

Initial Comments of Bay Area Municipal Transmission Group Re: CRR Study 2 Proposed Process

The Bay Area Municipal Transmission Group¹ (BAMx) appreciates this opportunity to submit the following Initial Comments on the California ISO's CRR Study 2 Proposed Processes, Input Data and Modeling Assumptions draft dated February 5, 2004.

Section 2.7.4 Metered Sub-Systems

BAMx believes that Metered Subsystem (MSS) load settled at the standard UDC Load Aggregation price should be allocated CRRs in the same manner as the other LSEs (such as PG&E) within that standard load aggregation. Since CRRs are intended to provide a financial hedge, rather a physical scheduling right, the MSS needs to hedge exposure to congestion cost between its source(s) and the standard load aggregation. It does not need to hedge exposure to congestion cost to the MSS Load Aggregation Point. If the MSS is allocated CRRs to the MSS Load Aggregation Point, there will be a mismatch between the amount of CRRs allocated and the amount of CRRs needed to hedge exposure to congestion between its source(s) and the standard load aggregation. In particular, MSS load located in constrained areas likely would be allocated fewer CRRs than non-MSS load located in the same area. This result would be inequitable and would subvert the reasoning behind the CAISO's decision to settle all loads at the standard load aggregation prices. For CRR Study 2, the ISO reasoned that the MSS Load Aggregation Point load should be used "to more accurately model the scheduled net load within the MSS bubble and thus get a more realistic representation of the MSS' use of the CAISO-grid when the MSS is a net load." BAMx disagrees with this reasoning. The CAISO already is representing all CAISO-grid loads by applying Load Distribution Factors. Thus, it would appear that it does not matter whether the load being represented is LSE load or MSS load. In either case, the CAISO is representing that load by applying Load Distribution Factors to represent the load whose sink is the standard load aggregation.

BAMx is concerned about the CAISO proposal to apply the principles of MSS Pricing Option B in CRR Study 2, and thereby allocate MSS CRRs after netting out internal MSS generation. BAMx believes that if an MSS chooses to settle its internal generation at the generation location, as in Pricing Option A (which is the approach included in the FERC-endorsed CAISO MD02 Conceptual Design), and to settle its gross load at the standard UDC Load Aggregation, then it should be allocated CRRs based on its gross load, rather than its net load. If the internal generation were to be netted out, the CAISO would be removing a strong incentive for MSSs to locate generation in constrained areas. The CAISO-proposed approach could lead to discriminatory treatment of MSS load (in regards to CRR allocation) as compared to Non-MSS LSE load. For example, if a Non-MSS LSE located in the vicinity were to own or contract with local generation, the LSE would be allocated CRRs based on its gross load. The MSS should be able to receive the same treatment.

¹ The municipal electric utilities of the Cities of Santa Clara, Alameda and Palo Alto comprise the Bay Area Municipal Transmission group, whose objective is to promote reliable electric supply to and within the San Francisco Bay Area at reasonable cost.

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The CAISO appears to be ascribing attributes to the MSS that were not contemplated in the formulation of the MSS. It is BAMx' understanding that a primary objective in developing the MSS was to enable vertically integrated utilities with dispersed generation and dispersed load, represented by a single Scheduling Coordinator, to participate in the CAISO without necessarily becoming a Participating Transmission Owner. A key feature of the MSS is that it is responsible for providing adequate resources to reliably serve its load, while reducing its exposure to curtailments resulting from the failure of other entities to do the same. BAMx does not believe that the implementation of the MSS to meet these objectives should result in discriminatory treatment in the allocation of CRRs. We fear, however, that netting MSS generation from load in the CRR allocation process would do just that.

Section 2.7 CRR Nominations for CRR Study 2

BAMx strongly supports the concept that the source (injection) pattern of CRRs allocated to each LSE (including MSSs) should reflect the actual source of supply used by the LSE to serve its load. Specifically, if an LSE has an owned or contracted resource, it should not have to compete with other parties not having ownership or contract rights to that resource for the right to be allocated CRRs from that owned or contracted resource to the sink. While this approach should apply to all resources, it is particularly important for seasonal resources, such as hydro, for which the resource owner might not want to bear the risk of an annual obligation CRR since the generation pattern can vary widely from year to year and month-to-month. If other parties are allowed to be allocated or auctioned CRRs from those sources, they could preclude the resource owner/buyer from obtaining CRRs in the monthly allocation process. LSEs should, however, be allowed to request CRRs from uncontracted sources for the amount of any remaining uncontracted generation. For example, LSEs should be able to request CRRs from intertie points, based on their anticipated usage from those sources to their sink.

Section 2.3.1 Network Outages

The CAISO is proposing not to model network outages for the monthly CRR allocation, even though it proposes to do so once the actual monthly CRR allocation and auction process is implemented. While BAMx appreciates the difficulty in meaningfully modeling such outages as part of CRR Study 2, we remain concerned that ignoring these outages will overstate the extent to which LSEs can expect to be hedged by the CRRs allocated in Study 2. Since the second objective of CRR Study 2 is "to determine the extent to which allocated CRRs can hedge congestion costs" BAMx believes that the ISO should attempt to incorporate the effect of such outages within this study. Perhaps a simple scaling factor could be applied to monthly CRRs based on historical outage rates.

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Section 3.2.3 Transaction Data

The ISO is seeking transaction data to attempt to map bilateral contracts settled at trading hubs back to specific resources. BAMx is concerned that this will be impossible for the ISO to accomplish. In many cases, the buyer, and even the seller, has no way of determining which resources historically have supplied such contracts. Further, even if the historical resources could be determined, the same resource might not be counted on to supply the contract going forward. BAMx believes that the CAISO might be forced to use an active model, rather than a passive model, to attempt to understand the effect of bilateral contracts on the CRR allocation process.