

Stakeholder Comments Template

Subject: Setting Parameter Values for Uneconomic Adjustments

Submitted by	Company	Date Submitted
<i>Rick Buckingham Senior Transmission Contracts Specialist rbucking@water.ca.gov</i>	<i>California Dept of Water Resources – State Water Project (CDWR-SWP)</i>	<i>August 6, 2008</i>

CDWR-SWP appreciates the opportunity to comment on the Parameter Tuning for Uneconomic Adjustment Policy (Parameter Policy). As CDWR-SWP explained in its prior comments, it relies upon reliable electric transmission service to provide essential water deliveries to millions of Californians. Drought conditions and recently imposed severe environmental restrictions placed on CDWR-SWP pumping operations at the Bay/Delta Banks facilities, which serve as the intake point for the California aqueduct, have vastly reduced CDWR-SWP's ability to tolerate interrupted or altered operations to accommodate the power grid. Thus CDWR-SWP must be able to rely on the physical firm transmission rights it has under contract, even after MRTU becomes effective.

CDWR-SWP continues to be concerned that such firm transmission may be undermined by the Parameter Proposal. Under the Proposal, the CAISO could adjust or outright curtail schedules that would impact operations at the Oroville Complex and at the Banks Pumping Plant. Such impacts, if occurring during critical water delivery operations, could have a profound negative effect on CDWR-SWP's primary mission – to provide flood control and water delivery services to more than 29 million Californians.

CDWR-SWP has provided comments in previous rounds of stakeholder input that details its analysis of the potential impacts of Parameter Policy upon CDWR-SWP facilities. While CDWR-SWP retains all rights that it has before the Federal Energy Regulatory Commission (FERC) in pursuing relief from the Parameter Policy's adverse impacts, CDWR-SWP does not want to have such legal processes become an obstacle to the MRTU Go-Live date.

Therefore, CDWR-SWP would recommend that there should be a provision in the upcoming CAISO Tariff filing that recognizes some "work-around" for facilities that are under: environmental, irrigation, and water supply requirements according to federal or State laws, regulations, or other governing jurisdictional authority that could also include declared water emergencies by the Governor. The CAISO tariff already contains similar work-around provisions that enable CDWR-SWP to manage its hydroelectric generation outage control in a manner that enables it to meet its water management obligations as a first priority. These provisions, adopted

in the wake of a 9th Circuit decision recognizing the need for electric service that accommodates water mandates, have worked well and could serve as a model in the parameter tuning context.

In this vein, CDWR-SWP offers four items that could be considered in the development of such an operations-related work-around.

- a) Implement a “flag” for special conditions in which SWP’s operations are critical and SWP facilities excluded from Parameter Tuning. Such a flag could be used in the day-ahead scheduling process when SWP operators submit a schedule to the CAISO.
- b) Implement a process by which SWP's operators telephone or fax advance week-ahead notification to the CAISO of impending critical water delivery periods in which the SWP operations will be critical and SWP facilities excluded from Parameter Tuning.
- c) Clarify to DWR satisfaction the reasons by which SWP could refuse a Parameter Tuning dispatch adjustment for water operations or delivery requirements. This option is different than above in that rather than DWR giving advanced notice, this option allows Parameter Tuning to include SWP facilities at all times. However, SWP would then refuse adjustments during special conditions. This option must make it clear that DWR would not be penalized for such refusals in any way.
- d) Enter into an advance agreement with DWR on a limit to the frequency and duration of schedule adjustments to SWP facilities that could occur per week and month as a result of Parameter Tuning. This option would not require specific special conditions to be present to trigger adjustments of SWP facilities under Parameter Tuning but would allow SWP operators to plan ahead and be able to plan around possible adjustments.

Comments to CAISO-posed Questions

The July 31, 2008 CAISO Market Notice requests stakeholder comments to specific questions that were posed by CAISO staff. CDWR-SWP’s response to each question is as follows:

1. Please propose or comment on the appropriate principles or rules for setting prices in the Real Time Dispatch when supply is insufficient to meet the CAISO demand forecast.

If parameter tuning proceeds as the CAISO has proposed, an otherwise firm, high priority ETC will be potentially vulnerable to curtailment if its generation or load has, in the CAISO’s view, a greater “effectiveness factor” than other load and generation regardless of the other’s priority of transmission service. Thus the principles and rules for setting prices in terms of parameter tuning need to clearly distinguish, in operations, between service that is firm except for physical force majeure events as opposed to ordinary self-schedules using lower priority CAISO transmission service. The values that the CAISO is currently proposing are far too compressed to reflect the very different levels of service. For instance, ETCs should be valued as orders of magnitude higher than ordinary CAISO service, and

TORs significantly higher. Otherwise, loads and generation using ETC service (especially if it involves load or generation with high “effectiveness”) become potentially more vulnerable to interruption than less “effective” loads and generation with lower priority ordinary CAISO service. Such a result, which would curtail firm ETC service in order to reduce prices for other, lower priority CAISO service, cannot be reconciled with the CAISO’s commitment to honor ETCs and TORs.

2. Multiple priority levels for ETCs. The CAISO believes that MRTU Tariff Section 16.4.5 (8) adequately covers possible priority differences for ETCs, i.e., that the service types identified in this section are the only relevant basis for establishing different priority levels in the MRTU software for ETCs. Parties are asked to comment on whether they agree with this assessment, or if not, to specify any further needs that must be addressed.

As noted in answer #1, if the CAISO proposal is used, the values assigned need to be far higher for ETCs/TORs. In fact, as discussed in answer #3 below, CDWR-SWP would like to see cases run to reflect ETC values that are as high as TORs, to reflect those ETCs that have ownership-type rights which are similar to the rights of TORs.

