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Comments of the Northern California Power Agency Integrated Balancing Authority Areas Proposal

February 4, 2008

Northern California Power Agency (“NCPA”) would like to provide the following comments on the CAISO proposal regarding the implementation of Integrated Balancing Authority Areas (“IBAA”) within the Market Redesign and Technology Upgrade (“MRTU”) design. The comments found below are being provided in response to the recently published CAISO Response to Stakeholder Questions document dated January 29, 2008, in which the CAISO provided responses to various questions posed by market participants including NCPA. The lack of comment regarding aspects of the proposal not addressed in the comments found below should not be interpreted as approval of the proposal.

IBAA Impact on Congestion Revenue Rights and Pricing

The CAISO is proposing to modify the way in which it models interchange transactions among IBAs within the MRTU design. In particular the CAISO is proposing to develop System Resource Aggregations for the SMUD/WAPA/MID and TID IBAs. NCPA is concerned about the impact this proposal will have on the value of allocated Congestion Revenue Rights (“CRR”) and LMP pricing. In particular, NCPA is concerned about the potential impact on pricing and settlement at the Tracy Intertie that would result from this proposal.

In its response to NCPA, the CAISO clarified that “the same ‘System Resource’ pricing aggregation(s) will be used for future CRR settlements as are used in the Day-Ahead Market, to settle congestion costs”. Even though this generalized response did provide some clarity in how this proposal will impact the settlement of allocated CRRs, NCPA is now concerned with other details described in the CAISO’s response regarding how market transactions imported at the Tracy Intertie will be settled. NCPA has been working from the understanding that energy

imported or exported at the Tracy Intertie would be settled based upon the unique LMP established at Tracy. NCPA also understood that this proposal, as described in the past, was suggesting the development of aggregated pricing points at the CAISO boundary that would encompass a limited number of interconnection points, and in the example of the Tracy Intertie could be represented by the “WAPA HUB” aggregated price. After reviewing the CAISO response to NCPA’s original question pertaining to CRR settlement, it appears that the CAISO is now proposing to establish an additional pricing point at Captain Jack, and that all transactions delivered at Tracy sourced from Captain Jack would be priced at this hypothetical pricing point. NCPA is concerned with this aspect of the proposal and is unconvinced that it is warranted. This element of the proposal raises a number of fundamental and practical complications that have not been proven, based on the information NCPA has reviewed, to be necessary.

NCPA generally agrees with the CAISO’s desire to increase transparency in modeling the CAISO system and those systems that will impact the flow of power on the CAISO controlled grid. To the extent that this information is translated into price impacts, however, those price impacts should be limited to the boundaries of the CAISO controlled grid. Establishing a settlement point outside of the CAISO controlled grid, which will impact both IBAA and non IBAA entities, is beyond the scope of increased transparency and will have negative impacts on market participants, including NCPA, and should be beyond the ability of the CAISO and/or other Balancing Authorities. Establishing a settlement point at Captain Jack will have an adverse impact on market transactions and devalue the CRR instruments that were nominated and allocated to NCPA.

NCPA is a participant in the California Oregon Transmission Project (“COTP”), and utilizes the COTP on a regular basis to deliver power to its customers. NCPA also takes delivery of power from the SMUD/Western Control Area. When the CRR nomination and allocation process was initiated, NCPA understood that all deliveries at the Tracy Intertie would be settled at the Tracy specific LMP. NCPA was not aware, and does not believe it was the case at the time the CRR process commenced, that power delivered using the COTP transmission facility would be settled (as now proposed) at the so-called Captain Jack pricing node. As a result, NCPA did not elect to nominate CRRs at Captain Jack. Based on the CAISO proposal, the hedge for COTP

transactions NCPA sought by selecting CRRs at Tracy would be damaged and may not be sufficient. NCPA also understands that the CAISO has attempted to justify this position because the CRR Full Network Model had been modified to reflect the Captain Jack pricing point, and that market participants should have been aware of this settlement result. NCPA strongly disagrees with this assumption because market participants did not have open access to the CRR Full Network Model, but could only access the model by signing a Non-Disclosure Agreement (“NDA”). NCPA initially elected not to sign the CAISO NDA due to troublesome provision encompassed within the agreement. Not until those provisions were corrected per FERC order was NCPA able to gain access to the CAISO Full Network Model. NCPA is not aware that this information was made available in any public forum. It appears that other market participants similarly were not aware of this information, since fewer than 1 MW of CRRs were allocated at the Captain Jack source in every period in the recent CRR allocation process (on an Intertie with more than 1400 MW of transfer capability). Further, since CRR are settled based on Day-Ahead schedules and prices, the CAISO’s IBAA proposal would eliminate the ability of COTP participants to hedge post Day-Ahead congestion costs. The CAISO has provided not justification for doing so.

Beyond the scope of CRRs, this proposal (as understood by NCPA) will have a direct impact on the value of the COTP transmission facility, which is not a CAISO controlled facility. The CAISO states in its response that “the Tracy Intertie is unique in that it is a high-capacity intertie in the middle of the CAISO Controlled Grid, serving multiple alternative sources and sinks that are not electronically near Tracy, as well as that there is neither generation located, nor load served, at that point”. As a result, the CAISO concludes “therefore, in using Tracy Intertie Scheduling Point it is necessary to recognize the source of physical flows in the CAISO network for CRR and LMP purposes”. Even though NCPA does not dispute the possible benefits of increased transparency and how it impacts power flow modeling in these comments, NCPA is concerned that pricing transactions that utilize the COTP facility at Captain Jack would result in the imposition of double losses and increased congestion that is not contained within the CAISO controlled grid. By assessing a LMP settlement at Captain Jack, transacting at Tracy for power sourced and delivered using the COTP asset will be assessed losses (via loss component of LMP) for a path that is not controlled by the CAISO. This settlement does not recognize that NCPA, in

utilizing the COTP facility, is already assessed losses by Western through other agreements, and therefore would be double charged for losses. NCPA understands that the CAISO has hinted that the loss component of the Captain Jack LMP would only reflect the impact deliveries at Captain Jack would have on the CAISO controlled grid, but this would seem to be logically captured in the LMP pricing reflected at Tracy, which is the actual point of interconnection with the CAISO controlled grid. By establishing a LMP price at Captain Jack, the CAISO is similarly assessing congestion costs for those transactions that are transmitted over the COTP, which should more logically be assessed at the point of interconnection, at which the CAISO would be responsible for managing congestion. Based on the information that has been made available to date, NCPA believes that this pricing structure could have negative impacts on the value of the COTP transmission asset that is not a CAISO controlled facility. NCPA request that additional information or clarification be developed on this issue or that the proposal be modified to remedy this situation.