

Comments of Southern California Edison on the February 20, 2008 whitepaper “CRRs Associated with IBAAAs”

February 29, 2008

SCE appreciates the opportunity to provide comments on the February 20, 2008 paper “CRRs Associated with IBAAAs”. SCE notes and appreciates the CAISO’s willingness to expand the stakeholder process surrounding the creation and pricing hubs out of IBAAAs (I-Hubs) and to address issues related to CRRs. We believe the CAISO’s commitment to implement changes through a FERC tariff filing, and their recent proposal to expand the role of FERC prior to implementing I-Hubs is both prudent and in the best interest of stakeholders and the CAISO. We also appreciate their approach to dealing with CRRs impacted by the creation of I-Hubs.

Specific Comments on CRR Treatment

In the whitepaper, the CAISO offers two approaches to CRR treatment. Approach 2 would automatically convert CRR that were impacted by I-Hubs to either source or sink at the I-Hub, rather than at their original components. Approach 1 would give the holder of the CRR the one-time option of converting an impacted CRR to source/sink at the I-Hub, or to simply keep the CRR unchanged so it is cleared based on its original source and sink.

SCE supports Approach 1. First, we believe the creation of I-Hubs will be limited and infrequent, and as a result, there are a relatively small amount of CRRs that will ever be impacted by the creation of an I-Hub. In addition, the CAISO indicates that they will attempt to synchronize the implementation of I-Hubs with the CRR allocation/auction process to minimize the impact of I-Hub implementation on existing CRRs. Second, while this approach could cause minor revenue sufficiency issue, we believe it is still appropriate so that the CRR holder can decide how to best address the implementation of an I-Hub so they can continue to realize the value/purpose of the CRR they originally obtained. Finally, this option allows the impacted CRR holder to simply maintain the status-quo if they so choose.

Although we support Approach 1, it requires some additional details. For instance, at what point in the implementation of the I-Hub will the CAISO allow parties to convert their CRRs? Will the conversion have to take place prior to the implementation of the I-Hub, or will impacted holders have some time to “observe” the I-Hub in actual implementation before they decides whether or not to convert? In any manner, we view these as relatively minor issues, but they need to be addressed at some point in the process.

FERC Process Prior to I-Hub Implementation

On the February 25, 2008 call, the CAISO indicated they were open to two different approaches for additional FERC involvement prior to implementing and I-Hub.

Under the first approach, the CAISO would “notify” FERC prior to implementing an I-Hub. Under the second approach, the CAISO’s tariff would include a list of I-Hubs, and any time they wanted to add (or remove) and I-Hub, the CAISO would make a FERC 205 filing. In either approach, the CAISO would have a full stakeholder process, and would obtain approval from their Board prior to implementing an I-Hub.

In previous comments on February 5 and 20, 2008, SCE requested a process in which implementation of an I-Hub was conditioned on FERC’s approval. We believe this process will ensure that all impacted parties have a chance to raise concerns both at the CAISO level and at FERC prior to I-Hub implementation. SCE appreciates the CAISO’s response to this request and their willingness to add this additional process.

Based on the options presented above, we support second approach where the CAISO would file a 205 filing prior to implementing the new I-Hub. Besides simply listing the I-Hubs in the tariff, we are open to discuss other mechanisms that result in the same FERC process, but the CAISO’s proposal seems reasonable.

Clarification on ETC Scheduling

During the February 28, 2008 CAISO IBBA conference call, SCE understood that in the event the CAISO establishes an I-Hub, it would allow an ETC to schedule at an intertie point; however, the CAISO would implement the I-Hub construct and establish DFLs within the I Hub boundaries based on the ISO’s assessment of how power actually flows. SCE respectfully requests the CAISO to confirm this understanding and elaborate on this approach. SCE would also appreciate understanding how settlements would be impacted by such an approach.

Also, the ISO proposal suggests that even if there is not a formal establishment of an I-Hub, the CAISO is considering modeling flows, using DFLs, as it believes power would flow. SCE understands that it would allow a contract holder to schedule at an injection point based on their contract rights, but the CAISO would model flow based on DFLs rather than schedules. SCE would appreciate the CAISO to provide a detail description of this proposal. Also SCE appreciates understanding whether and how settlements will be impacted. Furthermore, SCE is unclear whether the CAISO is proposing that this approach (changing the modeling even if an I-Hub is not being implemented) would go through the process the CAISO is proposing (i.e. notification and tariff changes) for the development of I-Hubs?

Treatment of Wheeling Revenues

During the February 25th IBAA conference call, an issue arose which, in essence, requests clarification on how the CAISO would treat wheeling revenue disbursement under its IBBA proposal.

The general concern is how would wheeling export revenues be disbursed by the CAISO to the PTOs in the following cases:

1. There is more than one PTO in an I-Hub and
2. There is more than one PTO as well as non PTO(s) in an I Hub.

Specifically, if the creation of the I Hub would result in DFLs and power flows that are different than the export schedule, how will the CAISO disburse wheeling revenues to maintain equity in TAC revenue disbursements?

Thank you for the opportunity to provide comments.