

SMUD Comments on the CAISO's January 8, 2008 Integrated Balancing Authority Area Modeling and Pricing Proposal Stakeholder Meeting

I. Introduction

As requested by the California Independent System Operator Corporation (CAISO) at its January 8, 2008 stakeholder meeting, the Sacramento Municipal Utility District (SMUD) provides these additional comments to the proposal for the modeling and pricing of the so-called Integrated Balancing Authority Areas (IBAA).¹

II. January 8 Stakeholder Process

While SMUD appreciated the opportunity to discuss both the CAISO's IBAA and Partial Loop Proposals in an open forum, it makes two observations: 1) such an open stakeholder process should have been implemented months, if not years, earlier; and 2) the January 8 stakeholder meeting process was incomplete.

1) SMUD believes that most who participated in the meeting on January 8 would agree that the CAISO's proposals engendered numerous questions and concerns and many of those questions and concerns were not answered at that meeting. The CAISO, however, offered no sufficient or compelling justifications for its truncated process. It is certainly SMUD's view that an open process should have been started well before January 8. Affected parties, which SMUD believes extend well beyond those targeted by the proposal,² should not be penalized for the late public introduction of the IBAA proposal.

2) The CAISO's Mark Rothleder was unable to complete his presentation on perhaps one of the more important aspects of the IBAA proposal pertaining to pricing. The CAISO has promised a wrap-up on this topic, however, no date or manner of venue has been selected. Given the numerous questions SMUD and others have on this aspect of its proposal, we encourage the CAISO to hold another face-to-face meeting as soon as possible.

III. CAISO's Inaccurate Portrayal of the IBAA Proposal Discussions

In the CAISO presentation at the January 8 meeting, the CAISO stated: "Beginning early in 2006, the CAISO discussed *modeling* and *pricing* options for IBAA's (bilateral discussions, CAISO Tariff language, FERC Seams Technical Conference)." See <http://www.caiso.com/1f47/1f47c6c2135f0.pdf> (slide 4, bullet 1). Here the CAISO

¹ The CAISO's two December 14 Discussion Papers – "MRTU Release 1 Implementation of Preferred Integrated Balancing Authority Area Modeling and Pricing Options" and "Modeling and Pricing Integrated Balancing Authority Areas Under the California ISO's Market Redesign and Technology Upgrade Program" (IBAA Proposal). Subsequent to these discussion papers, the CAISO also released a third document on January 2, 2008, titled, "Implementation of 'Partial Loop' Intertie Network Configuration for MRTU" (Partial Loop Proposal).

² This is certainly a view shared by PG&E, which observed in its January 4 comments on the proposal that, "While this proposal may most directly apply to the IBAA's, the modeling, pricing, reliability and potential gaming implications have an important impact [sic] to all MRTU stakeholders." Page 2.

implies that these discussions have been ongoing for nearly two years (i.e., since early 2006). Certainly SMUD cannot attest to what *internal* conversations the CAISO might have been holding, however, SMUD was not involved. As noted in our prior comments submitted on January 4, the first real convening of discussions on these matters did not even occur until June of 2007, where only modeling issues were raised. Thus, contrary to the CAISO presentation, it was not until the middle of 2007 that *any* discussion began, and it was not until October of 2007 that a written proposal was produced by the CAISO.

IV. The CAISO's Position that it is not Required to File its IBAA Proposal with the FERC is Indefensible.

The CAISO's position that it does not need to file its IBAA Proposal with the FERC is indefensible. At the January 8 meeting the CAISO again recited section 27.5.3 and Appendix C of its MRTU Tariff, as well as provisions within its BPMs, as its authority. SMUD has already noted its concerns on this issue and does not wish to raise its legal arguments in these comments. However, we do make a few observations.

First, this is not just a SMUD or IBAA issue. SMUD urges all market participants to review the alleged authority the CAISO claims will allow it to avoid filing a price change with the FERC. It is simply not there. Even assuming for the sake of argument that the CAISO had made prior filings it believed already encompassed these changes, it could not reasonably have believed that it had informed stakeholders that it had done so – it certainly did not “consult with” stakeholders in advance of making such changes. Indeed, the CAISO consistently maintained to both SMUD and the other so-called IBAs that it had not settled on a proposal. For example, in a September 7, 2007 email from the CAISO to SMUD on this topic, the CAISO stated: “[R]egardless of the outcome of the ECA/ACA pricing issue (tie-point or hub), we’ll [CAISO] make sure you’re fully hedged.” The CAISO could not logically have been discussing a future “outcome” if the tariff change had already occurred. And it certainly would not have characterized its later description of the hub modeling and pricing methodology as a “Discussion” paper, if the matter had already been discussed and decided.

