

## **SUPPLEMENTAL SUMMARY COMMENTS OF THE SACRAMENTO MUNICIPAL UTILITY DISTRICT**

On April 28, SMUD submitted its comments in non-template format (SMUD Comments) because the template artificially limited the areas for comment and would not have captured some of the significant concerns SMUD wished to raise. SMUD understands that this was a problem for a number of participants. The following are excerpts from those comments. The Board should review the original comments in full to understand them in context. SMUD had candidly prepared this version of the comments because of its concern that, without developing comments that “fit” the template the CAISO staff would not convey -- or at least not convey accurately SMUD’s concerns with the IBAA proposal.

- **SMUD opposes the implementation of the Proposal.** SMUD believes that the Proposal is unduly discriminatory and has not been shown to be just and reasonable. To the contrary SMUD believes that the CAISO’s Proposal will likely result in adverse unintended consequences. SMUD supports the comments of TANC, Silicon Valley Power and the Western Area Power Administration. SMUD Comments at 10. *IBAA Template sections 2.0, 3.0, 4.0, and 5.0.*
  
- **The Proposal Will Not Increase Modeling Accuracy.** The CAISO concedes that the “single pricing hub” would “reduce modeling accuracy (and thus the accuracy of the CAISO’s congestion management solutions)”. *IBAA Template section 2.0*
  
- **The Proposal aims to solve a theoretical problem.** The Proposal is prompted to solve a problem – gaming -- that, by the CAISO’s own account is only theoretical. The CAISO has not demonstrated that pricing SMUD/Western balancing authority areas at the tie points will result in inappropriate scheduling. Initiatives to address market behavior concerns should be reserved to address real, not theoretical problems. Standards of Conduct for Transmission Providers, 122 FERC ¶ 61,263 at P 37 (refusing to adopt rule aimed at “theoretical instances of abuse” “[i]n the absence of evidence of actual abuse”) (citing *National Fuel Gas Supply Corp. v. FERC*, 468 F.3d 831 (D. C. Cir. 2006)). *IBAA Template sections 2.0, 3.0.*
  
- **The ISO’s Proposal is a “heads I win, tails you lose” mechanism that simply lowers import, and raises export prices for CAISO market participants.** SMUD Comments at 3-4. SMUD opposes the CAISO’s default pricing rule. The Proposal inappropriately raises import prices for those purchasing resources from within the CAISO grid and reduces the prices the CAISO will pay for resources

its market participants will import. Besides other technical and substantive concerns raised in SMUD's more detailed comments, from the perspective of CAISO's neighbors, is that the single hub pricing methodology it plans to implement is so plainly designed to favor its own market. By pricing all exports from the SMUD/TID IBAA at Captain Jack (when it does not know where the source originates) artificially depresses the price of those exports. And the different hub it chose for the pricing of exports *from* the CAISO market serves to inflate those prices. In other words, a "heads I win, tails you lose" scenario, not a principled attempt to get the prices "right." SMUD Comments at 4-5. *IBAA Template section 3.0*

- **The proposed "Exception" to the default pricing rule is ambiguous: stakeholders cannot tell in advance whether or how they would qualify; there are no defined standards and the CAISO is given unconstrained discretion.** The CAISO has proposed exceptions to the default pricing rule" in order to allow pricing based on the location of specific resources *if* it receives "detailed information that either supports identification and verification of the marginal resources supporting the applicable scheduled intertie transaction or otherwise supports CAISO efforts to increase the accuracy of its congestion management solutions. The exception, however, is highly ambiguous. For one thing, the timing is left unclear. The CAISO proposes that its alternative pricing option will be available "*if* the CAISO is provided more detailed information regarding the resources supporting a specific scheduled intertie transaction.) But this does not tell SMUD or others whether the CAISO will go forward with its single-hub pricing rule if an agreement is still being negotiated, but has not been concluded. When will customers know of its decision? When will it be implemented – before MRTU? If not, why not delay implementation of the IBAA proposal until negotiations over information exchange are completed?

