

City and County of San Francisco's Comments on the
CAISO Proposal presented in the September 19, 2008
Draft Final Proposal On Uneconomic Adjustments

October 3, 2008

San Francisco appreciates the opportunity to respond to the proposal presented in the September 19, 2008 CAISO Draft Final Proposal on Uneconomic Adjustments in the MRTU Market Optimizations ("September 19 Proposal") as part of the on-going stakeholder process consideration of the "Parameter Tuning" proposals. In these Comments, San Francisco addresses the proposal to amend the MRTU Tariff to provide authority for uneconomic adjustments of balanced, valid Existing Transmission Contract (ETC) and Transmission Owner Rights (TOR) Self-Schedules in the Integrated Forward Market (IFM) and implement a new "Perfect Hedge" proposal to reverse charges for the congestion cost consequences to an ETC/TOR Holder of any such uneconomic adjustment. Specifically, San Francisco urges the CAISO to use the Load Distribution Factors (LDFs) applicable to Default Load Aggregation Point (DLAP) settlement for modeling ETC/TOR Custom LAP (CLAP) scheduling and settlement. This alternative approach best honors ETC/TORs rights and provides the CAISO with the tools necessary to resolve constraints under extreme and rare grid conditions.

San Francisco has consistently articulated two broad areas of protection for ETC/TOR rights holders that are contravened by the terms of the CAISO's Uneconomic Adjustment proposal to allow the CAISO the authority to adjust ETC/TOR Self-Schedules in the IFM. The first concerns the obligation of the CAISO to honor existing contract provisions by their own terms through MRTU Tariff maintenance of balanced

forward schedules and highest curtailment priority above the economic bids submitted in the CAISO's markets. (*See*, MRTU Tariff Section 31.4.) The second concerns the obligation to avoid any additional cost increases and operational and financial risks introduced through the unbalancing of a valid, balanced ETC/TOR Self-Schedule by the CAISO. Any proposal must uphold these cornerstones of protection for ETC/TOR rights.

In this context, two principles must drive the design of any new uneconomic adjustment mechanism proposed for inclusion in the MRTU Tariff. First, ETC/TOR holders must have their scheduling priority maintained at the same level of service received historically. Second, ETC/TOR holders must be kept whole with respect to any financial consequences resulting from uneconomic adjustment of valid ETC/TOR Self-Schedules through operation of a CAISO proposed uneconomic adjustment mechanism.

Following the initial "Parameter Tuning" proposal presentation and related Comments, San Francisco and the CAISO exchanged iterative proposals and engaged in discussions designed to examine and test solutions to the CAISO's problem of the need to curtail ETC/TOR Self-Schedules under extreme grid conditions while honoring ETC/TORs as directed by FERC and adopted in the MRTU Tariff.

San Francisco requested testing of extreme penalty prices as a possible avenue to preserve ETC/TOR scheduling priority as set forth in the MRTU Tariff. After testing results of extreme pricing parameters revealed that significant portions of DLAP demand would have to be curtailed in order to preserve ETC/TOR scheduling priority, it became clear that the use of Custom LAP demand scheduling for ETC/TOR Self-Schedule settlement caused the loss of scheduling priority for ETC/TOR Self-Schedules above generic Self Schedules under the CAISO Uneconomic Adjustment proposal. The CAISO

acknowledges this explicitly in its September 19 Proposal. The CAISO states: “CAISO recognizes how the use of D-LAP for most of the load and locational pricing for ETC load does compromise the intended scheduling priorities as stated in the tariff.” (CAISO September 19 Proposal at page 13.)

At the September 25, 2008 Joint MSC/Stakeholder Meeting, San Francisco presented an alternative to the CAISO’s treatment of uneconomic adjustment to ETC/TOR Self-Schedules. San Francisco's proposal demonstrated the causes of the loss of ETC/TOR Self-Schedule Priority (MRTU Tariff Section 31.4) inherent in the CAISO Proposal and the full range of financial consequences, including, but not limited to congestion cost exposure. The discussion below shows that San Francisco’s proposal best accomplishes the goals of preserving ETC/TOR Scheduling Priority and preventing imposition of numerous costs and financial risks through the CAISO’s imposition of uneconomic adjustments.

Scheduling Priority

If ETC/TOR Custom LAP load is not scheduled and settled using the same granularity as non-ETC/TOR loads, ETC/TOR scheduling priority cannot be ensured. This means that as currently proposed by the CAISO, non-ETC DLAP load effectively has higher priority than smaller ETC CLAP loads, even though the DLAP Self-Schedule penalty price is lower than the ETC/TOR CLAP penalty prices. San Francisco provided an example to the MSC/CAISO Stakeholders on September 25 that illustrated how a 100 MW ETC load schedule on the San Francisco Peninsula would be improperly adjusted downward by 50 MW, while the corresponding non-ETC self-scheduled load of 20,000 MW would not be adjusted at all, even though 2,000 MW of that load was located on the

San Francisco Peninsula (Figure 1). This would occur even though the ETC load by contract could only be interrupted in real time by 2.4 MW and the non-ETC load would be responsible for 47.6 MW of load interruption (Table 1).

