

## **CDWR-SWP Comments to CAISO on IBAA Proposals**

May 27, 2008

California Department of Water Resources - State Water Project (CDWR-SWP) appreciates the opportunity to provide comments regarding California Independent System Operator's (CAISO) proposal on modeling Integrated Balancing Authority Area (IBAA) and pricing import and export transactions. Under CAISO's proposal, "all imports to the ISO from the SMUD and TID IBAA's will be priced based on the Locational Marginal Price (LMP) calculated at the Captain Jack Sub-Hub or Proxy Bus, while all exports from the ISO to the SMUD and TID IBAA's will be priced at the LMP calculated at the SMUD Sub-Hub or proxy bus." CDWR-SWP has several concerns on the CAISO proposal:

1. CDWR-SWP has a power contract with SMUD under which power is transacted at the border of SMUD, TID, and CAISO BAAs. CAISO's proposal, which prices imports and exports at different locations, would impact the value of this contract in a manner unintended by CDWR-SWP and SMUD.
2. CDWR-SWP's use of its Existing Transmission Contract (ETC) for the power contract above might be negatively impacted because CDWR-SWP's ETC does not include transmission service right at Captain Jack Sub-Hub or SMUD Sub-Hub.
3. Congestion Revenue Rights (CRR) are nominated and allocated based on the assumptions that power transactions will be priced at the border. If CAISO modifies the pricing mechanism for imports and exports as proposed, uncertainties will increase for CRR holders in hedging their inter-tie transactions. At previous IBAA stakeholders meetings, the CAISO acknowledged that the proposed method would impact the CRR and proposed to discuss the IBAA's CRR issues at a later date. SWP's concern is that the CAISO has not mentioned yet who will pay for the congestion costs and transmission losses resulted from the CAISO's proposal.

SMUD proposed an alternative proposal under which all transactions will be scheduled and priced at the borders of SMUD and CAISO BAAs. CDWR-SWP believes that SMUD's proposal is a better alternative because it would not unfairly impact power transactions and transmission service.