



<b>Stakeholder Comment Template</b>	
<b>CAISO Integrated Balancing Authority Area (IBAA) Proposal</b>	
<b>Organization:</b> City and County of San Francisco (CCSF)	<b>Date Submitted</b> April 28, 2008
<b>Organization Representative:</b> Sandra Rovetti	<b>Contact Number:</b> 415-554-3179
<b>Industry Segment:</b> Municipal Utility	
<p><b>Instructions:</b> The CAISO is requesting written comments on the <i>Draft Final Proposal on Modeling and Pricing of Integrated Balancing Authority Areas (IBAA)</i> that was discussed at the April 11<sup>th</sup> MSC/Stakeholder meeting, a written draft of which was posted on April 18, 2008 at <a href="http://www.caiso.com/1fad/1fad12f244a990.pdf">http://www.caiso.com/1fad/1fad12f244a990.pdf</a>. This template is offered as a guide for entities to submit comments.</p> <p>All documents related to the CAISO's IBAA proposal are posted on the CAISO Website at the following link: <a href="http://www.caiso.com/1f50/1f50ae5b32340.html">http://www.caiso.com/1f50/1f50ae5b32340.html</a></p> <p>Upon completion of this template please submit (in MS Word) to <a href="mailto:kalmeida@caiso.com">kalmeida@caiso.com</a>. Submissions are requested by close of business on <b>Friday April 25, 2008</b>.</p>	
<p><b>Reference Section 2.0 (Proposed IBAA Modeling Methodology) of the CAISO Draft Final Proposal.</b></p> <p><i>In Section 2.0, the CAISO makes the following statements:</i></p> <ol style="list-style-type: none"> <li>1) "In order to manage congestion as accurately as possible on the CAISO Controlled Grid it is important to accurately reflect the effect of intertie transactions in the FNM to the extent feasible."</li> <li>2) "One intended purpose of the IBAA modeling and pricing provisions is to ensure that there will not be large differences between scheduled intertie transactions (and scheduled flows) with the IBAA's and actual intertie transactions (and actual flows) with IBAA's."</li> <li>2) "Improved modeling of external systems in the FNM and lessening discrepancies between modeled and actual flows means increasing the accuracy of the LMPs in reflecting system conditions and managing congestion."</li> </ol> <p><i>Based on the description of the proposed modeling approach in Section 2 pp. 3-5, please indicate whether your company supports, does not support, or conditional supports, the CAISO's proposed modeling methodology and whether your company believes the CAISO's modeling methodology will achieve the results described in (1) and (2), above. If your organization does not support the CAISO's proposal, please provide specific reasons for your position and possible alternative approaches that achieve the CAISO's stated objectives.</i></p> <p><i>CCSF does not support the CAISO's proposed IBAA modeling methodology. CCSF believes that by aggregating multiple IBAA's into a large IBAA Hub, the CAISO will reduce its modeling accuracy, resulting in potential uplift charges for CAISO market participants. CCSF believes the CAISO's sub-Hub approach is more likely to yield improved modeling and pricing than a single-Hub approach, but CCSF still has</i></p>	



[concerns that a sub-Hub approach is not consistent with the CCSF/CAISO Operating Agreement \(see further comments below\).](#)

**Reference Section 3.0 (Proposed IBAA Pricing Methodology) of the CAISO Draft Final Proposal.**

In Section 3.0, the CAISO outlines the following pricing proposal:

- 1) a method of pricing transactions to and from the SMUD and TID BAAs based on the following new default IBAA pricing rule:
  - a) All imports to the CAISO from the proposed IBAA's would be priced based on the Locational Marginal Price (LMP) at the Captain Jack proxy bus; and
  - b) All exports from the CAISO to the proposed IBAA's would be prices based on the LMP at the SMUD Sub-Hub.
- 2) that the proposed default pricing rule be applied in the absence of an alternative arrangement which provides for more detailed information regarding the resources supporting the scheduled intertie transaction and there exists demonstrable benefits to the CAISO market of such alternative arrangement. The CAISO may support such alternatives, i.e., more granular, pricing, through the development of case-by-case agreements.

