

Imperial Irrigation District Comments on CAISO's Proposal for Honoring Existing Transmission Contracts

The Imperial Irrigation District (IID) appreciates this opportunity to provide comments on the proposal by California Independent System Operator (CAISO) to honor Existing Transmission Contracts (ETC) in their proposed Market Redesign. The September 20, 2004 White Paper ("White Paper") and the stakeholder meeting on September 27, 2004, have shown considerable progress in the CAISO proposal since the first draft in March of 2003. The efforts of the CAISO staff to seek stakeholder input over the last few months are to be commended. However, the current proposal still falls short of the Federal Energy Commission's (FERC) October 28, 2003 Order on MD02 that required ISO to demonstrate that ETC rights holders would not experience a diminution of their contractual rights under the CAISO's proposal. IID offers the following comments to aid in refocusing efforts to that end.

Perfect Hedge

CAISO's 'perfect hedge' option attempts to honor ETC holders use of their transmission without additional charges. The White Paper leaves several questions unanswered:

1. The White Paper discusses backing out congestion charges but does not address the other charges currently in the CAISO Tariff that could result from the proposal such as real-time redispatch costs. If the proposal is to keep ETC rights holders whole, then ALL charges not contemplated in the existing contracts including higher line loss calculations cannot be charged to ETC rights holders.
2. The right to resell unused transmission is not solved by the perfect hedge. Currently, ETC holders can post their unused transmission on their own OASIS for resale with no extra costs beyond those contemplated under the contract. However, the White Paper is not clear as to whether the rights of the original ETC holder would transfer to the third party purchaser of those rights. This is an absolutely diminution of economic value of the ETC.

Congestion Management Alternatives

In redesigning its market structure, the CAISO sought to find a solution to the alleged "phantom congestion" problem. Unfortunately, the CAISO's ETC proposal does not make more transmission available. Rather, it just strips the rights to sell transmission from the ETC holders. By following APX's proposal, and purchasing the transmission from ETC holders on an OASIS like westTTrans, the CAISO could better schedule in the day ahead instead of waiting for the hour ahead or real time. This would more fully comply with WECC protocols for reserves, solving phantom congestion and not abrogating the rights of ETC holders. The preferable alternative would allow that after the ETC holders file their day ahead schedules, they post the remaining transmission on the westTTrans OASIS. The CAISO could then acquire transmission from the westTTrans OASIS to relieve congestion. The utilization of such an alternative would induce ETC

holders to make available any unused transmission capacity because they would be paid for third parties' use of their transmission rights. In addition, it would provide ETC holders the flexibility that they need to call on such transmission capacity if reliability is in any way jeopardized.

Transmission Ownership Rights

IID is an owner in the Southwest Power Link (SWPL). IID agrees with the CAISO's position in the White Paper that clearly distinguishes transmission ownership rights from the ETCs being discussed under the current stakeholder process.¹ It is important to the future of California transmission that the CAISO recognize it has no legal authority to attempt to co-opt transmission owned by another entity. If the investments that were made by neighboring control areas to serve their loads are not protected from illegal usurpation by the CAISO then the future of cooperative transmission planning would end. All California ratepayers would suffer if neighboring control areas will not work together to plan long range transmission projects to serve the ever growing California population.

In the ETC White Paper, the CAISO suggests that the computer system-wide modifications necessary to implement recallable transmission Service (RTS) were expected to be fairly expensive and extensive. WestTrans surpasses the RTS model by allowing participants to offer firm/nonfirm service. The APX proposal, which provides for ETC holders to post their available transmission capacity on westTrans, would lessen the phantom congestion.

IID requests that the CAISO's paper and policy on TOR rights be released before they seek FERC to approve their ETC proposal. We believe the commonality of issues requires a broader review of the CAISO's plans under MRTU.

¹ "ISO does intend in it upcoming FERC filing to argue that these "Transmission Ownership Rights" (TORs) are different and merit differential treatment compared to ETCs, and that the proposal discussed in this document and in the upcoming FERC filing applies specifically to the ETCs only. CAISO White Paper "Market Redesign and Technology Upgrade (MRTU) Proposal for Honoring Existing Transmission Contracts" Revised September 20, 2004, page 3, footnote 1.