

Decision on Integrated Balancing Authority Area Proposal (IBAA)



Steve Greenleaf, Director, Regional Market Initiatives



California ISO
Your Link to Power

**Board of Governors Meeting
General Session
May 21-23, 2008**

The objective of this presentation is to obtain Board approval of the following:

- 🌐 IBAA modeling methodology
- 🌐 IBAA pricing methodology
- 🌐 Proposal to address impact of IBAA proposal on Congestion Revenue Rights
- 🌐 Proposed process for creating or modifying IBAAAs
- 🌐 Authorization to continue discussions with affected IBAA entities

What are IBAA's...and why SMUD, TID first?

- 🌐 Multiple interconnections with the CAISO
- 🌐 Parallel transmission
- 🌐 Differences scheduled v actual flows
- 🌐 Availability of information

Because of these characteristics we need to

- 🌐 Appropriately model and price transactions with IBAA

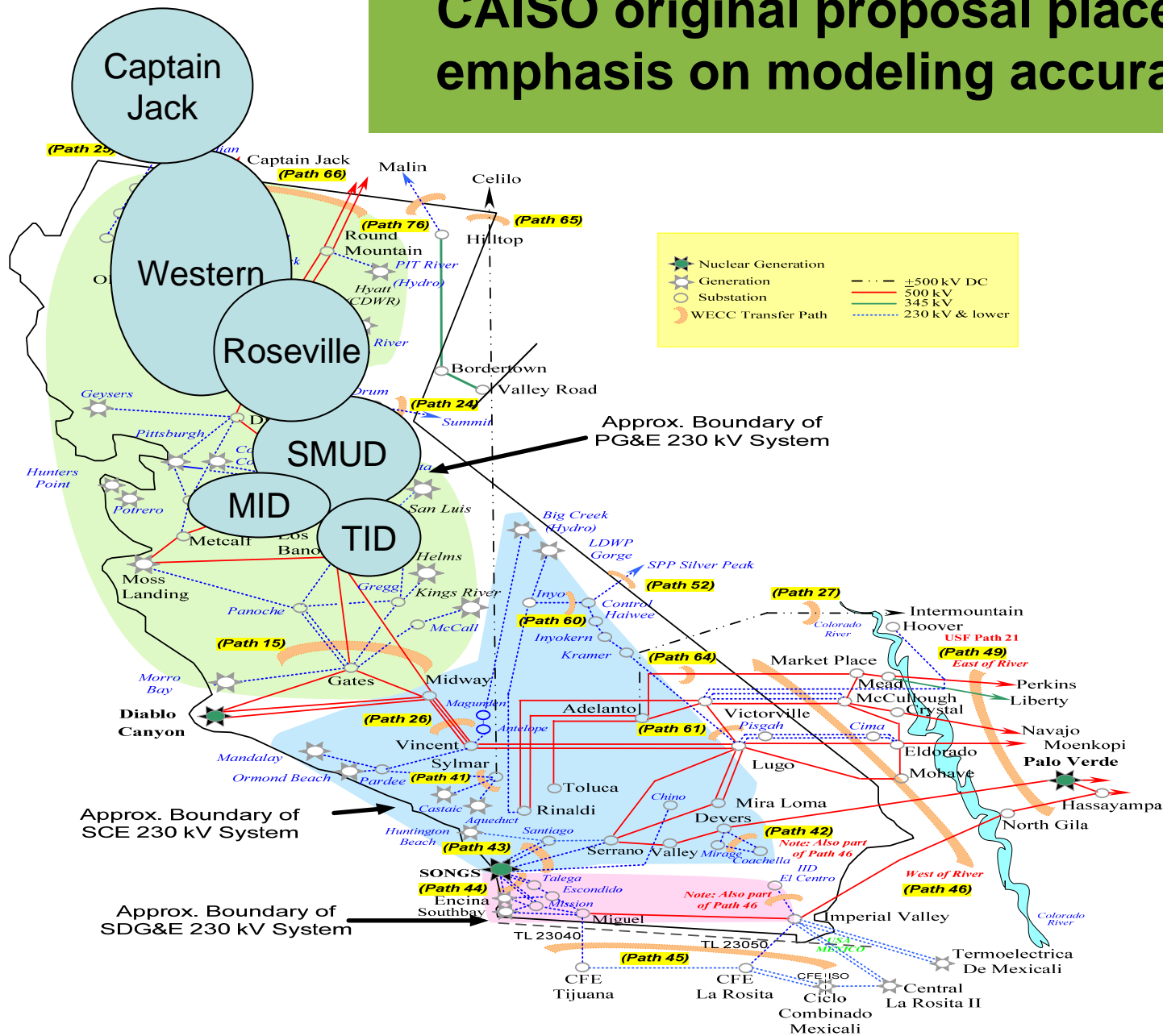
The CAISO followed a consultation & stakeholder process to arrive at this proposal

