

SMUD Comments on the CAISO's October 16, 2008 Issue Paper, entitled "Update to Draft Final Proposal on Uneconomic Adjustment Policy and Parameter Values."

As requested by the California Independent System Operator Corporation (CAISO), the Sacramento Municipal Utility District (SMUD) provides the following comments to the CAISO's "Update to Draft Final Proposal on Uneconomic Adjustment Policy and Parameter Values." First, SMUD is pleased that the CAISO has made significant efforts to address the diminution of ETCs/TORs in its latest proposal. Whether these changes will work as anticipated remains to be seen. Thus, careful monitoring, particularly after MRTU goes live, will be needed. Nevertheless, most of the concerns regarding the preservation of ETC/TOR rights appear to have been addressed by this final proposal. There is an issue SMUD has raised, however, that the CAISO has not addressed. SMUD therefore reiterates its concerns regarding the possible impacts of parallel flows on Uneconomic Adjustments priorities in these comments.

As SMUD had previously noted in its October 3 comments, the firmness of its exports under MRTU, something that the FERC has ordered should be maintained, may be undermined through the CAISO's Uneconomic Adjustment process. SMUD wants assurances that the penalty prices are set in such a way that schedules made feasible by parallel flows across the SMUD balancing authority area are not afforded a higher priority than SMUD's own schedules.

These parallel flows are addressed by the CAISO through its use of so-called "compensating injections," which are non-transparent -- in essence, phantom -- schedules of predominantly PG&E parallel flows through the SMUD balancing authority area (BAA). SMUD has expressed its concerns that the fact that these compensating injections/flows are not transparent in the CAISO's markets means that they are not subject to any form of adjustment. For example, if there is a need to adjust a SMUD schedule to resolve a constraint pursuant to this policy, such an adjustment is not shared on a pro rata basis by the entity or entities contributing to the congested path due to their parallel flows through the SMUD BAA. SMUD believes, at a minimum, these flows, and thus the specific compensating injection values used at each CAISO market interval, should be made fully transparent and provided to SMUD so they can be monitored and validated. This is reasonable, since these values both impact prices paid by SMUD and its import/export capability at its scheduling points with the CAISO. In any event, SMUD believes that further explanation and documentation by the CAISO on its proposed use of compensating injections is necessary.

Respectfully Submitted: October 23, 2008