

Metropolitan's Comments on CAISO's Uneconomic Adjustment Policy

October 6, 2008

The Metropolitan Water District of Southern California (Metropolitan) appreciates the efforts of CAISO staff to address the manner in which it will abide by its prior commitments to honor the rights of holders of Transmission Ownership Rights (TOR) and Existing Transmission Contracts (ETC), as memorialized in unambiguous Tariff language. As a holder of both TOR and ETC rights, Metropolitan is vitally interested in the issue of Uneconomic Adjustments under Market Redesign and Technology Upgrade (MRTU). Metropolitan is also the largest customer of the California Department of Water Resources (CDWR), and is dependent upon CDWR's ability to rely upon its ETC for dependable transmission service, necessary for reliable operation of the State Water Project (SWP). This issue potentially and adversely affects Metropolitan and its member agencies' ability to supply over 18 million people with supplemental water.

For the reasons discussed below, Metropolitan strongly urges the CAISO to adopt the City and County of San Francisco (CCSF) proposal, as modified by SWP's suggestions.

Metropolitan Appreciates CAISO Staff's Candid Recognition of the Problem

Metropolitan definitely appreciates Staff's candid acknowledgement that, notwithstanding its earlier commitment and Tariff text to provide TOR and ETC priority over all other scheduled use of the grid except for that by Reliability Must-Run Units, the MRTU software now threatens to turn that priority on its head and actually give such TOR/ETC schedules inferior priority to schedules serving the large Load Aggregation Points (LAP).

Metropolitan notes it and CDWR opposed CAISO implementation of LAPs when first introduced several years ago because of their dilution of the price signals otherwise provided by Locational Marginal Pricing. Indeed, Metropolitan again notes that no other ISO or RTO implements LAPs anywhere near the size as those to be used by CAISO. We are very apprehensive of the other unintended market distortions and consequences yet to be identified from the fateful decision to utilize such huge LAPs.

While Metropolitan Appreciates CAISO Staff's Suggestion to Expand the "Perfect Hedge" to Encompass Real-Time Congestion Charges, It Is an Insufficient Remedy

Metropolitan appreciates Staff's suggestion to expand the "Perfect Hedge" reversal of congestion in real-time to address the lack of priority MRTU software will accord TOR/ETC rights versus default LAP schedules. However, such a remedy does not restore TOR/ETC self schedules to their rightful priority over LAP self schedules.

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Moreover, it only affords a benefit to the extent one assumes that whatever conditions gave rise to the CAISO's inability to honor the TOR/ETC schedule is in the Day-Ahead Market (DAM) are subsequently resolved in the Hour-Ahead Scheduling Process or in Real-Time. Finally, it only offers a reversal of congestion charges in the unlikely event the TOR/ETC rights holder is able to successfully reinstate at least a portion of its original DAM schedule. If the CAISO wished to provide a meaningful remedy to address the harm suffered by TOR/ETC rights holders as a result of the involuntary adjustment of their schedule due to the limitations of the MRTU software to accommodate default LAP schedules, it would start with a reversal of all CAISO costs and charges resulting from the involuntary adjustment of the TOR/ETC schedule. These would include:

Costs /lack of payment/ consequences for deviations when schedules are cut

- 11.1 Uninstructed deviations
- 11.2.2.3 Allocation of non-performance payments for RUC availability based on deviations
- 11.5.2 Uninstructed imbalance energy based on deviations
- 11.5.6.2.5.2 Exceptional dispatch costs allocated to deviations
- 11.8.3.1.3 Loss of RUC revenues for uninstructed deviation
- 11.8.3.2 Loss of RUC revenues for uninstructed deviation
- 11.8.6.5.3 Allocation of RUC costs based on deviations
- 11.23 Penalties for uninstructed imbalance energy
- 11.24 Penalties for under-scheduling
- 34.11.2 Failure to follow dispatch instructions

Crediting ETC/TOR for MRTU congestion & losses when schedules are cut

- 11.5.7.1 HASP & real time congestion credits for ETC & TOR
- 11.5.7.2 Losses credit for TOR
- 16.11 Changes to bids using existing rights & TORs
- 16.12 Changes to bids using existing rights & TORs
- 17.6 Changes to bids using existing rights & TORs
- 17.7 Changes to bids using existing rights & TORs

Self-providing A/S, etc when schedules are cut

- 11.10.2.1.3 et seq Obligation for regulation down, etc
- 33.1 Bids in HASP & RTM
- 33.3 Self-schedules in HASP

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Moreover, implementation of the CAISO proposal would raise additional problems requiring resolution. For example, should the CAISO assume that the TOR/ETC rightsholder is, or is not, able to adjust its schedule in HASP or RT to its original schedule? These assumptions will affect other CAISO concerns such as adequacy of Ancillary Services, adequacy of RUC or alternatively over-procurement, increased operator strain due to potential further adjustments TOR/ETC schedules, etc.

TOR/ETC Rightsholders Only Seek that the CAISO Abide by its Prior Commitments

The solution offered by CCSF only achieves for TOR/ETC rightsholders the offer made by the CAISO, accepted by TOR/ETC rightsholders, and accepted by the Federal Energy Regulatory Commission in its conditional acceptance of the MRTU Tariff. TOR/ETC rightsholders will only obtain the ability to exercise rights they have obtained by transmission ownership or contract, and nothing more. Importantly, their load will not suffer adverse discrimination to the benefit of LAP load as will necessarily follow if a proposal *other* than like that offered by CCSF is pursued. Any schedule reductions or curtailments would be implemented on a pro rata basis with other load, including that scheduled at the LAP. This is a simple, elegant, and abundantly fair and reasonable approach. It will cause the least disruption of CAISO markets and require few if any manual work-around solutions, unlike the CAISO proposal.

Metropolitan challenges CAISO staff or other stakeholders to develop a better solution, other than termination of LAPs.