

Stakeholder Comment Template
CAISO Integrated Balancing Authority Area (IBAA) Proposal

Organization: (Name) Silicon Valley Power	Date Submitted April 28, 2008
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Industry Segment: Municipal Utility	

Instructions: The CAISO is requesting written comments on the *Draft Final Proposal on Modeling and Pricing of Integrated Balancing Authority Areas (IBAA)* that was discussed at the April 11th MSC/Stakeholder meeting, a written draft of which was posted on April 18, 2008 at <http://www.caiso.com/1fad/1fad12f244a990.pdf>. This template is offered as a guide for entities to submit comments.

All documents related to the CAISO's IBAA proposal are posted on the CAISO Website at the following link: <http://www.caiso.com/1f50/1f50ae5b32340.html>

Upon completion of this template please submit (in MS Word) to kalmeida@caiso.com. Submissions are requested by close of business on **Friday April 25, 2008**.

Reference Section 2.0 (Proposed IBAA Modeling Methodology) of the CAISO Draft Final Proposal.

In Section 2.0, the CAISO makes the following statements:

- 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."*
- 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."*
- 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."*

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.

Silicon Valley Power ("SVP") opposes the CAISO's proposed IBAA modeling methodology. SVP has stated its numerous concerns in past written and verbal comments, but the CAISO appears to have predetermined that it will proceed with its IBAA proposal without taking into account those concerns. The rationale provided by the CAISO to date does not support the proposed actions, and the proposal would cause considerable negative impacts on assets in the neighboring BAAs, as well as measurable negative impact on entities like SVP, who are currently located within the CAISO BAA, but who rely on resources



outside the CAISO BAA to economically and efficiently supply its consumers.

As a preliminary matter, SVP's responses within the format created by the CAISO should not be interpreted as SVP's agreement to the aspects of the CAISO's proposal that are not covered by the CAISO's template. SVP notes that the specific phrasing of the questions in this comment form are rather skewed. For example, in this section CAISO selected three statements out of a lengthy proposal and asks for our views on the proposed modeling approach. The entire approach needs to be viewed as a whole. SVP has stated its concerns with the modeling approach utilized by the CAISO. If the CAISO wanted to follow that flawed approach without impacting SVP's transaction pricing, that would be one matter, but the CAISO, has tied its flawed modeling approach to its pricing, which would have an unwarranted and unjust negative impact on SVP's consumers.

SVP continues to assert that the CAISO can do a better job of modeling than it proposes by either using reasonable estimates of COTP schedules that will sink in neighboring BAAs based on data available to the CAISO, or by reaching a reasonable, mutual information sharing agreement with the neighboring BAAs.

As SVP demonstrates in the attached IBAA Losses Examples Discussion paper, the CAISO's proposal to price COTP injections at Captain Jack incorrectly assigns to COTP schedules costs that should be assigned to Malin schedules. This cost shift by the CAISO is unnecessary because it results in an overcollection of losses. It also disrupts the balance struck in the agreements governing the coordinated operation of the three California-Oregon Intertie lines. Western customers (COTP participants) bear all the costs associated with COTP, including those associated with unscheduled flow from Malin injections, and CAISO cannot charge Western (COTP participants) any costs associated with unscheduled flow on the PACI from COTP injections. By approximating the total COI schedules into the CAISO's modeling of scheduled transactions, the CAISO can significantly reduce differences between scheduled (modeled) and actual flows, and thereby improve the accuracy of its LMPs. Contrary to the CAISO's assertion that pricing COTP injections at Tracy would lead to market uplifts, SVP demonstrates that CAISO will fully recover its marginal costs (with no uplifts) if it models total COI injections. As indicated previously, the CAISO can make reasonable estimates of all COTP injections at Captain Jack (including those that do not sink to CAISO). Reasonable modeling, coupled with not pricing at Captain Jack COTP schedules sinking to the CAISO, would ensure that COTP participants are not improperly charged for PACI costs and that CAISO does not over-recover for costs associated with PACI flows.

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 priced 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 IBAs. 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 IBAs (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.

Silicon Valley Power opposes the CAISO's proposed default IBAA pricing rule, and also opposes the alternative sub-hub pricing. SVP has stated its numerous concerns in past written and verbal comments, but the CAISO appears to have predetermined that it will proceed with its shifting IBAA proposal without taking into account those concerns. The latest proposal of a default pricing rule is unjust and unreasonable and unduly discriminatory. It effectively allows the CAISO to determine that any imports from an IBAA get priced at the lowest import price, and any exports from the CAISO to the IBAA get priced at the highest export price. In essence, the CAISO would unilaterally rule that it gets to take the IBAA's lowest cost resources, and force the IBAA entity to use the IBAA's most expensive resources to serve its load. By doing so the CAISO proposes to implement, as a rule, the type of price arbitrage it claims it is seeking to prevent.

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.

Silicon Valley Power is opposed to the CAISO's proposed IBAA approaches, and has expressed its concerns with the manner in which CRRs were handled for imports on the COTP, which deliver schedules to the interconnection at Tracy. But if the CAISO is ultimately permitted to go forward with either IBAA approach it must allow the market participants to alter their awarded CRRs accordingly. The CAISO now appears to recognize that, to the extent that a change was made to any modeling due to creation of IBAs after the CRRs were awarded, then market participants must be given an opportunity to modify their CRRs accordingly. The CAISO must apply the same approach for previously-released CRRs associated with the COTP. SVP requested CRRs intended to hedge its exposure to COTP congestion costs. In developing its CRR requests, SVP relied on CAISO staff representations that COTP transactions should be mapped to TRACY5_5_PGAE_I. At the time of its CRR request, SVP did not have access to the CRR APNode Mapping Table information that the CAISO asserts parties should have relied on to determine that their COTP CRR requests should have been mapped to Captain Jack. Even if SVP had been able to negotiate the problems with the CRR NDA in time to have access to the CRR APNode Mapping Table before requesting CRRs, the table did not provide sufficient information to market participants to determine that COTP CRRs would be hedged only with requests mapped to Captain Jack. The fact that no more than 0.1 MW of CRRs mapped to Captain Jack were allocated to the entire market, is indicative that market participants were not aware that the COTP CRRs had to be mapped to Captain Jack. If the CAISO is ultimately permitted to price COTP transactions at Captain Jack, (which SVP strenuously opposes) parties that received Tracy5_5_PGAE_I CRRs must have the opportunity to modify the source of the CRR to Captain Jack.

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, IBAs. The proposed process requires the CAISO to seek collaboration and conduct a consultative process with the affected BAs 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*



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, IBAs. 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, IBAs. 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.

Silicon Valley Power does not believe the CAISO's "consultative" process with the affected BAA (SMUD/Western/MID and TID), those BAAs' stakeholders, and affected CAISO stakeholders was sufficient or effective. 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. SVP has previously proposed Tariff language that appropriately and reasonably puts the proposed IBAA BA on equal footing with the CAISO in the IBAA development process (SVP Additional Comments on IBAA Tariff Language 29-Feb-2008 posted by CAISO on 03/06/2008 11:02). BAAs operate their systems in compliance with the requirements of NERC and WECC and there is no reason why one BAA should be able to dictate how seams between two or more BAAs will be resolved. The experience of the "consultive process" utilized to date has been very unsatisfactory, as the CAISO determined what it wanted to do before "consulting" with the market participants that are impacted by the proposal.