Figure 1

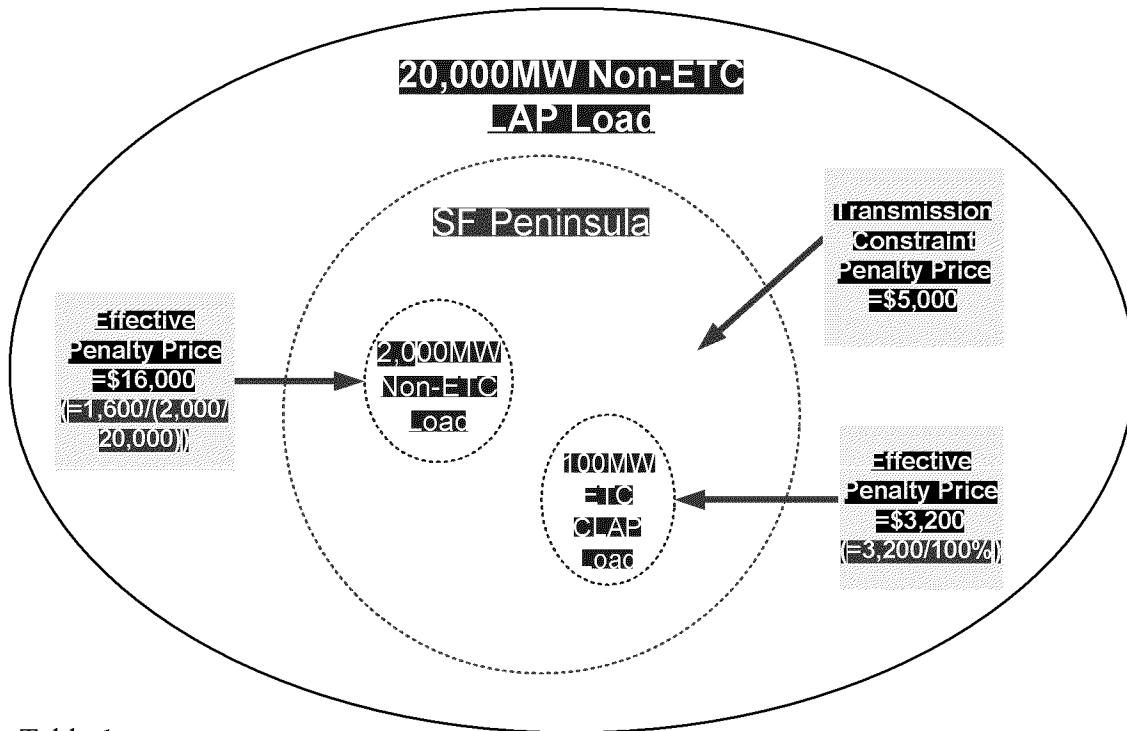


Table 1

Load	Schedule Adjustment (MW)	
	ISO Proposal	Contractual
ETC CLAP in SF Peninsula	50	2.4
Non-ETC DLAP in SF Peninsula	0	47.6
Total SF Peninsula	50	50

ETC/TOR Financial Exposure Due to Improper Schedule Adjustment

If the CAISO fails to maintain the proper ETC/TOR scheduling priority, it will expose the ETC/TOR loads to myriad charges beyond simple congestion costs for the amount of load that is improperly adjusted beyond the amounts that permissibly could be interrupted in real-time. In its September 19 Proposal, the CAISO only addressed potential exposure to congestion costs in its proposal to mitigate the financial impact of its broader proposal. This proposal is wholly inadequate as it fails to acknowledge the wide range of potential new cost impacts and financial risks that would need to be credited in order to make ETC/TOR holders financially whole from consequences flowing from the CAISO's uneconomic adjustments.

In addition to congestion costs, there are other costs that would need to be reversed. One important cost not addressed through the Perfect Hedge that ETC/TOR holders may face is high real-time Energy costs relative to the Day-Ahead prices that would have applied to their transactions, but for uneconomic adjustment of their transactions. The CAISO presented a proposal for a Real-Time Energy Price cap because it has observed extremely high real time Energy prices in its Market Simulations (prices in the tens of thousands per MWh). The CAISO proposal makes the ETC/TOR holders vulnerable to those same prices without providing credit for real-time Energy costs under its expanded "Perfect Hedge" proposal. This is a key cost component that must be reversed.

Other costs that would need to be reversed include: 1) charges for uninstructed deviations; and 2) penalties applied to under scheduled load. Additional charges faced by ETC/TOR holders through uneconomic adjustments of ETC/TOR Self-Schedules

include, but are not limited to, 1) RUC Tier 1 Allocations to metered demand in excess of IFM cleared demand, 2) IFM Bid Cost Recovery allocations to net negative deviations, 3) Intermittent Resource Net Deviation Allocations to demand net negative deviations, and 4) GMC Energy Transmission Services Deviations charged for usage of the real-time market. There may be other, as yet unidentified, financial and operational consequences that would need to be mitigated.

Rather than relying on mitigation measures to correct the problems created by not maintaining the ETC/TOR scheduling priority, San Francisco urges the CAISO to directly address the underlying problem. That is, the CAISO should allow ETC/TOR CLAP loads to be scheduled and settled using the same LDFs as are used for the DLAP loads. Doing so would ensure that the ETC/TOR scheduling priorities are maintained using the penalty prices incorporated in the IFM model. This approach avoids the unintended consequences of not respecting scheduling priority.

For all the foregoing reasons, San Francisco urges the CAISO to accept San Francisco's D-LAP LDF settlement proposal as an integral and necessary component of its Parameter Tuning mechanism and that the CAISO ensure that ETC/TOR holders are kept whole from any costs that result from impermissible curtailments of otherwise valid ETC/TOR Self-Schedules. Implementing the former will significantly increase the likelihood that ETC/TOR scheduling priorities will be maintained. Implementing the latter will provide protection in the rare event that ETC/TOR schedules are improperly curtailed. CCSF believes that by implementing the first element, the CAISO can avoid having to expend resources developing automated procedures for reversing improper charges, since the frequency of such charges being applied should be reduced

significantly.