In addition, the CAISO stated that:

- 3) The CAISO originally proposed to establish discrete prices for each of six initially identified System Resources or Aggregated System Resources anticipated to support intertie transactions between the CAISO and SMUD and TID BAAs. This was referred to as "Sub-Hub" pricing in the CAISO's December 14 IBAA Discussion Paper. The CAISO's proposal would establish prices for the following Sub-Hubs: SMUD, Western, MID, Roseville, TID and Captain Jack.
- 4) The CAISO also stated that it has now moved off of the Sub-Hub based pricing proposal because of concerns that, without further information regarding the resources supporting the intertie transaction, the Sub-Hub proposal may inappropriately value intertie transactions between the CAISO and the proposed IBAA's (i.e., not reflect the true value of such transactions for purposes of managing congestion on the CAISO Controlled Grid).

Please provide comment on the CAISO's recommended IBAA Pricing Methodology. Please indicate whether your company supports, does not support, or conditional supports, the CAISO's recommended default pricing rule. In circumstances where your organization does not support the CAISO's recommendation, please provide specific reasons for your position and whether your company prefers the Sub-Hub pricing methodology or other possible alternative approaches that support effective and efficient congestion management solutions. In addition, if your company supports the Sub-Hub or other granular IBAA pricing, please indicate whether your company would be willing to enter into an agreement to provide information to the CAISO that identifies and confirms the sources supporting scheduled intertie transactions between the CAISO and an IBAA. Please also indicate what added benefits to the CAISO market your company believes such sub-hub pricing would provide.

[CCSF does not support the CAISO's default IBAA pricing rule. CCSF believes this pricing rule, and the single-Hub approach, is inconsistent with the CCSF/CAISO Operating Agreement Section 7.2 "The CAISO will establish Scheduling Points and PNodes at the Oakdale Interconnection and the Standiford Interconnection, as well as PNodes at the CCSF-PG&E Interconnection, for post-MRTU transactions using CCSF's rights under this Agreement and operating limits identified in Schedule 2 of this Agreement." The CAISO's MRTU Tariff defines a Pricing Node \(PNode\) as "A single network Node or subset of network Nodes where a physical injection or withdrawal is modeled and for which a Locational Marginal Price is calculated and used for financial settlements." Both the CAISO's single-Hub approach and its sub-Hub approach are in conflict with the CAISO's agreement with CCSF, since neither model the injections or withdrawals at CCSF's interconnections and neither uses the price at those interconnections](#)

for financial settlements. In its February 5 response to CCSF's question about this issue, CAISO responded:

*"As stated in response to Question 2, above, the CAISO will establish and maintain and publish LMPs at the aforementioned locations. While CCSF will schedule to the Standiford and Oakdale Scheduling Points, for accurate modeling purposes the CAISO will associate (map) such Interchange Schedules to the Parker (MID) and Walnut (TID) points. In order to be consistent with such modeling, the pricing and ETC perfect hedge will be performed at the same location(s), providing the hedge that CCSF requires."*

*CCSF understands that under the single-Hub default pricing proposal the CAISO is now proposing to map CCSF's Interchange Schedules to the SMUD Hub (in the case of Exports to the Districts) and to Captain Jack (in the case of Imports from the Districts). CCSF does not believe that doing so is consistent with the "accurate modeling purposes" cited in CAISO's February 5 response. CCSF is concerned that any approach (including the sub-Hub approach) that results in financial settlements of its transactions with the Districts at a location other than the Oakdale Interconnection or the Standiford Interconnection will expose it or the Districts to increased costs. While the CAISO notes that the Perfect Hedge will provide some protection, it does so only for congestion costs; it provides no protection for the loss component. Any differences in the congestion component or the loss component from the Oakdale Interconnection PNode or the Standiford Interconnection PNode potentially results in exposure to CCSF (or the Districts) of additional congestion costs or loss costs. CCSF is concerned that both the single Hub approach and the sub-Hub approach will violate the terms of the CCSF/CAISO Operating Agreement; given that the single Hub approach is more removed from the physical characteristics of CCSF's interconnections with the Districts, it appears that the potential for harm is greater from the single Hub approach, but both appear to be problematic.*