Moreover, it should not be a surprise to the CAISO that SMUD and others would be under the impression, even expectation, that a filing was intended. In an October 5, 2007 email transmitting the initial draft proposal (then referred to as, Adjacent/Embedded Control Areas) the CAISO stated: “At present, are contemplating filing any necessary tariff changes around December.”

Additionally, it is clear to SMUD that this proposal affects rates and charges in that it proposes to aggregate various derived LMPs from SMUD. Its possible pricing impacts beyond SMUD were also noted in PG&E's January 4 comments to the IBAA Proposal, where it cautioned:

Substantially more analysis is needed from the CAISO with respect to market impacts of the Proposal. The revised IBAA pricing proposal will have impacts to the energy, congestion and loss components of LMP; PG&E requests that the

CAISO staff thoroughly assess these impacts and resulting prices under a wide variety of expected and adverse scenarios. In addition, any implications to CRR revenue adequacy should be assessed. Page 2.

Similarly, SCE's January 4th comments make plain that it is not under the impression that the December Discussion Papers reflected a pricing methodology in the *existing* tariff. What it understood was that the CAISO was proposing a significant pricing change that could adversely affect the value of SCE's prior CRR nominations:

Again while changes to improve the FNM should be pursued, we note our concern over model changes that will be used to run the daily IFM *that were not part of the FNM released to market participants as part of the CRR auction/allocation process*. This is a particular concern if such model changes have a material impact in the valuation of CRRs, which may be the case here if the price changes shown in Figures 10 and 11 are reflective of typical conditions. Where possible, changes in the FNM model should consider the timing of the various CRR processes so that CRR participants can incorporate the model changes in their analysis prior to the auction and/or allocation process. (emphasis added)

Finally, besides referencing supposed authority in its previously filed (however, still pending) tariff, the CAISO also noted information in its BPMs. This, however, is irrelevant to the discussion since the BPMs are not filed with the FERC and should not contain rates.

SMUD therefore urges the CAISO to reconsider its ill-conceived decision to implement its hub pricing and modeling methodology without making a Section 205 filing at the FERC. The Federal Power Act requires the CAISO to, among other things, set out its proposed hub pricing and modeling methodology in its tariff, specify to whom it applies and when it will be effective, and describe the revenue impact to the extent possible.

V. Sufficiency of Data

When questioned about the lack of multiple hours and multiple days of data being used for its analyses of both the IBAA and Partial Loop Proposals, the CAISO countered that the data is there and it is the responsibility of stakeholders to assess what the CAISO claims to have posted through its various LMP Studies and CRR models. This is not helpful.

This evinces a clear disregard for the time and value of stakeholder resources. The CAISO claims to have run the studies with multiple hours and dates and that this is merely a sampling. That being the case, it could easily have offered several diverse days of samplings or, better, asked those affected by the proposal to select their own dates and time, within reason, to assuage any concerns or doubts as to the validity of the single day and hour selected by the CAISO. SMUD and others have expended considerable resources simply focusing on CRR allocations/nomination and MRTU implementation.

Frankly, the CAISO could have worked with SMUD to select some acceptable dates and hours. Instead, as is often the case, it simply tells us its conclusions using data and assumptions we cannot validate without expending significant resources. Moreover, rather than having allotted sufficient time for such a collaborative effort, it now proposes to rush it through without allowing stakeholders the necessary time and tools to consider the implications.

VI. Conclusion

SMUD reiterates its commitment to work with the CAISO and other stakeholders on this issue. As to the proposed pricing element, this appears to be a solution in search of a problem. In no way has the CAISO established a need for this prior to MRTU start up. Should the CAISO nevertheless decide to proceed, it should do so by formally filing its proposal with the FERC. Regardless of the approach adopted, the CAISO should re-run the CRR allocations for all time periods, after final determination, as SMUD, and potentially others, withheld any potential requests due to the uncertainty that this poorly orchestrated process has introduced.

Respectfully Submitted, January 14, 2008