

## Southern California Edison's Comments on Proposed IBAA Tariff Language and Related Issues

SCE appreciates the opportunity to provide comments on the CAISO's IBAA proposal and associated tariff language. SCE views the creation of IBAA Hubs (I-Hubs) per the CAISO's proposal as a complex issue that raises several meaningful challenges. SCE is encouraged that the CAISO plans on filing additional tariff language to clarify their authority to create and price I-Hubs.

In summary:

- SCE is principally opposed to I-Hubs, however we recognize there may be isolated circumstances when their use is the best practical means of preserving the integrity of the market and addressing shortcomings in scheduling and modeling.
- We do not support the proposed tariff language in that it provides the CAISO with too much discretion and stakeholders with too little process; the CAISO should adopt the process of FERC approval prior to implementing any I-Hub as detailed below.
- Tariff changes to implement I-Hubs should be done through an amendment or 205 filing, not the proposed compliance filing.
- The CAISO proposal for CRR's settled at the I-Hub must be part of the tariff.
- The CAISO needs to provide additional detail on how CRRs that were allocated before the I-Hub were implemented (or even defined) will be treated.
- The CAISO should address whether or not I-Hubs are a necessary precondition for implementing MRTU, or in the alternative, how the CAISO will monitor and address concerns (e.g. what is the Department of Market Monitoring's role) .

### Process for Creating New I-Hubs

Prior to creating new I-Hubs, the market deserves additional process, both at the CAISO and at FERC. SCE understands many of the issues motivating the creation of I-Hubs and agrees that in some cases an I-Hub looks like the best way to address scheduling, pricing and modeling issues. However, in other instances, collapsing multiple unique prices into a single "weighted average" can create market distortions, inefficiencies and possibly mute price signals necessary for efficient transmission and generation additions. As a result, SCE believes the decision of when and where to create an I-Hub requires additional process, and clearer technical justification criteria.

During the stakeholder meetings the CAISO indicated that the CAISO would enter into a stakeholder process if it proposed to make additional changes to its model. SCE requests that this process be recognized and included as part of the ISO FNM BPM.

### SCE Opposes the Proposed Tariff Language

SCE does not support the CAISO's proposed tariff language. The language allows the CAISO, without any stakeholder approval or FERC consent, to create and settle at I-Hubs based on the CAISO sole discretion, at any time, irrespective of technical or financial objections of the stakeholders. Moreover, once created, the CAISO establishes the "weighting" factors of the I-Hub to calculate prices<sup>1</sup>. The proposed language also allows the CAISO to modify, at any time and based on their discretion, these weighting factors. Such changes will impact the ultimate value of the I-Hub. Put simply, SCE does not support this process, especially since this discretion could have a meaningful impact on rates, terms and conditions of SCE's participation in the market.

SCE observes that the need for I-Hubs appears based on deficiencies in the CAISO's network model and/or modeling of scheduled inter-change energy. It is possible that at some future time these deficiencies may be remedied, and in turn the I-Hub may no longer be necessary. The CAISO tariff should consider the possibility of "undoing" an I-Hub and returning it back to its separate components.

In the alternative to the proposed tariff language, SCE believes the creation and modification of I-Hubs requires additional process as enumerated below:

1. Prior to instituting an I-Hub, the CAISO will have a public stakeholder process to inform stakeholders of the details of a proposed new I-Hub, along with the technical justification for the I-Hub.
  - i. The CAISO should also provide the weighting factors that will be used to determine I-Hub prices. In addition, the CAISO should specify a process by which weighting factors are updated.
  - ii. The CAISO should also specify what issues would need to be resolved in order for the proposed I-Hub to be dissolved and again have its individual components priced separately.
2. If, after feedback from stakeholders, the CAISO continues to believe the I-Hub is necessary, they should file full details of the proposed I-Hub, including the calculation of weighting factors, for approval at FERC.

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<sup>1</sup> "In the case where the IBAA represents a single Balancing Authority, a single aggregate IBAA price is used based on the weighted average price of the nodes where System Resources have been modeled in the IBAA. In the case for an IBAA that represents an aggregation of individual sub-systems that operate with their own balancing responsibility, the prices for each operationally relevant sub-system (aggregate price) are established, based on the weighted average price using the distribution factors of the System Resources that are used to distribute transactions from the sub-system within the IBAA.", proposed tariff language Section G.1.

3. Stakeholders then have an opportunity to support/oppose the I-Hub at FERC.
4. The CAISO will only implement the I-Hub after obtaining FERC approval.

The process above should be codified in the CAISO's tariff. With this approach, the CAISO will be able to implement all FERC approved I-Hubs, and all parties will have an opportunity to raise concerns/support at FERC.

### Issues Surrounding CRRs and I-Hubs

As SCE understands the proposal, the CAISO will settle CRRs that are a component of the I-Hub at the I-Hub price, rather than the individual component prices. SCE has several concerns on this approach. First, to the degree CRRs were already allocated or purchased on any individual component of the I-Hub, changing the settlement of such CRRs to the I-Hub may have a material impact on the value of the CRR. SCE seeks clarification on what the CAISO plans to do for CRRs that were issued prior to the creation of an I-Hub.

Second, tariff language that makes this settlement mechanism clear *prior* to a CRR allocation or auction may be workable<sup>2</sup>, but again this variation on CRR settlements needs to be detailed in the CAISO's tariff. SCE requests that the CAISO develop tariff language to address this issue.

### Form of Tariff Filing

SCE views the creation of and the special energy settlement, CRR settlement and scheduling associated with I-Hubs as having a material effect on rates, terms and conditions. As a result, SCE agrees with the CAISO that a tariff filing is necessary for implementation. The CAISO represents they will file language as part of a "compliance filing", rather than an amendment to the tariff.

SCE disagrees that this issue should be made as part of a compliance filing. Rather, this issue raises significant new issues that should be addressed in a separate filing as either a tariff amendment or a 205 filing.

Moreover, SCE objects to the CAISO filing associated I-Hub tariff changes with the FERC on the currently proposed date of February 15, 2008. With a delay in MRTU implementation beyond April 1 now a certainty, the CAISO has time to better vet the proposal with stakeholders and their Board prior to filing new tariff language with FERC.

### Issues Surrounding Delayed Implementation of I-Hubs

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<sup>2</sup> However, it is not apparent to SCE that this approach will maintain revenue sufficiency or neutrality.

Further, SCE's proposal for expand process may delay the implementation of I-Hubs, even beyond a possible delayed MRTU market start in the fall. SCE would like the CAISO to address the following issues:

- Is the I-Hub proposal (as implemented at SMUD/MID/TID) viewed as a necessary precondition for starting MRTU?
- Is the CAISO willing to implement MRTU without I-Hubs and then implement the I-Hubs after startup if they are approved by FERC?
- If the CAISO implements MRTU prior to approval for a specific I-Hub, does the CAISO have tools and tariff authority to address possible gaming resulting from MRTU modeling errors? If not, SCE recommends the CAISO develop any such needed tariff language and seek approval from FERC as part of this process.

In summary, SCE would like to emphasize that due to the complications of the proposal, coupled with the material impact I-Hubs may have on CRRs, scheduling and market energy prices, the proposed tariff language and process is inadequate. Rather, the market must have a process which involves FERC's review and approval prior to implementing any I-Hubs.

Thank you for the opportunity to provide comments.