

SVP COMMENTS TO MSC DRAFT OPINION ON IBAA PROPOSAL

By way of background, The City of Santa Clara, California, d/b/a Silicon Valley Power ("SVP"), serves load within the CAISO BAA utilizing a combination of resources located within its City limits, within the CAISO BAA, and outside the CAISO BAA. SVP is a member of the Transmission Agency of Northern California, and as such SVP invested in the COTP transmission facility to ensure an ability to bring in resources from the Pacific Northwest to serve its native load in a cost-effective manner.

SVP has previously submitted comments, questions and alternative proposals to the CAISO explaining its basis for opposing the CAISO's IBAA proposal. SVP also has participated in other joint comments. Several of SVP's stated concerns have been magnified by the CAISO's recent adoption of a single price proposal. SVP will not repeat all of its concerns here, but attempts to summarize its comments that are particularly relevant to the Draft Opinion issued by the MSC.

First, SVP must not be prevented from providing its consumers the benefit of utilizing SVP's resources to serve its native load at the lowest cost. The CAISO proposal will add new and duplicative costs to SVP resources used to serve SVP's native load. Under the CAISO's current proposal, SVP's imports on the COTP will be credited/assigned the lowest possible LMP price. This pricing treatment makes it impossible for SVP to gain the full benefit of its transmission investment, while at the same time schedules on the CAISO PACI lines avoid the same costs SVP would incur under the CAISO's unjust proposal. SVP has both generation and transmission assets and must be able to provide its consumers with the full economic benefit of both.

Second, the MSC appears to recognize that there are contractual implications resulting from the coordinated operation of the COTP and the PACI lines, but appears to be advised that the contracts do not prevent the CAISO from imposing costs on certain CAISO import schedules from the neighboring BAA. SVP asserts that the CAISO proposal in fact does violate terms of existing contractual arrangements and imposes costs on import schedules utilizing transmission facilities that are located in the neighboring BAA.

Third, it appears that part of the MSC's analysis is based on the premise that utilization of the CAISO grid and/or markets by entities with resources outside the CAISO BAA is discretionary. That is not the case for SVP, who primarily utilizes and relies on the COTP to serve its native load, and is required to schedule its imports into the CAISO in order to get the resources to its native load.

Fourth, SVP disagrees with the MSC's statement that the CAISO proposal will lead to better modeling and pricing. The proposal does not rectify significant modeling defects underlying the CAISO's IBAA proposal.

Fifth, the gaming possibilities identified by the MSC are based on a comparison to different situations in the Eastern ISOs/RTOs. Given the close proximity of the points of interconnection, the small differential in pricing, and the transaction costs associated with the type of schedules described by the MSC, SVP believes that the gaming concern is not as great as in the East, and there are less intrusive ways of managing the concerns – such as joint (CAISO and neighboring BAA) market monitoring.

The CAISO proposal has significant impacts on the value of resources, and SVP fears that it will have unintended consequences regarding how parties will transact on the CAISO grid. SVP also fears that the CAISO's proposal sends the wrong signal to parties considering building generation or transmission resources to serve loads within the CAISO grid.

Lastly, SVP is encouraged that the MSC acknowledges that mechanisms may need to be developed to ensure that parties who have invested in transmission facilities are not inappropriately charged when their facilities provide reciprocal benefits. SVP believes that the neighboring BAA parties, the CAISO and the MSC should meet to explore alternative methods to address the MSC's concerns about sending appropriate price signals, while also addressing the neighboring BAA participants' and COTP Participants' desire to retain the value of their investments in transmission facilities.

Sincerely,

Silicon Valley Power