

**COMMENTS OF THE
TRANSMISSION AGENCY OF NORTHERN CALIFORNIA
ON THE CALIFORNIA ISO'S ISSUE PAPER AND STRAW PROPOSAL ON
CONGESTION REVENUE RIGHTS ASSOCIATED WITH INTEGRATED
BALANCING AUTHORITY AREAS**

FEBRUARY 29, 2008

Pursuant to the California Independent System Operator Corporation's ("ISO") February 21, 2008 Market Notice, the Transmission Agency of Northern California ("TANC") provides these comments and questions concerning the ISO's Issue Paper and Straw Proposal on Congestion Revenue Rights ("CRRs") Associated with Integrated Balancing Authority Areas ("IBAA") ("IBAA CRR Proposal"), which was posted on the ISO's Website on February 21, 2008. These comments also address the ISO's February 25, 2008 request for stakeholder comment on two alternative proposals for a FERC filing related to changes to add new IBAA or to modify existing IBAA.

As TANC asserted during the February 25, 2008 stakeholder conference call, it is imperative that the ISO provide full and complete responses to TANC's and other stakeholders' questions (including those listed below) as soon as possible to allow sufficient time for stakeholders to review, process and have a productive discussion on the ISO's IBAA proposal during the March 6, 2008 meeting.

IBAA CRR Proposal

TANC's CRR-related issues with the ISO's IBAA proposal stem, among other things, from TANC's understanding that: (1) the ISO proposes to price or value California-Oregon Transmission Project ("COTP") imports at Captain Jack Substation ("Captain Jack") instead of Tracy 500 Substation ("Tracy"); and (2) during last year's CRR nomination and allocation process, participants understood that all deliveries at the Tracy Intertie from the COTP transmission facility would be settled at the Tracy specific LMP, not the Captain Jack pricing node and made their nominations based on that understanding, information and/or training.

TANC was encouraged when the ISO posted its IBAA CRR Proposal, hoping that the ISO's decision to provide its IBAA CRR Proposal was a reflection of the ISO's recognition, in part, of the significant concerns raised by TANC and its Members on the CRR-related IBAA issues. This understanding was based in part on section 2.2 of the ISO's IBAA CRR Proposal (Impact of an IBAA change on the settlement of previously-released CRRs), which various entities, including TANC, believed was aimed at providing relief to stakeholders who had participated in the 2008 CRR nomination and allocation process completed last fall only to find out afterwards that the CRRs had been developed based on a *proposed* IBAA model that: (1) they did not know was being utilized and (2) even now has yet to be submitted to the ISO's own board for approval. The ISO, however, represented during the February 25, 2008 stakeholder conference call

on this issue that its proposal is *not* intended to apply to the CRRs already awarded last fall. While TANC had numerous concerns and preliminary questions with respect to the IBAA CRR Proposal even before the ISO clarified the scope of its proposal during the February 25, 2008 stakeholder conference call, this revelation underscores that the ISO's IBAA CRR Proposal does not resolve concerns raised by TANC and others. These problems are exacerbated, moreover, by the fact that the ISO has yet to conduct the studies and analyses of the options it has proposed to determine whether they are reasonable.

While the ISO notes in its IBAA CRR Proposal that its goal is to improve the accuracy of the congestion management process for the ISO Controlled Grid, and to "increase the accuracy and reliability of Locational Marginal Prices ("LMPs") in reflecting actual system conditions," using Captain Jack values for all COTP imports delivered to Tracy is neither accurate nor sends the appropriate price signals to the market. Furthermore, the ISO's desire to increase transparency in modeling the ISO system and those systems that will impact the flow of power on the ISO controlled grid should not translate into price impacts outside the boundaries of the ISO controlled grid. Establishing a settlement point outside of the ISO controlled grid, which will impact both IBAA and non-IBAA entities, is beyond the scope of increased transparency and will have negative impacts on stakeholders. Moreover, the ISO notes that the "accuracy" of the Full Network Model ("FNM") is essential to realizing the benefits of the LMP-based MRTU market redesign, but it is wholly inappropriate for the ISO to cause neighboring balancing authority areas to suffer the adverse consequences of an IBAA proposal that by design fails to meet its objectives of accuracy. *See* IBAA CRR Proposal at 3.

The IBAA CRR Proposal also fails to address concerns that the ISO will exercise unilateral ISO discretion in implementing its IBAA proposal. On the contrary, the ISO claims that its modeling and pricing methodologies for IBAA's will be developed "to the extent the CAISO has data available to do so." *Id.* Similarly, stakeholder concerns regarding discriminatory, piece-meal treatment towards certain neighboring BAAs are not assuaged by the ISO's statement that it "proposes to model **certain** adjoining IBAA's in the FNM in a manner that reflects the flows between these BAAs and the CAISO BAA more accurately than its possible using a simple radial model of the inter-ties." *Id.* (Emphasis added). Concerns also remain that those TANC Members that are located in the ISO Balancing Authority Area and that selected Tracy as a CRR Resource would be exposed to potential congestion charges between Captain Jack and Tracy (settled at the Western Hub), even though the COTP is not a part of the ISO controlled transmission system or the ISO Balancing Authority Area.

