

**SMUD Comments and Questions in Response to the CAISO's February 20, 2008  
Straw Proposal on Congestion Revenue Rights Associated with Integrated  
Balancing Authority Areas**

**February 29, 2008**

**I. Introduction**

As requested by the California Independent System Operator Corporation (CAISO) pursuant to its February 21, 2008 market notice, the Sacramento Municipal Utility District (SMUD) provides these comments in response to the CAISO's "Straw Proposal on Congestion Revenue Rights (CRRs) Associated with Integrated Balancing Authority Areas (IBAAs)" (CRR Paper).

**II. Prejudice regarding CRR allocations already made**

The CRR Paper clearly indicates that the CAISO's IBAA proposal is still an evolving concept. The February 20 CRR Paper now recognizes that:

- (1) new IBAAs affect CRR decisions, and
- (2) there is a need to protect customers who have made CRR nominations when the CAISO later adds a new IBAA.

This new proposal is important because it reflects the CAISO's recognition that the addition of new IBAAs can affect the CRR nominations, not only of the newly-designated IBAAs, but of any market participant making CRR nominations. Notwithstanding the clear fact that the proposal is still evolving, however, the CAISO does not extend the same protection to those who may have already made CRR nominations. This is fundamentally unfair since neither SMUD and other targeted balancing authority areas nor other stakeholders had knowledge that the CAISO was applying these IBAA assumptions in last fall's CRR allocation process. The CAISO's earlier answers to stakeholder questions acknowledge that, whatever it thought it was disclosing to stakeholders about its full network model (FNM) it was using to allocate CRRs, its plans were not generally understood by stakeholders. This, in fact, was one reason it gave for agreeing to make a tariff change filing. But even if one assumes that the parties the CAISO treated as an IBAA knew it at the time *they* made their CRR nominations, the ISO has already admitted that stakeholders as a whole, did not so understand. This is critical because the CAISO's latest proposal recognizes that all CRR nominations are affected if an IBAA is either added to the FNM without their knowledge at the time they seek CRRs or added after they've made their CRR decisions.

**III. The flawed logic of a piecemeal and *Ad Hoc* implementation of IBAAs**

The CAISO says at the outset of its CRR Paper that the "accuracy of the FNM is essential to realizing the benefits of the LMP-based MRTU market redesign" and that replacing the

radial modeling of adjacent control areas with its IBAA modeling and pricing methodology will improve the accuracy of its FNM. But it proposes only "to model *certain* adjoining BAAs in the FNM " using that methodology. (CRR Paper at 3.) This raises several problems.

- First, the CAISO has acknowledged that changing the LMPs on one part of its system affects all LMPs on its system. But it has never studied whether adopting a single IBAA without departing from radial modeling at other adjacent control areas actually improves overall LMP results or whether it may distort them.
- Second, the CAISO now says that it will consult with potential IBAAAs and may conclude that they shouldn't become IBAAAs. But if radial modeling produces less accurate results than the IBAA pricing methodology, declining to add a new IBAA will, by definition, defeat the CAISO's stated goal of improving the accuracy of the FNM.
- Third, if replacing the radial modeling of adjacent control areas is needed to improve the accuracy of the FNM, and even if it does not distort the pricing accuracy of FNM to add IBAAAs one at a time, the CAISO has failed to explain what criteria will drive the addition of, or the timing of the addition of new IBAAAs. For example, there is no indication that it has studied what IBAAAs should be added sooner than other IBAAAs to best improve LMP pricing for all stakeholders.

#### **IV. Extensive study and analysis should be applied to all, not just new IBAA changes**

The CAISO notes that "IBAA changes will undergo extensive study and analysis *before* they are implemented in the FNM." (CRR Paper sec. 2.1, at 4, emphasis added.) SMUD supports this concept, however, SMUD notes that this important standard has not been applied to those targeted as initial IBAAAs. SMUD can find no market notice or announcement by the CAISO that it had adopted these changes in the version of the FNM available during the CRR allocation process last fall. Moreover, no study or process was instituted preceding such a fundamental change. Thus, on the one hand, the CAISO notes the importance of understanding the impact of such changes and the need to perform extensive studies and analysis while on the other, it ignores that same process for earlier decisions it apparently made unilaterally. Indeed, as SMUD has already noted, the CAISO maintained a public posture of open discussions and negotiation with SMUD and others regarding its newly-coined IBAA proposal when, it appears, it had long-since incorporated these changes into the FNM. Although it is good that the CAISO recognizes an open analytical study process should be applied, it should not be allowed to pretend it had such a process for SMUD and others. As we have identified in our questions and comments, the so-called analysis performed to date on the SMUD/Western BA is far from extensive and even misleading.

If the CAISO wishes to proceed, it should do so in a consistent and transparent manner, with similar standards being applied to all affected entities.

Respectfully submitted February 29, 2008