

California Department of Water Resources Comments on California Independent System Operator's Merchant CRRs Related to Blythe Path 59

October 17, 2008

The California Department of Water Resources (DWR) appreciates the opportunity to provide comments on the California Independent System Operator's (CAISO's) discussion paper "Blythe Path 59 Upgrade by FPL Energy," dated September 24, 2008 and its corresponding discussion during the October 9, 2008 stakeholder conference call.

After reviewing Section 36.11 of the MRTU Tariff, relevant sections of the Currently Effective ISO Tariff and proposed amendments, and Section 14 of the Business Practice Manual for Congestion Revenue Rights (CRRs), DWR requests that the CAISO identify and/or clarify if any scaling factors associated with transmission losses and reactive power are used in the MT Process and, therefore, in determining FPL Energy's MT CRRs.

The CAISO is proposing to provide Florida Power and Light Energy (FPL) with 96 MW of Congestion Revenue Rights (CRRs) options in both directions from Blythe scheduling point to Eagle Mountain 230 kV for the purpose of transitioning FPL Energy from its previously elected FTRs to option CRRs for its energized Merchant Project. The CAISO is applying the Merchant Transmission (MT) Process described in Section 36.11 of the MRTU Tariff and detailed in Section 14 of the Business Practice Manual for CRRs in its determination of the feasibility of FPL Energy's incremental MT CRRs.

DWR understands that the CAISO uses scaling factors in the annual and monthly CRR allocation process to derate the constraint limits, thereby limiting the amount of CRRs provided to Load Serving Entities (LSEs). By the same token, it appears to DWR that it would be inconsistent for CAISO to apply these scaling factors to non-MT CRRs (annual and monthly allocation and auction processes) while not applying them to the MT CRR process.

DWR believes that the treatment of FPL Energy's transition from FTRs to CRRs will be precedent setting for future qualified Project Sponsors requesting MT CRRs under the MRTU MT Process, therefore, DWR urges the CAISO to clarify its application of scaling factors in the MT Process in MRTU Section 36.11 and the BPM for CRRs Section 14. If CAISO chooses not to apply scaling factors in this instance then future MT Project Sponsors may choose to elect CRR options and cite FPL Energy's treatment as reason to eliminate any type of transmission loss or reactive power loss scaling factors in determining their MT CRRs. In addition, allocating MT CRRs under these circumstances could result in inflated levels of CRRs to MT Project Sponsors that could impact LSEs both in revenue adequacy where shortfalls are then levied against all LSEs and in limiting CRRs on certain paths to LSEs.