The ISO should ensure sufficient time and opportunity for stakeholders to fully analyze the effects of each of the approaches before requiring them to elect any of the two proposed approaches or to propose other potential approaches for remedying the CRR-related problems associated with the IBAA proposal. The ISO is aware of stakeholder concerns that the ISO IBAA proposal and CRR nomination, allocation and auction process failed to afford full disclosure or collaboration with the stakeholders. Now that the ISO appears to recognize that there are flaws in the IBAA proposal, it has

come up with two approaches (again without prior stakeholder consultation or provision of complete studies and analyses) to propose solutions for the CRR-related concerns. The ISO cannot expect that by limiting stakeholders comments to the narrow options it proposed in the IBAA CRR Proposal (which was clarified on February 25), it will have resolved the fundamental concerns with the IBAA proposal, particularly those related to the CRR allocations made last fall. Even as to prospectively awarded CRRs, however, the ISO should commit that any process for CRR elections will be conducted in a thorough, fully open manner with full disclosure of all relevant information and on a pace that is not unnecessarily rushed.

Some preliminary comments and questions that arise from the ISO's IBAA CRR Proposal include:

- What impact, if any, does the ISO's IBAA CRR Proposal (which was clarified on February 25) have on the nomination and allocation process that took place last fall, including with respect to monthly, seasonal, annual and long-term CRRs awarded under that process?
 - What, if any, is the ISO's proposal for addressing concerns raised by TANC and TANC Members related to CRRs nominated and allocated last fall? If there is no proposal, please explain fully.
 - Has the ISO conducted any studies or analyses on the impacts of the two possible approaches described on page 5 of the IBAA CRR Proposal? If so, please provide all such relevant information, studies or analyses.
 - What does the ISO mean by the term "previously-released CRRs" as it appears throughout the IBAA CRR Proposal? *See, e.g.*, IBAA CRR Proposal at 5-7.
 - Has the ISO conducted any studies or analyses on the impacts of developing System Resource Aggregations for the proposed SMUD/WAPA and TID IBAAAs on CRRs allocated last year? If so, please provide all such data. Did such studies examine whether implementation of the SMUD/WAPA and TID IBAAAs before any other IBAAAs were established would have any effect on the resulting LMPs under MRTU? If not, why not? If so, please provide all such studies.
 - The ISO states that it plans to file changes to the ISO Tariff that reflect additional detail on the modeling specifications and a new pricing methodology related to the IBAAAs that it plans to implement at the start of MRTU. *Id.* at 4. Does the ISO intend to make any Tariff changes based on the IBAA CRR Proposal? If so, when will the ISO provide draft Tariff language for stakeholder review? If not, provide citations to the sections of the ISO Tariff or other authority that authorizes the ISO to implement either of the two proposed approaches.
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**TANC Comments
IBAA CRR Proposal**

- What are the instances that may require the ISO to “implement an IBAA change mid-year,” as noted in page 5 of the IBAA CRR Proposal, and will there be any notification to stakeholders prior to the ISO making any such changes?
- The ISO notes on page 6 of the IBAA CRR Proposal that it does not have at this point, “a definitive answer as to whether Approach 1 or Approach 2 offers lower risk of revenue inadequacy that may result from modifying the sources and sinks of the previously-released CRRs.” What information does the ISO have of the impact on revenue inadequacy in the event no changes are made to the previously-released CRRs?
- As to Approach 1, how and by whom are determinations as to “whose source or sink is affected by the IBAA change,” to be made? Also, what does the ISO mean by a “one-time election”?
- Please provide examples depicting how, if at all, Approach 1 and 2 will affect COTP imports.
- Please provide examples depicting how, if at all, Approach 1 and 2 will affect COTP exports.
- Has the ISO engaged in any studies or analyses of the impact of the two approaches on simultaneous feasibility and revenue adequacy in the event either of Approach 1 or Approach 2 is adopted?
- Please explain what the ISO means on page 6 of the IBAA CRR Proposal that the ISO will “strive to take this approach with all IBAA changes, except possibly in cases where there is a pressing need for improved accuracy in the congestion management procedures in the area of the proposed IBAA change.”
- TANC requests explanation as to the ISO’s statement on page 6 of the IBAA CRR Proposal concerning the proposed SMUD/Western and TID IBAA’s, and that “it will be possible to settle the relevant CRRs using the new pricing locations created for the IBAA without adding any new risk of revenue inadequacy.”
- Please provide the data that supports the ISO’s assertions on page 8 of the IBAA CRR Proposal that: (1) “the benefits of the IBAA change in terms of improved accuracy of congestion management and pricing will be enjoyed by the entire CAISO BAA,” and (2) “any limit expansion resulting from the SFT analysis only increases the risk of revenue inadequacy, but does not deterministically cause revenue inadequacy.”
- How does each of the approaches presented in the IBAA CRR Proposal impact the ISO’s February 15 Response, which provided as follows: “Moreover, with respect to CRRs, the CAISO is not stating that an entity that injects (source) at

Captain Jack for delivery to the SMUD hub *but uses the CAISO Controlled Grid* to do so need acquire a CRR over the COTP. Rather, the CAISO is stating that if an entity wishes to hedge potential CAISO congestion costs related to an import to the CAISO Controlled Grid from the SMUD IBAA where that import is sourced at Captain Jack, the entity need procure a CRR from (source) Captain Jack to the SMUD hub (sink). Such a CRR would hedge that entity from the congestion costs likely to arise from congestion *on the CAISO Controlled Grid* from an import from the SMUD IBAA sourced at Captain Jack.”

Two Alternative FERC Filing Proposals

The ISO should provide in writing the full terms of its two FERC filing alternatives presented for the first time during the February 25, 2008 stakeholder conference call so that the stakeholders can provide informed substantive comments on the ISO’s proposal. TANC believes that all aspects of the ISO’s IBAA Proposal should be subject to a FERC filing under Section 205 of the Federal Power Act, including, but not limited to, the creation of IBAAAs, the names of proposed IBAAAs, the criteria used in determining the designation of IBAAAs, and any modifications or changes made to any new or existing IBAAAs. TANC reserves its rights to provide additional comments once the ISO submits in writing its full proposal in this regard.