Equally uncertain are the ground rules for qualifying for the exception. The CAISO says only that it "*may* agree to specific exceptions" if it gets the information it wants. What discretion does the CAISO have in these situations and how is consistent treatment going to be ensured? SMUD Comments at 7-8. *IBAA Template section 3.0.*

- **The IBAA Proposal is both Procedurally and Analytically deficient.** SMUD remains concerned that the proposal has yet to deal with many of the troubling procedural and analytical flaws which overshadow its substantive elements. These include: how future IBAs will be developed, whether there will be future Section 205 filings to implement new IBAs, what the CAISO will include in its planned Section 205 filing to implement its IBAA proposal, whether the CAISO's methodology for development of, or changes to, distribution factors will be incorporated into its Market Redesign and Technology Upgrade (MRTU) tariff, what proof the CAISO relies on to conclude that the SMUD Balancing Authority (BA) Area has a larger impact on the CAISO grid than other neighboring balancing authorities etc. SMUD's comments will not dwell on those concerns.

SMUD simply notes that, although labeled a “Final Draft,” the latest proposal largely ignores the substantial volume of public comments it not only received, but invited on these questions. *Id.* *IBAA Template sections 2.0, 3.0, 5.0*

- **The new IBAA proposal is a “Moving Target;” the revisions are not responsive to, indeed seem largely unrelated to, earlier stakeholder objections.** SMUD observes that the proposal continues to evolve, but not in response to the comments of stakeholders. Rather, the changes proposed – in particular the new proposal for two single hub prices (one for exports and one for imports) – seem to have been driven by very recent CAISO discussions with the Market Surveillance Committee about what it terms concerns about “inappropriate scheduling.”

Thus, what began ostensibly as an exercise to improve the modeling of neighboring balancing authorities and to improve the CAISO’s ability to manage congestion, has now shifted to a discussion about concerns over market gaming. This is troubling for those attempting to assess the impacts of the IBAA proposal on their customers. Moreover, it makes it hard to develop solutions when the CAISO continues to redefine the problem it is attempting to resolve or its rationale. SMUD Comments at 2. *IBAA Template section 2.0, 3.0*

- **The Proposal lacks sufficient detail to assess the economic and operational impacts on stakeholders.** At the IBAA Technical meeting the CAISO held on April 9, it first previewed the concept of a single hub. The CAISO noted that *any such single hub proposal would require a much larger set of distribution factors* than were in the former proposal (sub-hubs) to capture the interaction between the IBAA entities. Additionally, these would be less static than those in the original proposal. Although section 2.3 of the IBAA Proposal purports to provide “Specific Details of the IBAA Single-Hub Modeling Methodology,” there is no elaboration on this point as to: how and when the CAISO plans to develop this new set of distribution factors; when the CAISO intends to discuss these proposed distribution factors with so-called IBAs; and, given that the distribution factors are intended to be dynamic, what the process will be for change management. SMUD Comments at 9. *IBAA Template sections 2.0, 3.0, 5.0*
- **SMUD supports a process that is not simply prospective, as the CAISO proposes; a robust stakeholder process should not only govern future IBAs but should have applied to the SMUD IBAA.** While SMUD supports the CAISO’s decision to create a more structured process for the consideration of future IBAs or the modification of existing ones, this gives little comfort to the initial IBAs. The CAISO now apparently contemplates that it will “seek collaboration and conduct a consultative process with affected BAs and its stakeholders,” and that it will seek both Board and FERC approval for its proposals. If these protections are important, why weren’t they accorded to the

initial IBAs? The process should be established *before* the adoption of the current proposal. Additionally, the CAISO should already have a detailed process to propose. Instead, there is only a vague reference to such a process without any specific details. The fact is, but for the problems with the integrated market testing for MRTU and associated delays, we would already be operating in a MRTU market structure. Yet, the CAISO has not adopted a formal IBAA process. SMUD Comments at 8-9. *IBAA Template section 5.0.*