

**COMMENTS OF THE
TRANSMISSION AGENCY OF NORTHERN CALIFORNIA
ON THE CALIFORNIA ISO'S JUNE 9, 2008 DRAFT FINAL PROPOSAL ON
"PARAMETER TUNING FOR UNECONOMIC ADJUSTMENTS IN THE MRTU
MARKET OPTIMIZATIONS"**

JUNE 20, 2008

The Transmission Agency of Northern California ("TANC") hereby submits its comments on the California Independent System Operator Corporation's ("ISO") June 9, 2008 Draft Final Proposal on "Parameter Tuning for Uneconomic Adjustments in the MRTU [Market Redesign and Technology Upgrade] Market Optimizations" ("Draft Final Proposal"). TANC recognizes the ISO's stated purpose and motivation to resolve what it views as tariff flaws that could lead to both unsound operational practice and unreasonable economic outcomes. However, as an entity that interacts with the ISO including through its South of Tesla Principles ("SOTP") Existing Transmission Contract ("ETC") rights, defined under MRTU as Self-Schedules, TANC is concerned that the Draft Final Proposal fails to honor such Self-Schedules and therefore, TANC submits the following comments:

The Draft Final Proposal Would Subject Self-Schedules to Greater Risk of Curtailment

Despite the ISO's claim that "Utilizing penalty prices associated with special rights (such as ETCs, CVRs, TORs) does not create any greater likelihood than today that such Self-Schedules will be adjusted,"¹ Uneconomic Adjustments would expose all Self-Schedules to greater risk of curtailment. The ISO proposes to "modify the currently inflexible requirement to utilize *all* Economic Bids before adjusting Self-Schedules so that extremely ineffective Economic Bids may be bypassed and some more effective Self-Schedule adjustments may be utilized...". See Draft Final Proposal at p. 4. However, allowing the ISO to curtail Self-Schedules prior to exhausting all Economic Bids, by definition, exposes Self-Schedules to greater risk of curtailment. The ISO has indicated that only "extremely ineffective" Economic Bids would be bypassed, but as discussed more fully below, the ISO has not fully defined what it means by "extremely ineffective" and does not propose to do so until after filing the tariff revisions. Additionally, by stating that Self-Schedules will not face a greater likelihood of curtailment under the Draft Final Proposal, the ISO seems to intimate that extremely ineffective Economic Bids would have *no* effect on transmission constraints if they were accepted and that the same amount of Self-Schedules would need to be constrained regardless of whether the extremely ineffective Economic Bids are accepted. However, because the ISO has proposed a 10% effectiveness rate cut-off, *Id.* at p. 16, all Economic Bids with an effectiveness rate of up to 9% would be bypassed in favor of curtailing Self-

¹ Kristov, Lorenzo, Principal Market Architect, *Parameter Tuning – Draft Final Proposal Stakeholder Conference Call Presentation*, June 13, 2008 at p. 7.

TANC Comments Parameter Tuning Proposal

Schedules. This portion of curtailment of Self-Schedules would not be possible under the current MRTU. For these reasons, TANC believes that the ISO's Draft Final Proposal would subject ETCs to greater risk of curtailment and that the ISO's proposed tariff revisions fail to meet its obligation to honor, preserve and protect all ETCs. TANC urges the ISO to develop Uneconomic Adjustment parameters that fully honor all ETCs.

The Draft Final Proposal Approach Renders The Proposed Tariff Revisions Incomplete And Unclear

The ISO's proposal to bifurcate the Parameter Tuning process into two phases, whereby the ISO would file revisions to the MRTU to implement Uneconomic Adjustments, but wait to set penalty prices through an undefined later process, makes it impossible to understand the magnitude of the risk of curtailment to ETCs. The ISO believes that the current MRTU would lead to transmission constraint "solutions that are both operationally and economically unreasonable." See May 6 Issue Paper at p. 3. Therefore, the ISO proposes "that it is appropriate to modify the existing requirement to allow Self Schedules to be adjusted or certain other constraints to be relaxed before exhausting all Economic Bids in order to avoid such extreme, unreasonable outcomes." *Id.* The ISO has not, however, defined what constitutes operationally and economically unreasonable outcomes. It is understood that the level at which the penalty prices are set will determine these definitions. Therefore, the ISO proposes that it be granted the authority to make Uneconomic Adjustments, before it has determined the meaning of several terms and conditions underlying Uneconomic Adjustments. The two phase process creates an uncertainty as to the definition of these terms and the limits of the authority the ISO is requesting under Uneconomic Adjustments. This uncertainty will remain until the Parameter Tuning phase is complete. This is a completely unacceptable approach to implementing a major tariff and market revision. TANC urges the ISO to fully develop the Uneconomic Adjustment proposal to include parameter values *before* filing implementing tariff revisions so that stakeholders and the Commission will fully understand the ISO proposal and its ramifications and so that it is clear that electric system reliability is not being compromised in the implementation of the ISO's model.

Scheduling Run and Pricing Run Parameters Should Be Published In The MRTU Tariff

The ISO's proposal to incorporate the pricing run parameters in a Business Practice Manual and to make available the scheduling run parameters in an operating procedure fails to meet the statutory standard for rates, terms and conditions under the Federal Power Act. Public Utilities are not free to charge rates based upon unfiled formulas or to change such formulas without filing tariff revisions. Allowing the ISO to modify parameter values without prior FERC review denies due process rights and violates the Federal Power Act. Such an approach would negatively impact contract rights pre-dating the ISO itself. The ISO has provided no explanation of how this discretion to adjust parameters without prior review is permissible under the Federal Power Act. Scheduling run and pricing run parameters have the potential to affect rates,

terms and conditions, and therefore the ISO should include both the scheduling run and the pricing run parameters in the MRTU tariff.

The ISO Should Commit To Providing Ample Time For Testing

The ISO's self-imposed deadline, of July 18, 2008, for filing tariff revisions to implement Uneconomic Adjustments and its subsequent schedule for determining pricing run parameter values 30 days before MRTU go-live should remain flexible and not stand in the way of conducting a thorough testing process. Many uncertainties remain concerning Uneconomic Adjustment and parameter values. In the market simulation, stakeholders have observed pricing run values at up to 60 times the bid cap level.² The ISO in arguing that it needs flexibility to modify parameter values has admitted that the consequences of Uneconomic Adjustment are uncertain. Parameter Tuning will greatly affect the rights of ETC holders and the Parameter Tuning process will determine the severity of those affects. Rushing through the testing process will unnecessarily endanger ETC rights. Some of these risks can be avoided by conducting thorough testing and analysis of the Parameter Tuning process in the market simulation. Any concern that the ISO may have about advancing the Parameter Tuning process in time for MRTU go-live is obviated by the ISO's apparent recognition of the need to carefully test all systems and not commence operations until all systems are ready.³ In light of this, TANC urges the ISO to spend the appropriate amount of time to ensure that the Parameter Tuning process yields rational results.

² Southern California Edison Company commented during the June 13, 2008, Parameter Tuning stakeholder conference call that prices in the market simulation have been up to 60 times the bid cap level.

³ On June 18, 2008, Steve Berberich stated publicly that MRTU may not be ready until 2009, Platts, *California ISO Says Market Redesign May Not Be Ready Until 2009*, June 18, 2008.