

SMUD Comments on the CAISO's September 19, 2008 Issue Paper, entitled "Draft Final Proposal on Uneconomic Adjustments in the MRTU Market Optimizations."

As requested by the California Independent System Operator Corporation (CAISO), the Sacramento Municipal Utility District (SMUD) provides the following comments to the CAISO's "Draft Final Proposal on Uneconomic Adjustments in the MRTU Market Optimizations" (Final Paper). SMUD's primary concern in the Final Paper is how it proposes to ensure that Uneconomic Adjustments in the MRTU market optimizations do not diminish the service priorities the CAISO is obligated by contract and tariff to preserve for ETCs and TORs. Specifically, it appears that in some instances, the holders of ETC and TOR rights, including SMUD, will be exposed to charges and costs in violation of these rights. The CAISO summarizes the problem:

The ETC/TOR parties identified another concern with the Uneconomic Adjustment approach, which is in fact a consequence of (1) the use of large Default LAPs for scheduling and settling most of the load in each of the IOU service territories, compared to (2) the requirement for existing rights holders to schedule and settle their load at the actual physical location for which its contractual rights are specified, typically a Custom LAP which is a small subset of a Default LAP. *The practical result of this approach is that ETC load may actually get lower scheduling priority than non-ETC load, i.e., is more likely to be curtailed if there is a binding transmission constraint in the area of the ETC load.* When such a constraint binds, the effectiveness of 1 MW reduction in D-LAP demand will typically be an order of magnitude less than the effectiveness of 1 MW reduction in ETC load in the area of the constraint, thus making it more likely that the ETC load will be curtailed while the D-LAP load is unaffected. The parties claim that this violates the tariff priority structure for ETC and TOR Uneconomic Adjustment and thus violates the requirement to honor the ETCs. . . . *CAISO acknowledges the validity of the concerns expressed by the existing rights holders.* . . .

Although CAISO does not expect these ETC load curtailments to be frequent, it is correct to state that when there is a binding transmission constraint in the area of the ETC load, and there are not other means to relieve the constraint (such as additional generation within the area of the ETC load), then the relative priority of ETC load versus generic self-scheduled D-LAP load will be reduced to provide greater priority for the D-LAP load. *A possible way to address this situation is to provide a financial mechanism to offset any congestion exposure for the existing rights holders that may be created by Uneconomic Adjustment.* Final Paper at 11-12 (emphasis added).

SMUD cannot agree with this approach. The entities which possess ETCs and/or TORs depend upon the cost certainty these rights provide. Since the early development of MRTU (MD02), the prioritization of ETCs and TORs in the market design has always been intentional and assured. This priority is embodied in section 31.4 of the CAISO MRTU tariff and the Transmission Owners' agreements. The CAISO's proposed treatment of these rights in its Final Paper violates this priority. And this is not, as the

CAISO states, simply a “claim” by the affected ETC and TOR parties “that this [proposed treatment] violates the tariff priority structure for ETC and TOR Uneconomic Adjustment and thus violates the requirement to honor the ETCs,” it is a fact. The CAISO proposal merely offers a mechanism to offset congestion charges, which is but one type of charge that may result from uneconomic adjustments made by the CAISO to ETC or TOR schedules. In most instances, the hedge these rights provide extends well beyond congestion charges.

Indeed, there are numerous other costs that ETC and/or TOR holders could be exposed to under the CAISO’s proposed solution. Among these could be marginal losses, IFM Tier 1 Bid Cost Recovery cost allocation, Tier 1 of Exceptional Dispatch cost allocation, Energy Exchange cost allocation and additional GMC charges associated with uninstructed deviations charges. In addition, there is the possible exposure to changes in the cost of Energy between the IFM and Real-Time markets. The result is that the CAISO’s proposed solution for ETCs and TORs diminishes the value of these rights.

The CAISO issued a Market Notice on September 29, where it noted its commitment to “consider modifying the proposal on Treatment of ETC/TOR.” SMUD urges that the CAISO continue to seek a solution that ensures ETC and TOR holders are afforded the full benefit of these rights.

There is one additional issue that is not raised directly in the Final Paper. Nevertheless, it presents a concern to SMUD. SMUD notes that 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.

Respectfully Submitted: October 3, 2008