

| Stakeholder Comment Template | |
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| CAISO Integrated Balancing Authority Area (IBAA) Proposal | |
| Organization: Calpine Corporation | Date Submitted: 4/28/08 |
| Organization Representative: Rosemary Antonopoulos | Contact Number: (925) 479-6811 |
| Industry Segment: Generator | |
| <p>Instructions: The CAISO is requesting written comments on the <i>Draft Final Proposal on Modeling and Pricing of Integrated Balancing Authority Areas (IBAA)</i> that was discussed at the April 11th MSC/Stakeholder meeting, a written draft of which was posted on April 18, 2008 at http://www.caiso.com/1fad/1fad12f244a990.pdf. This template is offered as a guide for entities to submit comments.</p> <p>All documents related to the CAISO's IBAA proposal are posted on the CAISO Website at the following link: http://www.caiso.com/1f50/1f50ae5b32340.html</p> <p>Upon completion of this template please submit (in MS Word) to kalmeida@caiso.com . Submissions are requested by close of business on Friday April 25, 2008.</p> | |
| <p>Reference Section 2.0 (Proposed IBAA Modeling Methodology) of the CAISO Draft Final Proposal.</p> <p><i>In Section 2.0, the CAISO makes the following statements:</i></p> <ol style="list-style-type: none"> 1) <i>"In order to manage congestion as accurately as possible on the CAISO Controlled Grid it is important to accurately reflect the effect of intertie transactions in the FNM to the extent feasible."</i> 2) <i>"One intended purpose of the IBAA modeling and pricing provisions is to ensure that there will not be large differences between scheduled intertie transactions (and scheduled flows) with the IBAA's and actual intertie transactions (and actual flows) with IBAA's."</i> 2) <i>"Improved modeling of external systems in the FNM and lessening discrepancies between modeled and actual flows means increasing the accuracy of the LMPs in reflecting system conditions and managing congestion."</i> <p><i>Based on the description of the proposed modeling approach in Section 2 pp. 3-5, please indicate whether your company supports, does not support, or conditional supports, the CAISO's proposed modeling methodology and whether your company believes the CAISO's modeling methodology will achieve the results described in (1) and (2), above. If your organization does not support the CAISO's proposal, please provide specific reasons for your position and possible alternative approaches that achieve the CAISO's stated objectives.</i></p> <p style="text-align: center;">Calpine Corporation ("Calpine") appreciates this opportunity to comment on the CAISO Integrated Balancing Authority Area ("IBAA") proposal ("Proposal"). Calpine agrees that in order to manage congestion as accurately as possible on the CAISO Controlled Grid it is</p> | |

important to accurately reflect the effect of intertie transactions in the FNM to the extent feasible. Calpine believes that the IBAA modeling methodology pricing proposal does not reflect the true cost of congestion and losses on the CAISO system. Calpine is concerned that the proposed IBAA pricing methodology may inappropriately value intertie transactions and, therefore, does not achieve the CAISO's intended results. Calpine supports intertie pricing.

Reference Section 3.0 (Proposed IBAA Pricing Methodology) of the CAISO Draft Final Proposal.

In Section 3.0, the CAISO outlines the following pricing proposal:

- 1) *a method of pricing transactions to and from the SMUD and TID BAAs based on the following new default IBAA pricing rule:*
 - a) *All imports to the CAISO from the proposed IBAA's would be priced based on the Locational Marginal Price (LMP) at the Captain Jack proxy bus; and*
 - b) *All exports from the CAISO to the proposed IBAA's would be priced based on the LMP at the SMUD Sub-Hub.*
- 2) *that the proposed default pricing rule be applied in the absence of an alternative arrangement which provides for more detailed information regarding the resources supporting the scheduled intertie transaction and there exists demonstrable benefits to the CAISO market of such alternative arrangement. The CAISO may support such alternatives, i.e., more granular, pricing, through the development of case-by-case agreements.*

In addition, the CAISO stated that:

- 3) *The CAISO originally proposed to establish discrete prices for each of six initially identified System Resources or Aggregated System Resources anticipated to support intertie transactions between the CAISO and SMUD and TID BAAs. This was referred to as "Sub-Hub" pricing in the CAISO's December 14 IBAA Discussion Paper. The CAISO's proposal would establish prices for the following Sub-Hubs: SMUD, Western, MID, Roseville, TID and Captain Jack.*
- 4) *The CAISO also stated that it has now moved off of the Sub-Hub based pricing proposal because of concerns that, without further information regarding the resources supporting the intertie transaction, the Sub-Hub proposal may inappropriately value intertie transactions between the CAISO and the proposed IBAA's (i.e., not reflect the true value of such transactions for purposes of managing congestion on the CAISO Controlled Grid).*

Please provide comment on the CAISO's recommended IBAA Pricing Methodology. Please indicate whether your company supports, does not support, or conditional supports, the CAISO's recommended default pricing rule. In circumstances where your organization does not support the CAISO's recommendation, please provide specific reasons for your position and whether your company prefers the Sub-Hub pricing methodology or other possible alternative approaches that support effective and efficient congestion management solutions. In addition, if your company supports the Sub-Hub or other granular IBAA pricing, please indicate whether your company would be willing to enter into an agreement to provide information to the CAISO that identifies and confirms the sources supporting scheduled intertie transactions between the CAISO and an IBAA. Please also indicate what added benefits to the CAISO market your company believes such sub-hub pricing would provide.

Calpine supports intertie pricing. Calpine is concerned that the proposed IBAA Pricing Methodology may inappropriately undervalue intertie transactions. Calpine understands that the intent of the Proposal is to create locational prices. However, this proposed pricing methodology

creates aggregate prices to and from SMUD and may also not properly value intertie transactions. Calpine is concerned that the proposed pricing will not reflect the true cost of congestion and losses on the system.

Calpine notes that the proposed SMUD-Hub includes transmission buses that are not interconnected to the CAISO system. To better understand CAISO's Proposal, Calpine requests the CAISO to clarify how the CAISO will model transmission buses that are not part of the CAISO system.

Calpine further requests that Section 3.5 Rules for Pricing Exceptions of the Proposal includes language to clarify that external resources that are pseudo-tied or dynamically scheduled into the CAISO are excepted from the Proposal and its pricing rules.