The focus of these activities would be to make data available in the near term in a cost-effective manner. Information systems should rely on off-the-shelf software, and at this time, should not be required to be interactive or implemented in a centralized or regionalized basis. Also, problems in database design, lack of information, or access procedures could be identified in this initial phase.

**Phase II.** Second-phase development would involve development of
proposals for detailed information systems necessary for alternative market proposal. At this time, participants could evaluate the different information needs of parties who have filed with the Commission for approval of alternative approaches to transmission services, such as pools. Efforts would be focussed on evaluating the need to further develop, or abandon, initial RINs based on the contract-path model, developed in Phase I. If the initial RINs are inadequate, or not well suited to new market structures, alternative information systems would be developed.

**Phase III.** The third phase would focus on the necessary upgrades and improvements to RINs developed in Phase II. If further restructuring has occurred, the information needs of the new markets could again be evaluated and any necessary changes to RINs could be implemented. Also, technological advances in information systems may allow cost-effective upgrades and more sophisticated RINs to be developed in this phase.

**Flexibility in Standards for RINs**

The CEC supports the Commission's conclusion that RINs are a necessary element of nondiscriminatory access. The CEC agrees with the Commission that, in the absence of standards, each RIN could contain different information, have different file formats, or use different means to transfer information between utilities and customers.\(^6\) The CEC concurs that information formats should not be allowed to impede the ability of parties to make trades in a timely manner within and across utility boundaries. The Commission's experience in the natural gas industry has shown that

\(^6\) FERC NOPR on RINs, p. 4.
development of EBBs under different formats and communications methods imposed significant costs on using information and erected barriers to trade across multiple companies. While the CEC supports efforts to avoid these mistakes in developing information systems for transmission services, we urge the Commission to take great care in designing industry-wide standards for market-oriented RINs.

In addition to the need to accommodate alternative market structures, the Commission should also recognize regional differences in development of information systems for transmission services. Due to the physical configuration and network topology of different regional transmission networks, as well as different approaches to defining transmission services and dealing with transmission-related issues (which are to some extent historical) the Commission should allow flexibility for different RINs, including standards and information requirements, to be developed to meet the needs of different regions. A "one-size fits all" approach to RINs could inhibit the development of different market structures and reliance on different management practices better suited to the individual needs of regional transmission systems.

Respectfully submitted,

John D. Chandley
Counsel for the California Energy Commission