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Comments of the Northern California Power Agency Congestion Revenue Rights Associated with Integrated Balancing Authority Areas

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Northern California Power Agency (“NCPA”) would like to provide the following comments on the CAISO Issue Paper and Straw Proposal regarding Congestion Revenue Rights (“CRR”) associated with Integrated Balancing Authority Areas (“IBAA”). In particular NCPA would like to provide comments on Section 2.2 of the Issue Paper, but the lack of comment regarding other aspects of the proposal should not be interpreted as acceptance of the proposal.

Impact of an IBAA Change on the Settlement of Previously-Released CRRs

Section 2.2 of the CAISO Issue Paper attempts to address the impact the IBAA proposal will have on the settlement of previously-released CRRs, and proposes two possible approaches for addressing the concerns raised by multiple market participants in the recent months. In particular, many stakeholders have expressed concern that the IBAA proposal will create a discrepancy between the source or sink locations of previously-released CRR instruments and the new source or sink locations that may be adopted based on incorporating the IBAA transmission modeling into the Full Network Model (“FNM”). The CAISO has proposed two alternatives to resolve discrepancy as described below:

- 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.

At first glance the two options presented seemed reasonable to address the specific concern raised by NCPA in past comments, but based on discussion during the February 25, 2008, stakeholder conference call on this subject, it appears that NCPA's concerns are still very relevant, and that the CAISO Issue Paper as current presented is misleading¹. To date, a majority, if not all, concerns raised on this subject have been focus on the impact the IBAA proposal will have on the "previously-released" CRRs awarded during the recent 2007 allocation process. During the recent CAISO stakeholder conference call it was clarified that this proposal was meant to apply only to those "previously-released" CRR that have not been released. As understood from the discussion, to the extent CRRs issued in the future are impacted by a subsequent change to the FNM resulting from the implementation of an IBAA, the settlement of these to be allocated CRRs may be adjusted based on one of the two proposed approaches. If this understanding of the discussion that took place during the recent stakeholder conference call is incorrect, please indicate so, but based on that understand NCPA requests that the CAISO clarify the CAISO Issue Paper to eliminate the misleading nature of the current language.

As stated in past comments, which will not be reiterated here, NCPA is very concerned with the impact the current IBAA proposal will have on its allocated portfolio of CRR instruments. In particular, NCPA actively utilizes the Tracy intertie to import energy associated with its COTP ownership rights and other resources, and has acquired CRR instruments to hedge its congestion exposure. When the CRR allocation process took place, it was unclear, even for CAISO staff assisting market participants, as to what point CRR instruments should have been selected to protect deliveries from different resources. As a result, NCPA, as well as other market participants, selected CRR instruments based on the information available, or lack of information, at that point in time. During the first annual allocation process, the CAISO IBAA proposal had not been developed, and it is unreasonable to assume market participants would have, or should have, taken its potential impacts into consideration. The CAISO has claimed that market participants should have been informed of the potential IBAA impact by reviewing the details embedded within the CAISO FNM, but the CAISO fails to understand that all market

¹ NCPA is not implying that CAISO has developed Section 2.2 of the CAISO Issue Paper to be misleading, but is arguing that Section 2.2, as currently written, is misleading.

participants did not have access to the FNM. For example, NCPA was unable to acquire the CAISO FNM until the later part of 2007 due to unwarranted provisions encompassed within the Non-Disclosure Agreement, which were eventually remedies as a result of FERC order. NCPA strongly urges the CAISO to reconsider its position on what “previously-released” CRR instruments Section 2.2 of the CAISO Issue Paper applies to, and to confirm that CRR instruments that have been previously awarded per the first year CRR allocation process may be adjusted based on one of the two proposed alternatives. Again, to the extent that the CAISO continues to discount the concern most, if not all, market participants have expressed, the CAISO should at least clarify Section 2.2 of the CAISO Issue Paper to avoid future confusion.

Conditioned upon the assumption that CRR instruments awarded during the first year allocation process should be considered “previously-released” CRRs, NCPA believes that approach one, in which holders of a previously-released CRR whose source or sink is affected by the IBAA change may make a one-time election to either modify or not modify the settlement of a selected CRR instrument, is preferable over approach two, and would be sufficient to resolve many of the concerns that have been previously expressed.