*CCSF also is concerned with the potentially extensive information requirements the CAISO seeks to impose for transactions to be settled at other than the default pricing under the single-Hub approach. The CCSF/CAISO Operating Agreement governs such transactions and does not contemplate such extensive information requirements. The CAISO does not need access to data for essentially all MID or TID transactions to verify CCSF's sales to, or purchases from, the Districts at Standiford or Oakdale.*

#### **Reference Section 4.0 of the CAISO Draft Final Proposal.**

*Under the CAISO's IBAA proposal the CAISO is proposing to establish:*

- 1) the measures necessary to address the impact on Congestion Revenue Rights (CRRs) in the event that future IBAs are adopted during the term of released CRRs;*
- 2) that new IBAA changes take effect on January 1 of a new year (i.e., in the Day-Ahead Market that is run on December 31), and to provide to market participants all the modeling and pricing details as part of the FNM information package that is made available for CRR purposes prior to the conduct of the annual CRR release process for that year.*
- 3) provisions described below for assessing and mitigating impacts on the previously-released Seasonal CRRs for the remainder of that year.*

*Approach 1: Allow the holder of a previously-released CRR whose source or sink is affected by the IBAA change to make a one-time election either to (a) modify the settlement of the CRR to be congruent to the revised IFM pricing associated with the IBAA change, or (b) retain the original source or sink specification of the CRR.*



*Approach 2: Modify all relevant CRR settlements to reflect the IBAA change, as in option (a) of Approach 1.*

*Based on feedback from stakeholders and the CAISO's careful consideration, the CAISO recommends Approach 1 enabling CRR Holders to maintain their intended hedge against potential congestion costs for purposes of serving load, yet allows those CRR Holders that procured a CRR for financial purposes to keep their financial instrument.*

- 4) *The CAISO proposes to use the CRR Balancing Account – which has already been approved by FERC as the means to ensure full funding of CRRs – to cover any IBAA-related shortfall that occurs in a given month.*

*Please provide comment on the CAISO's recommended approach to addressing Congestion Revenue Right (CRR) related IBAA issues. Please indicate whether your company supports, does not support, or conditional supports, the CAISO's recommendation. In circumstances where your organization does not support the CAISO's recommendation, please provide specific reasons for your position and possible alternative approaches that address the identified problem.*

*CCSF supports the CAISO's approach for mitigating IBAA impacts on previously-released CRRs.*

#### **Reference Section 5.0 of the CAISO Draft Final Proposal.**

*Under the CAISO's IBAA proposal the CAISO is proposing to establish:*

- 1) *a process for creating new, or modifying approved, IBAA's. The proposed process requires the CAISO to seek collaboration and conduct a consultative process with the affected BAAs and CAISO stakeholders. Specifically, the CAISO is proposing to include in its Tariff provisions that would require that the CAISO follow a consultative process with the affected BAA and its stakeholders. Finally, the CAISO would be required to make a FERC filing to modify its tariff to actually add a new IBAA or change any of the elements regarding the existing IBAA reflected in its Tariff.*

*Please provide comment on the CAISO's recommended process for creating new, or modifying existing, IBAA's. Please indicate whether your company supports, does not support, or conditional supports, the CAISO's recommendation. In circumstances where your organization does not support the CAISO's recommendation, please provide specific reasons for your position and possible alternative approaches that address the identified problem.*

*CCSF does not support the CAISO's merely "consultative" process with the affected BAA and its stakeholders. Because the development of proxy bus pricing affects the prices at which transactions between entities within the CAISO and the proposed IBAA will be settled, the CAISO cannot merely "consult" with affected parties before implementing an IBAA. Silicon Valley Power previously proposed Tariff language that puts the proposed IBAA BA on equal footing with the CAISO in the IBAA development process. CCSF supports an approach that would be consistent with SVP's proposed Tariff language.*