

**Metropolitan's Comments re Merchant CRRs
for FPL Energy Path 59 Upgrade
October 17, 2008**

The Metropolitan Water District of Southern California (Metropolitan) is pleased to submit these comments in response to the CAISO's Discussion Paper dated September 24, 2008 regarding "Transition to Merchant CRR for Path 59 Upgrade by FPL Energy," the proposed Tariff text posted September 24, 2009, and a stakeholder conference call on this subject hosted by the CAISO on October 9, 2008.

Path 59 is defined by the Western Electricity Coordinating Council as the tie between Western Area Power Administration's 161kV substation at Blythe and SCE's 161kV Blythe Substation. The CAISO proposes to allocate Merchant CRRs to FPL Energy between SCE's 161kV Blythe Substation and SCE's 230kV substation at Eagle Mountain, which is part of the ISO Controlled Grid. SCE's Eagle Mountain substation is located on real property owned by Metropolitan and upon which Metropolitan has a substation directly connected to SCE's. Although SCE's Blythe-Eagle Mountain transmission line is part of the ISO Controlled Grid, it does not interconnect with any other line which is part of the ISO Controlled Grid. Instead, it interconnects with Metropolitan's 230 kV transmission system, which lies within the ISO Control Area but is not part of the ISO Controlled Grid.

Metropolitan and SCE are party to an interconnection agreement for SCE's Eagle Mountain substation, which permits either party to terminate the arrangement upon one year advance notice. That interconnection arrangement is also subject to a comprehensive bundled agreement between Metropolitan and SCE, the Service and Interchange Agreement, which expires in 2017 unless earlier terminated by either party upon five years' advance notice.

For its contribution to the upgrade to Path 59, the CAISO has proposed that FPL Energy be granted 96 MW in Merchant CRRs in the import (east to west) and export (west to east) direction.¹ As clarified by the CAISO in its October 9 conference call, it is proposing that FPL Energy be allocated CRRs for a period of "thirty (30) years or for the pre-specified intended life of the Merchant Transmission Facility, whichever is less," consistent with Section 36.11.1 of its MRTU Tariff for allocation of new Merchant CRRs.

Metropolitan maintains that, in view of the one year advance notice of termination to which SCE's Eagle Mountain substation is subject, the "intended life" of any Merchant CRR allocated to FPL Energy cannot exceed one year, subject to annual one-year renewals if no advance notice of termination has been provided for SCE's Eagle Mountain interconnection agreement or the Service and Interchange Agreement. Alternatively, Metropolitan submits the *maximum* intended life of FPL Energy's Merchant Transmission Facility could not possibly exceed 2017, the year the Service and Interchange Agreement terminates on its

^{1/} Metropolitan has recently requested the CAISO's release of its Full Network Model which we understand was the basis for the CAISO's determination of the magnitude of Merchant CRRs proposed to be allocated to FPL Energy. Until Metropolitan has had the opportunity to study the FNM, it has no comment on the amount of Merchant CRRs proposed for allocation to FPL Energy.

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own terms. Upon such termination, SCE must remove its equipment from Metropolitan's property if Metropolitan has not offered SCE compensation for such equipment or a new arrangement is not reached. Metropolitan is not presently a Participating Transmission Owner and it is extremely unlikely Metropolitan's status will change in the future. Under no circumstance should the CAISO allocate Merchant CRRs to FPL Energy for a period beyond 2017.

Metropolitan notes that, just as with other CRRs, Merchant CRRs allocated to FPL Energy may be traded in the secondary market. The CAISO does not plan to police individual transactions in the secondary market, nor does Metropolitan believe it would be reasonable to expect the CAISO to do so. Since the CAISO will not police secondary trades of CRRs, the CAISO should exercise particular care in ensuring that the CRRs that are subject to secondary trading are valid for the duration for which they are issued. In light of the unique circumstances concerning FPL Energy's Merchant Transmission Facility upgrade, the only way to ensure such validity is to limit the duration of Merchant CRRs allocated to FPL Energy to annual one year renewals.