That said, at the July 30th meeting, CAISO staff described a process in which there would be a range of parameter values for ETC schedules. Currently, CAISO staff has proposed a range of 3200 to 4500 for such ETC schedules. CAISO staff apparently intends to use the descriptions within the Transmission Rights and Transmission Curtailments (TRTCs) submittals by the PTOs as a way to assign transmission priorities within the ETC schedule grouping, i.e., higher priority ETC service would be closer to the 4500, while other ETC service that is deemed a lower priority would be assigned a value closer to the 3200.

CAISO staff indicated its plan to have approximately 7 intermediate steps between the 3200 and 4500 in order to characterize the relative priorities.

CDWR-SWP is concerned with this approach. First, the process would rely entirely upon an unilaterally-submitted TRTC which may, or may not, describe the service that an ETC customer believes that is in fact receiving. Since the ETC customer has relatively few remedies for incorrect TRTCs that it can take prior to MRTU Go-Live, this process seems flawed.

This unilateral submission is at odds with the CAISO tariff. TRTC instructions are, under Sections 16.4.1, 17.1 of the CAISO tariff, supposed to be mutually developed by parties to ETC and Transmission Owner contracts. SWP has not, however, observed that the CAISO has enforced this requirement with, for instance, a requirement for a signoff from both parties.

Furthering CDWR-SWP’s concerns is that since the CAISO has maintained that it will not make TRTCs available to all stakeholders, there is currently no way that an ETC customer can be assured that the relative priority assigned to it by the CAISO is accurate. TRTCs are

intended to be brief summaries of ETC contracts so that the CAISO will not have to interpret such agreements. Since such ETC contracts are in fact public (and available at the Federal Energy Regulatory Commission), then why would a summary of a contract not be similarly made public? If the CAISO will not make such information public, it should develop another means of ensuring that ETC and TOR customers will have confidence—and can confirm in practice—that their priorities are in fact properly observed.

It is the cornerstone of markets that all stakeholders should have the same access to information. Indeed, the CAISO has made pledges for transparency throughout the MRTU and Order 890 program implementations. FERC has found that without full transparency, transmission owners and operators have an opportunity to engage in undue discrimination. Order 890 at P 26. Previously, the lack of information from PTOs on how to properly treat ETCs contributed to unnecessary “phantom congestion” resulting for unneeded large CAISO reservations of ETC capacity. This, in turn, diminished Available Transfer Capacity in non-transparent ways.

Finally, CDWR-SWP requests that the CAISO provide information as to how it will take contract language (i.e., words) and convert them into numerical parameter values (the intermediate values within the ETC class). Since ETC contracts were negotiated and executed at different times in history, it is reasonable to expect that the wording may change (or evolve) from one ETC to another.

Unilateral TRTC submissions that are used as a basis for a conversion to a numerical relative priority (without a clear description of how the conversion takes place) leads to questions about the appropriateness and actual outcomes of the entire process. The CAISO must ensure that its process is transparent to the market, fair to the ETC/TOR customer, and consistent in its application of the relative priorities.

3. Parties are asked to describe any specific types of test cases they would like the CAISO to run and analyze in relation to the parameter tuning effort. Please explain the proposed case in enough detail to make it clear what question or issue is being addressed. In addition, please identify any particular Market Simulation cases you have encountered in the Market Simulation process and believe are important to examine for parameter tuning issues, and explain the relevance of such cases.

CDWR-SWP would like the CAISO to run a test case in which it assigns the CDWR-SWP schedules with a parameter value equal to that of the TORs. CDWR-SWP believes that its ETC contract with PG&E (which requires CDWR-SWP to provide significant reliability support, including support to the capacity rating of Path 15) provides it with a transmission priority that is equal to that of TORs. The purpose of this requested run is to determine how often, if at all, CDWR-SWP schedules would be adjusted as a result of this Parameter Tuning/Uneconomic Adjustment Policy.

As discussed below, CDWR-SWP would also like the CAISO to run a test case in which, in order to avoid reduction of LAP demand, the CAISO relaxes a binding transmission

constraint by making use of the fact that “Scheduling Coordinators have submitted Self-Schedules for Participating Load in the constrained Load pocket,” pursuant to MRTU tariff Section 31.3.1.3(b)(2).

4. Other

CDWR-SWP requests an explanation of Section 31.3.1.3(b)(2) of the MRTU tariff. For purposes of relaxing transmission constraints to avoid LAP demand reductions, that section contemplates the use of “(2) Scheduling Coordinators have submitted Self-Schedules for Participating Load in the constrained Load pocket.” CDWR-SWP is particularly interested in use of Participating Load in Section 31.3.1.3(b) as compared to “(3) there are non-Resource Adequacy Resources and non-RMR Units within the constrained Load pocket that did not participate in the Day-Ahead Market but can be called upon under their Participating Generator Agreement before the CAISO curtails firm Load.”

In this stakeholder initiative, the CAISO has stated that it will explain, with respect to Section 31.3.1.3,¹ “how the rules will function, who are the affected parties, how they are affected, or the impact it will have on market prices. . . . In addition, [FERC] direct[ed] the CAISO to clearly articulate in the compliance filing transmittal letter: (1) what the revised provision does; (2) how the provision works in practice; (3) the practical and financial effect of the provision on the market participants; and (4) detailed answers to the questions raised by commenters.”²

In summary, CDWR-SWP requests that the CAISO provide an explanation of each of these FERC-identified points with respect to Section 31.3.1.3(b)(2).

¹ Through tariff revisions, the language in former MRTU Section 31.3.1.2, the subject of the Commission’s order, has moved to MRTU Section 31.3.1.3.

² *Cal. Indep. Sys. Operator Corp.*, 119 FERC ¶ 61,313 P 163 (June 25, 2007).