February 2006	Initial MRTU tariff filing re IBAAAs
Throughout 2006	Bilateral discussions, FERC Seams Technical Conference
Beginning Spring 2007	CAISO engaged SMUD, TID, others in IBAA discussions
December 2007 - Present	CAISO conducted broader stakeholder process



The IBAA proposal was originally intended to achieve the following objectives:

- 🌐 Ensure feasible forward-market schedules (modeling accuracy)
- 🌐 Effective Congestion Management
 - Align forward market *schedules* and *prices*
 - Increase market efficiency
- 🌐 Eliminate poor pricing incentives (gaming).

CAISO original proposal placed greater emphasis on modeling accuracy....



...but Market Surveillance Committee and CAISO's expert consultant raised concerns with design...

-  Purported “accuracy” is illusory – need better information on resources supporting transactions
-  Proposal subject to gaming

CAISO therefore modified proposal to address pricing concerns....

Imports – Captain Jack

April: \$50.51

June 30: \$90.48

Single IBAA Hub

Exports - SMUD Hub

April : \$53.07

June 30: \$98.45

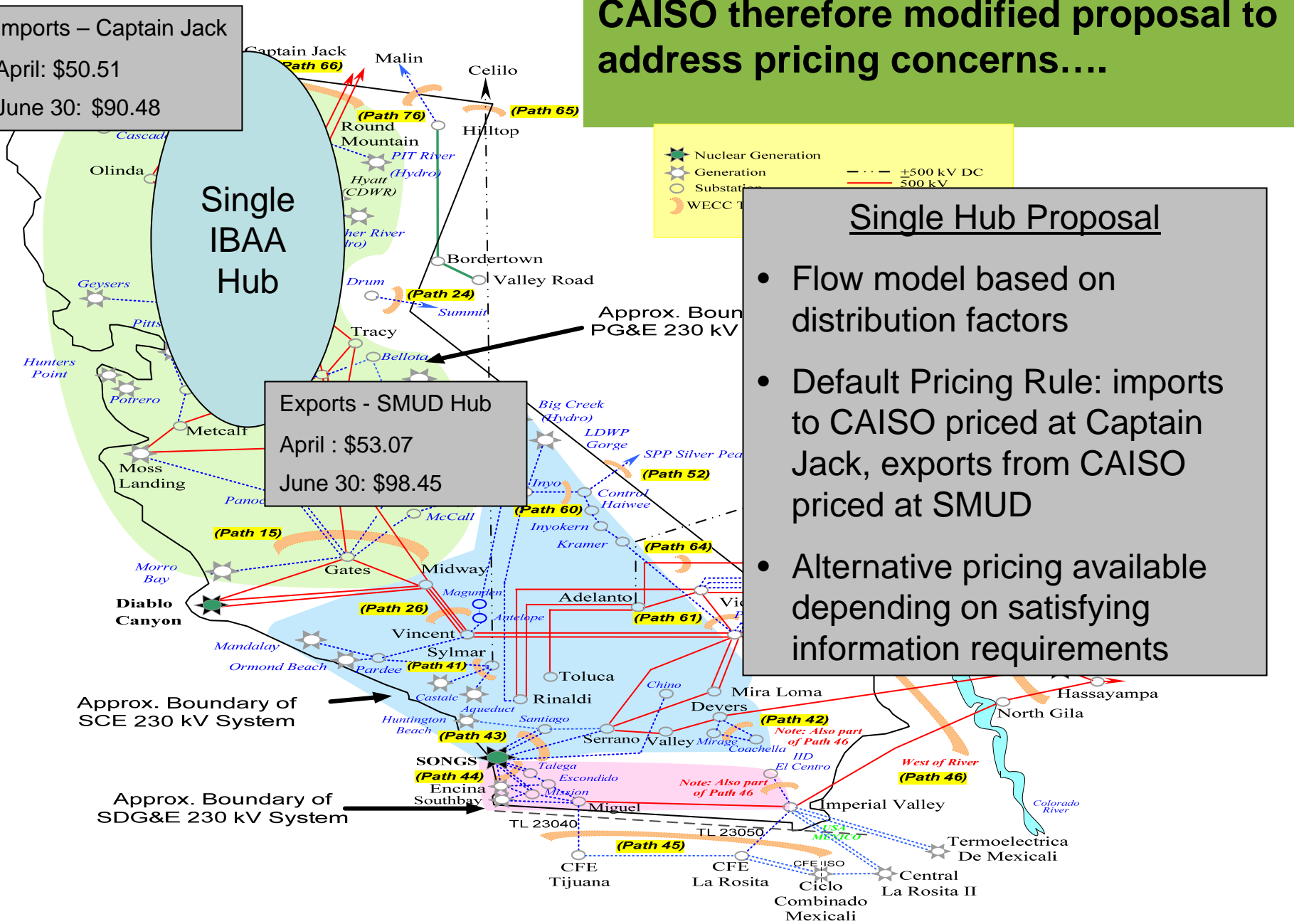
- ★ Nuclear Generation
- Generation
- Substation
- WECC T
- ±500 kV DC
- 500 kV

Single Hub Proposal














- Flow model based on distribution factors
- Default Pricing Rule: imports to CAISO priced at Captain Jack, exports from CAISO priced at SMUD
- Alternative pricing available depending on satisfying information requirements

Approx. Boundary of SCE 230 kV System

