

Stakeholder Comment Template	
CAISO Integrated Balancing Authority Area (IBAA) Proposal	
Organization: Southern California Edison	Date Submitted: 4/28/2008
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Industry Segment: (Regulatory Agency, Load Serving Entity, Generator, Marketer, Municipal Utility, Participating Transmission Owner, Non-Participating Transmission Owner, Association)	
<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><i>While SCE supports the CAISO's effort to improve its FNM and to model scheduled flows so that they as closely as practicable represent realized physical flows, we have insufficient information to conclude the CAISO new proposal will accomplish this objective.</i></p>	

As we understand the most recent proposal date April 18, 2008, the CAISO will create two pricing points that will apply to the SMUD and TID Balancing Authorities. Under the current proposal, the CAISO will price all "imports to the CAISO...will be priced at the Captain Jack Sub-Hub or Proxy Bus", and exports from the CAISO to SMUD and TID will be priced at "the LMP calculated at the SMUD Sub-Hub or proxy bus."

SCE understands that many of the eastern ISOs/RTOs have, for pricing reasons, collapsed multiple physical lines and created "in-to" and "out-of" Hub prices. We do not object, in concept, to the CAISO creating similar pricing systems here. However, we are unable to support the CAISO's pricing in the SMUD/TID/MID and Captain Jack areas until we receive additional technical details. Only after we have such details can we make a reasoned evaluation of this proposal and how it compares to the previous pricing proposals. Further, the CAISO should consider releasing analysis based on the previous LMP studies that would illustrate how each of the pricing schemes (i.e. this "single price" proposal compared to the previous 1-price-per-IBAA proposal) would likely perform.

Further, SCE strongly objects to the portion of the CAISO's proposal that will allow case-by-case, negotiated "exceptions" to specific participants to circumvent the new pricing scheme. Put simply, if at its inception the CAISO expects it will need to cut pricing "side deals", we conclude the overall proposal is fundamentally flawed and should not be implemented.

Moreover, by creating a different "in-to" and "out-of" pricing for transactions at the same location, SCE is concerned that unless properly structured this will create gaming/arbitrage opportunities. This can only be prevented if the out-of price (i.e. the "buy" price) is consistently higher than the in-to price (i.e. the "sell" price). And not only do we lack sufficient details on the pricing methodology to know if this will be the case, even if it is the case, this raise fundamental questions as to whether the resulting pricing represents an accurate and reasonable price for sales and purchases of electricity at that location. That is, for transactions at the same location, the marginal sell or buy price would be expected to be almost identical in an efficient and accurately priced market. Because of this potential arbitrage concern, the CAISO may need to consider additional pricing rules that will prevent gaming of the in-to and out-of prices. But again, without additional details we simply cannot tell if this will be the case.

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 prices based on the LMP at the SMUD Sub-Hub.**

As noted above we require additional details. Which point or points in the SMUD Sub-Hub will be used to determine prices? Will there be any averaging of price points, and if so, how will the averages be calculated? What is the justification for using a specific point(s)? What is the relationship between this point the Captain Jack point? Will the choice of these two points prevent



arbitrage (buy low out-of, sell high in-to)? How will the Captain Jack price be calculated? Will a pricing point in the CAISO be used and if so, what point? How are losses treated? What constraints at Captain Jack will be enforced?

- 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.*

As noted above, SCE strongly objects to allowing one off, "negotiated" pricing schemes. If the CAISO's proposal will require such "negotiated" prices, the proposal should not be implemented.

Nevertheless, if the CAISO moves forward with a flawed proposal, all negotiations and new pricing schemes should be subject to:

1) Full public process of all interested stakeholder. Since this pricing may affect many parties and possibly existing, and certainly future contracting arrangements, all stakeholders, not just the single stakeholder seeking custom pricing, must be allowed to participate in the process. Prices throughout the grid are interdependent, and stakeholders need to understand all actions that influence market prices. Further, the stakeholders should be allowed to scrutinize and provide comments and alternatives before the CAISO backs any "negotiated" pricing schemes.

2) CAISO Board approval

3) FERC approval

Thus, while we strongly object to the CAISO negotiating special pricing rules for individual participants, if such a process nevertheless moves forward, stakeholders must have full transparency. The process used here should be similar to the process used for creating the IBAA in the first instance (include all stakeholders in the process, gain Board approval, gain FERC approval.)

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 IBAA's. 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.

[See above.](#)

Reference Section 4.0 of the CAISO Draft Final Proposal.

Under the CAISO's IBAA proposal the CAISO is proposing to establish:

- 1) the measures necessary to address the impact on Congestion Revenue Rights (CRRs) in the event that future IBAs are adopted during the term of released CRRs;
- 2) that new IBAA changes take effect on January 1 of a new year (i.e., in the Day-Ahead Market that is run on December 31), and to provide to market participants all the modeling and pricing details as part of the FNM information package that is made available for CRR purposes prior to the conduct of the annual CRR release process for that year.
- 3) provisions described below for assessing and mitigating impacts on the previously-released Seasonal CRRs for the remainder of that year.

Approach 1: Allow the holder of a previously-released CRR whose source or sink is affected by the IBAA change to make a one-time election either to (a) modify the settlement of the CRR to be congruent to the revised IFM pricing associated with the IBAA change, or (b) retain the original source or sink specification of the CRR.

Approach 2: Modify all relevant CRR settlements to reflect the IBAA change, as in option (a) of Approach 1.

Based on feedback from stakeholders and the CAISO's careful consideration, the CAISO recommends Approach 1 enabling CRR Holders to maintain their intended hedge against potential congestion costs for purposes of serving load, yet allows those CRR Holders that procured a CRR for financial purposes to keep their financial instrument.

SCE continues to support Approach 1. This allows participants the one-time option of converting their existing CRRs to any new pricing or maintaining their CRRs as originally issued.

- 5) *The CAISO proposes to use the CRR Balancing Account – which has already been approved by FERC as the means to ensure full funding of CRRs – to cover any IBAA-related shortfall that occurs in a given month.*

SCE supports this approach.

Please provide comment on the CAISO's recommended approach to addressing Congestion Revenue Right (CRR) related IBAA issues. Please indicate whether your company supports, does not support, or conditional supports, the CAISO's recommendation. In circumstances where your organization does not support the CAISO's recommendation, please provide specific reasons for your position and possible alternative approaches that address the identified problem.

Reference Section 5.0 of the CAISO Draft Final Proposal.

Under the CAISO's IBAA proposal the CAISO is proposing to establish:

- 1) *a process for creating new, or modifying approved, IBAs. The proposed process requires the CAISO to seek collaboration and conduct a consultative process with the affected IBAs and CAISO*



stakeholders. Specifically, the CAISO is proposing to include in its Tariff provisions that would require that the CAISO follow a consultative process with the affected BAA and its stakeholders. Finally, the CAISO would be required to make a FERC filing to modify its tariff to actually add a new IBAA or change any of the elements regarding the existing IBAA reflected in its Tariff.

Please provide comment on the CAISO's recommended process for creating new, or modifying existing, IBAA's. Please indicate whether your company supports, does not support, or conditional supports, the CAISO's recommendation. In circumstances where your organization does not support the CAISO's recommendation, please provide specific reasons for your position and possible alternative approaches that address the identified problem.

SCE believes that before any new pricing scheme for an IBAA is implemented, the CAISO should

- 1) Allow for a stakeholder process that includes all stakeholders, not just the stakeholder within the IBAA.*
- 2) Receive Board approval prior to implementation.*
- 3) Receive FERC approval for the change.*

SCE understands the current CAISO proposal to include these three features and thus we support the proposal.