

SMUD Comments on the CAISO's January 22, 2008 Proposed Tariff for Integrated Balancing Authority Area Modeling and Pricing

I. Introduction

As requested by the California Independent System Operator Corporation (CAISO), the Sacramento Municipal Utility District (SMUD) provides these comments to the CAISO's draft tariff language, dated January 22, 2008, for the modeling and pricing of so-called Integrated Balancing Authority Areas (IBAA).

II. The proposed IBAA Tariff language is vague and incomplete and leaves entirely too much discretion to the CAISO.

At the outset, it should be noted that the proposed language is nearly incomprehensible and entirely vague. To what entities, specifically, does it apply? How can a market participant get any indication, whatsoever, by reading the proposed tariff language how or whether it will be impacted?

Moreover, it leaves entirely too much discretion to the CAISO. For example, the CAISO notes in its proposed modifications to section 27.5.3 of its pending MRTU tariff that "[a]dditional detail regarding the modeling specifications for specific IBAA's is provided in the Business Practice Manuals." These so-called "additional details" however, are the heart of its "pricing" proposal and should be filed without question with the FERC. These additional details include key points of information that have everything to do with the pricing, such as the distribution factors and the pricing points within the IBAA, both of which have been unilaterally adopted by the CAISO. The weighting given to each of the so-called pricing nodes, which are subsequently aggregated into a hub price, will have a direct impact on prices charged or paid at the hub. For example, overweighting of a more congested node will result in a higher hub price. Moreover, even assuming SMUD agreed with the IBAA concept (which it does not), some of the pricing nodes that CAISO has unilaterally selected are wholly inappropriate. Even if relegation of pricing methodologies to the BPMs were appropriate, there is no new information in the BPM detailing whether, when, or even to whom, the proxy bus pricing would apply.

Further, the CAISO's retention of broad discretion is more than troubling. Statements in the tariff, such as that found in section 27.5.3.3, illustrate the unilateral and presumptuous nature of the proposal:

When *the CAISO is able to identify sub-regions within an IBAA* that reflect groupings of resources or locations that are sources of transactions between the CAISO and the IBAA, such as a sub-region within a BAA that is responsible for its own internal balancing of resources and transactions, *the CAISO will predefine* individual or aggregate System Resources for the sub-regions.
(emphasis added)

This is not only unacceptable, it flies in the face of the language contained in Appendix C (particularly before the proposed amendment to that appendix) that states these types of determinations would be done “through consultation” with the so-called IBAs. 27.5.3.3 hardly infers collaboration. Practically speaking, no such consultation has occurred. At least as important, there is nothing in the tariff that would allow a third party to know when the CAISO has identified a sub-region within an IBA for grouping, how the grouping is done, or when the resulting modifications to pricing will occur.

III. The proposed IBA Tariff language is not a compliance filing, it is an entirely new filing which clearly exceeds the scope of Section 27.5.3 or Appendix C of the MRTU Tariff, both of which are still pending before the FERC

On its January 24 IBA call with stakeholders, the CAISO revealed that it planned to submit its draft IBA tariff language as a compliance filing within the existing MRTU docket. Despite the CAISO’s claims, however, this is clearly not a compliance filing. First, SMUD knows of no specific FERC MRTU orders requiring the CAISO to implement such a pricing scheme. Additionally, the proposed tariff language goes well beyond anything previously filed or noticed to stakeholders in the MRTU docket. This would clearly and unambiguously constitute a new filing and should be presented as such to the FERC.

As filed with the FERC on February 9, 2006, the only provision of the MRTU tariff making barely a traceable reference to the CAISO’s new proposal is found in Section 27.5.3, which the CAISO now proposes to entirely change in its scope and to expand. When filed and as it currently stands, section 27.5.3 refers to the improved modeling of so-called embedded and adjacent Control Areas—not IBAs—within the FNM. There is no mention, nor was it contemplated or discussed with any market participant, of what the CAISO is now attempting, which is both a proposal to model, but, more importantly, to price, IBAs.

IV. The CAISO should reconsider its filing date and ensure a proper stakeholder process

On January 28, the CAISO announced by market notice that it will make the rate filing with FERC by February 15, to give it time to review the comments and to hold a follow-up stakeholder meeting. Although this is better than the CAISO’s original plan to receive comments on January 30 and make the filing with the FERC on January 31, it still unnecessarily and unreasonably truncates the process. Indeed, with a filing date of February 15, the likelihood that any follow-up conference would be more than window-dressing is remote. There simply will not be sufficient time for the CAISO to make significant changes in the filing and still meet its self-imposed filing deadline – even if it becomes convinced that concerns raised in the still-to-be scheduled stakeholder conference have merit. Given the CAISO’s recent announcement that it no longer plans to go-live with MRTU on April 1, 2008, going forward with this self-evidently deficient filing in two weeks is simply unnecessary.

The CAISO should take the time necessary to fully vet its proposal with stakeholders and provide a more meaningful opportunity to address their questions and concerns. The CAISO simply has not made the case why, at this late hour before MRTU goes live, its proposal is fully justified. SMUD understands the CAISO's desire to more accurately model the transmission system. This IBAA proposal, however, does more – and less -- than the *modeling* of adjacent balancing authorities. First, it is also a *pricing* proposal that impacts SMUD and all market participants and the economic decisions they have made. Second, it does not model all adjacent balancing authorities, only some. Because of what the CAISO itself has acknowledged is the ripple effect on other LMPs, stakeholders do not know whether this piecemeal modeling and pricing does more harm than good. Before the CAISO moves to implement its proposal it should be more fully understood by all market participants.

V. Conclusion

SMUD appreciates that the CAISO now proposes to file its IBAA proposal with the FERC. That noted, the proposed tariff filing both lacks the details and clarity to determine its impacts on SMUD (or any) ratepayers and has little to no nexus to the original tariff language of 27.5.3 and Appendix C. For these reasons, the CAISO should provide more details in the tariff itself and file these as a new proposal (FPA section 205) with the FERC. Additionally, the CAISO should take the time necessary to ensure its proposal and impacts are fully understood by market participants and their questions and concerns are thoroughly addressed.

Respectfully submitted February 4, 2008