

**COMMENTS OF THE  
TRANSMISSION AGENCY OF NORTHERN CALIFORNIA  
ON THE APRIL 18, 2008 DRAFT FINAL CAISO IBAA PROPOSAL**

The Transmission Agency of Northern California (“TANC”) hereby submits its comments on the April 18, 2008 Draft Final CAISO Integrated Balancing Authority Area (“IBAA”) Proposal (“April 18 Proposal”). While the Template posted on the CAISO’s Website purports to serve as a guide for submitting comments on the April 18 Proposal, TANC finds that the structure of the Template and the organization of the CAISO’s issues does not accommodate the comments of TANC. TANC is also more effectively able to communicate its comments comprehensively rather than in the divided approach outlined in the Template. Therefore, TANC submits its views on the April 18 Proposal without utilizing the Template structure.

For the following reasons, TANC does not support the CAISO’s April 18 Proposal on Modeling and Pricing of IBAA’s:

- The CAISO has not demonstrated a need for the IBAA proposal, or for its imposition of that proposal solely on the SMUD/Western and TID BAs. Its April 18 Proposal is no more effective at improving congestion management than other alternatives, sacrifices accurate price signals, fails to properly model IBAA transactions and has not been shown to be necessary or effective in addressing concerns with gaming opportunities. The CAISO concedes that there are deficiencies with its proposed modeling approach which may be implemented as soon as several months after MRTU start up. *April 18 Proposal at 8.*

Significantly, the CAISO has not demonstrated that there is a sufficient concern or need that requires implementation of an IBAA proposal at the start-up of MRTU.

- The CAISO contends its IBAA proposal is necessary to accurately model the system and to more accurately “manage congestion” on the CAISO Controlled Grid. The April 18 Proposal, however, does not improve modeling accuracy and results in incorrect price signals. In fact, the CAISO recently rated the single proxy bus proposal “Low” in its ability to provide effective congestion management. *See April 11, 2008 CAISO Presentation on Modeling and Pricing of IBAA's at Slide 3.* While the CAISO claims the April 18 Proposal places weight on eliminating “inappropriate scheduling incentives and pricing signals,” (*April 18 Proposal at 2*), the CAISO has not provided compelling data to demonstrate that pricing California-Oregon Transmission Project (“COTP”) imports at Tracy 500 kV (the boundary point between itself and SMUD/Western BAA) rather than at Captain Jack (which is a remote point outside of the CAISO’s system) would cause inappropriate scheduling incentives. A careful review of schedules affected by the April 18 Proposal into the CAISO markets reveals the importation of significant amounts of energy under long term contracts. Much of that energy, by law, must be consumed by the designated recipients. That energy is simply not eligible to be sold to other entities. Improper scheduling incentives is not a legitimate concern for the entities subject to the first IBAA. In addition, the amounts those entities import into the CAISO are so small in the extreme as compared with the CAISO schedules, schedules in northern California, and even

- schedules on the California Oregon Interconnection, that their impact would not have an appreciable, maybe not even a measurable impact on congestion and pricing. Very simply, it is not plausible to base the IBAA proposal on concerns with scheduling incentives for the entities that will be subject to the first IBAA. In fact, the Single Hub, by definition, inappropriately prices virtually every effected schedule. By aggregating all imports from the North in a single price, the price signal for every transaction is, at best, muted, and at worst badly distorted. Thus, the CAISO is adopting a new pricing policy that is unwarranted and adversely impacts neighboring BAs by applying inappropriate pricing schemes to schedules on non-CAISO facilities.
- The April 18 Proposal applies a one-sided pricing scheme to estimated parallel flows from schedules on non-CAISO facilities. The IBAA proposal also impairs and diminishes TANC's Congressionally authorized rights to the COTP and abrogates numerous FERC accepted contracts which, among other things, prohibit charging for parallel flows over the California-Oregon Intertie ("COI"). In fact, the CAISO's proposed objective ignores the fact that the PACI and COTP are operated pursuant to the Amended Owners Coordinated Operation Agreement ("OCA"), which provides for a coordinated three-line transmission system that constitutes the COI. Under that arrangement, the owners agreed that they would not charge each other for unscheduled flow. By designating a three-line system (the COI) in a manner that achieved the highest rating, the owners recognized and continue to recognize significant benefits and a fair apportionment of costs. While the CAISO states that the proposed approach maintains "the existing

scheduling practices between BAAs,” (*Id. at 7*), the CAISO’s April 18 Proposal, in fact, upsets the balance achieved in the Amended OCOA and even the coordinated operation of the COI, improperly proposes to charge for parallel flows, raises reliability concerns and otherwise fails to account for the benefits of the OCOA and related agreements.

