



**MWD**

*THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA*

**LEGAL DEPARTMENT**

**Date:** October 4, 2004  
**To:** California ISO Governing Board  
**From:** The Metropolitan Water District of Southern California  
**Subject:** Comments on revised CAISO proposal for Existing Transmission Contracts

Metropolitan is pleased to have this opportunity to provide comment on the CAISO's Proposal for Honoring Existing Transmission Contracts ("ETCs") as revised in a white paper dated September 20, 2004 and as further clarified at a stakeholder meeting held September 27, 2004. Although details of the revised Proposal have yet to be developed, Metropolitan supports it in concept, as discussed below.

In particular, Metropolitan appreciates the efforts made by CAISO staff to obtain a "win-win" result for ETC rightsholders, market participants, and the CAISO. This result is best achieved under the Perfect Hedge option, under which ETC capacity that is not scheduled in the Day-Ahead market is released for use by other market participants, subject to the ETC rightsholder's ability to schedule that capacity up to 20 minutes prior to the start of the operating hour.<sup>1</sup> The CAISO will redispatch non-ETC schedules or resources as necessary to permit the ETC party's use of its contract capacity. Although the ETC holder will be assessed congestion charges incurred from its Day-Ahead or ante 20 minute schedule, the CAISO will reverse those charges. Such charges will be allocated to metered demand and exports for the hour or ten-minute interval, as appropriate, in which they are incurred.

The foregoing reflects a balanced compromise for all concerned. The CAISO has expressed strong reservations regarding its ability to reserve ETC capacity internal to its control area in a full network model. ETC rightsholders have long expressed their strong interest in ensuring that their ETC rights are unaffected by the CAISO's next market restructuring effort. PTOs providing ETC service have also long expressed their interest in honoring their ETCs at the lowest possible cost, consistent with cost-causation principles. The Perfect Hedge option appears to satisfy all these objectives.

---

<sup>1</sup> The CAISO has indicated that it will honor ETC schedules submitted in the Simplified Hour-Ahead market and, where permitted under the ETC, up to 20 minutes before the operating hour. For simplicity herein, Metropolitan references the post-DA schedule as the ante 20 minute schedule.

The CAISO will not be required to reserve any capacity to honor ETCs. Instead, it will redispatch after the close of the Day-Ahead market as described above. Although the CAISO presently reserves capacity at the control area and zonal boundaries as necessary to honor ETCs, it does not reserve capacity for ETC service within a zone. The CAISO's revised Proposal is consistent with the manner in which the original PTOs implemented ETCs prior to CAISO operation.

Under most circumstances, ETC rightsholders will continue to enjoy the ability to schedule under their ETCs, since the CAISO has represented that it expects to be able to accommodate by redispatch ETC schedules submitted ante 20 minutes. Since the CAISO has now proposed that the cost of redispatch to honor ETCs be spread to metered demand and exports in the hour or interval in which such redispatch occurs, PTOs are no longer threatened with having that cost solely allocated to them.

Finally, the cost of honoring ETCs is allocated to those that benefit from the revised CAISO proposal. To the extent that an ETC rightsholder doesn't use its ETC capacity entitlement in a given hour, market participants scheduling in that hour benefit from the release and available use of that capacity after the close of the Day-Ahead market.<sup>2</sup> If the ETC rightsholder exercises its right to use that capacity up to 20 minutes before the start of the operating hour, redispatch costs incurred are fairly allocated to the metered demand and exports that would have benefited from use of such ETC capacity during that operating hour.

The CAISO explains that it will model ETC capacity in the CRR allocation to ensure congestion revenue adequacy; no CRR rights are awarded to ETC rightsholder under the Perfect Hedge option. The CAISO has also assured ETC rightsholders that they will receive a full reversal of congestion charges associated with submittal of their ETC schedules, even if the CAISO underestimates the amount of ETC capacity ultimately exercised by the rightsholder. This is an appropriate result; if the CAISO wishes to adopt a conservative approach to CRR modeling, it will use actual ETC capacity. If it wishes to adopt a more liberal approach, it should bear the ensuing risk.

---

<sup>2</sup> The CAISO has explained it is impossible to determine, in a full network model, those particular market participants that benefit from use of certain ETC capacity released after the close to Day-Ahead market because the effects of such release are so diffuse. Accordingly, it is appropriate to conclude, as the CAISO has done, that all metered demand and exports scheduling in the hour or interval that ETC capacity was released obtain benefit from it.

Metropolitan supports the CAISO's proposal for automated validation of ETC schedules.<sup>3</sup> The CAISO has utilized ETC operating instructions developed by PTOs since its inception. Metropolitan is unaware of any problems arising from such existing operating instructions. To the extent that use of a full network model may cause new problems, the CAISO should flag them now. If the ETC parties are unable to resolve any resulting disputes, they should invoke their contract dispute resolution procedure or, if none is specified, the procedure established under the CAISO Tariff. Since MRTU implementation is more than two years away, there should be ample time for resolution of potential problems.

Some market participants who never had ETCs or whose ETCs have expired have objected to the CAISO's proposal because they don't believe they should share in the cost of CAISO redispatch to honor ETCs. Metropolitan urges the GOVERNING BOARD to conclude, as have the CAISO and the CPUC, that such allocation is fair. Other market participants will have the use of ETC capacity to the extent that it is not scheduled by ETC rightsholders. When the ETC rightsholders forego use of their contract right, they create a benefit for market participants for which the ETC rightsholders will receive no compensation. So when redispatch costs are incurred because the temporary benefit of additional transmission capacity disappears because the ETC rightsholder exercised its contract right, it is appropriate that such ETC rightsholders be held harmless from any redispatch costs incurred to honor their contract right. In addition, load serving entities have benefited from interconnected transmission systems that increase transfer capabilities and provide access to lower cost energy. PTOs have also benefited from such interconnections by receiving transmission system back-up in case one line fails.

Furthermore, Metropolitan does not believe that the amount of megawatts associated with ETCs still in effect in 2007 will exceed 10% of CAISO peak load, and may be significantly less. Metropolitan urges the CAISO to expedite its review of the ETC data submitted to FERC this summer so that all market participants will have better knowledge regarding the magnitude of the ETC issue in 2007.

As the CAISO approaches six and one-half years of operation, it's appropriate to note the many if not frequent changes to the CAISO Tariff. While much has changed and will continue to change in MRTU implementation, Metropolitan is hopeful that the essential elements of the CAISO's revised Proposal will have at least five year's durability. Almost all if not all ETC rightsholders are load-serving entities. It's difficult to plan to reliably serve load at least cost in the face of constant change. Metropolitan urges the

---

<sup>3</sup> However, rather than have the PTO simultaneously submit an ETC-specific parameter table to the ISO and ETC rightsholder, it would be far more efficient for the PTO to initially submit the table to the ETC rightsholder for its review and concurrence.

Governing Board to consider a minimum five year durability for the CAISO's revised ETC Proposal.

Finally, Metropolitan eagerly awaits CAISO issuance of the white paper describing its proposed of treatment Transmission Ownership Rights ("TOR"). Based upon informal discussions with CAISO staff, Metropolitan understands the CAISO will propose to treat transmission rights based upon ownership of facilities that are *not* part of the CAISO Controlled Grid but within the ISO Control Area with far more deference than it has proposed to treat ETCs. For example, capacity from such TORs should be carved out from a path's operating capability, especially for radial lines emanating from interties. Metropolitan strongly supports such treatment and believes it is the only appropriate treatment for entities owning such facilities. We look forward to the opportunity to submit comments on that proposal in the near future.