Approx. Boundary of SDG&E 230 kV System



Stakeholders generally support better modeling, but either do not support or are uncertain on pricing

Stakeholder	Comments	Management Response
IBAA entities (SMUD, Western, TANC, TID, MID, Redding, DOE, CCSF, SVP, CMUA)	<ul style="list-style-type: none">  Oppose pricing  Generally support better modeling  Negotiated agreements  Conditionally support IBAA CRR and process proposals 	<ul style="list-style-type: none">  Default Pricing Rule and option for alternative pricing is balanced  Pricing rules must apply to and work for all CAISO market participants
Investor Owned Utilities (Edison, PG&E, SDG&E)	<ul style="list-style-type: none">  Generally support modeling, pricing proposal and CRR and process recommendation  Concerned about one-off agreements 	<ul style="list-style-type: none">  All alternative pricing arrangements must benefit CAISO and will be filed at FERC
Powerex, WPTF, IID and Calpine	<ul style="list-style-type: none">  All support objectives  Powerex – supports proposal  WPTF - pricing not supported/timely 	<ul style="list-style-type: none">  Proposed pricing methodology appropriately supported

Therefore, based on all of the above, Management recommends that the Board approve the following

- 🌐 Single-Hub (Proxy Bus)
- 🌐 Default Pricing Rule (Imports – Captain Jack, Exports at SMUD Hub)
- 🌐 Provide opportunity for alternative pricing if the CAISO is provided additional information that provides a benefit to the CAISO and its customers.