- Despite the shift to a Single Hub methodology, the April 18 Proposal fails to accommodate the numerous concerns with the IBAA proposal expressed by TANC and TANC Members, Western Area Power Administration and the Department of Energy. For instance, the CAISO maintains that it does not intend to establish rates on non-CAISO Controlled Grid facilities. *Id. at 12-13*. However, as explained more fully in the comments of the City of Santa Clara, California, the CAISO’s proposal to price COTP injections at Captain Jack incorrectly assigns to COTP schedules costs that should be assigned to schedules on CAISO Controlled Grid facilities. The CAISO also has not alleviated concerns that the IBAA Proposal will result in duplicative congestion and losses charges on the schedules using the COTP. Nor does it appear from the April 18 Proposal that the CAISO has taken into account the fact that Western assumes responsibility for losses for its BA by providing that 100 MW scheduled on the COTP for CAISO markets results in 100 MW delivered to the CAISO.
- The CAISO IBAA proposal must be a negotiated agreement between the CAISO and the affected BAs. While the CAISO claims that it is willing to consider future enhancements to address the limitations of its April 18 Proposal, that

willingness does not extend to a negotiated resolution of the first IBAA. A serious flaw in the April 18 Proposal is the failure to incorporate mutual agreement as the basis for addressing resolution of CAISO concerns with modeling flows from external sources. This is a matter for mutual agreement with neighboring BAs, not unilateral action that will adversely affect resources not connected to the CAISO grid. The CAISO is unilaterally addressing issues that should be resolved between and among neighboring BAs such that the CAISO does not subordinate neighboring BA interests to its own. The CAISO's proposal to create a more structured process for the consideration of future IBAs or the modifications of existing ones does not rectify the absence of a negotiated resolution of the initially targeted IBAs.

- The CAISO has not involved TANC and other Stakeholders in a meaningful and robust process involving the mutual exchange of information and full consideration of the concerns of adjacent BAs. In numerous meetings since January 2008, TANC, Western and other affected entities have provided the CAISO with significant information on the impact of the IBAA, and on the issues and proposals presented by the CAISO, which are applicable to its April 18 Proposal. It does not appear that these comments have been taken into consideration or reflected in the CAISO's April 18 Proposal applicable to the SMUD/Western and TID BAs.
- TANC has also coordinated with the Sacramento Municipal Utility District, the City of Santa Clara, California, the Turlock Irrigation District, the Western Area

Power Administration, and the Department Of Energy, Berkley Site Office on the comments on the CAISO's April 18 Proposal and generally supports and concurs in their comments on, and concerns with, the CAISO's April 18 Proposal, and particularly endorses the concern that IBAA issues are a matter for mutual negotiation rather than unilateral action.

TANC is prepared to meet with the CAISO again in the near future to discuss arrangements that would result in a mutually agreed upon process to verify and negotiate an equitable resolution of the CAISO concerns.

**TANC Contact Information:**

James W. Beck, General Manager  
Bryan W. Griess, Assistant General Manager  
Shawn Matchim, Consultant  
Transmission Agency of Northern California  
P.O. Box 15129  
Sacramento, CA 95851-0129  
(916) 852-1673

Michael Postar  
Bhaveeta K. Mody  
Duncan, Weinberg, Genzer  
& Pembroke, P.C.  
1615 M Street, N.W.  
Suite 800  
Washington, D.C. 20036-3203  
(202) 467-6370  
[mrp@dwgp.com](mailto:mrp@dwgp.com)  
[bkm@dwgp.com](mailto:bkm@dwgp.com)