

**COMMENTS OF THE
TRANSMISSION AGENCY OF NORTHERN CALIFORNIA
ON THE CALIFORNIA ISO'S DRAFT FINAL PROPOSAL ON UNECONOMIC
ADJUSTMENT IN THE MRTU MARKET OPTIMIZATION**

October 3, 2008

The Transmission Agency of Northern California ("TANC") hereby submits its comments on the California Independent System Operator Corporation's ("ISO") September 19, 2008 Draft Final Proposal on Uneconomic Adjustment in the Market Redesign and Technology Upgrade ("MRTU") Market Optimization ("Draft Final Proposal"). As an entity that interacts with the ISO including through its South of Tesla Principles ("SOTP") Existing Transmission Contract ("ETC") rights, TANC is concerned that the Draft Final Proposal fails to fully recognize the ISO's commitment to honor such existing contracts and therefore, TANC submits the following comments:

ETCs Should Be Excluded From the Uneconomic Adjustment Process

TANC believes that the Existing Transmission Contracts prohibit the application of the Uneconomic Adjustment policy to ETCs. TANC, therefore, urges the ISO to develop a method for dealing with ETCs outside of the Uneconomic Adjustment proposal or through a work-around that not only honors existing priorities for ETC rights but also fully honors those ETC rights as negotiated and does not subject ETC rights to curtailment in violation of the negotiated contracts establishing the individual ETC rights. During their negotiation, the possibility that TANC ETC rights could be curtailed for economic reasons was never entertained. Therefore, the ISO must ensure that TANC ETC rights, that were paid for, negotiated and litigated will be fully honored as they are today and not adjusted for economic reasons.

The Bifurcated Process for Seeking Approval of the Uneconomic Adjustment Process Prior to Settling Parameter Values Renders the Proposed Tariff Revisions Incomplete and Unclear

TANC reiterates its concern that the ISO's plan to submit Uneconomic Adjustment MRTU Tariff revisions to the Commission but wait to set the parameter values until after comments on the revisions would be due, does not provide stakeholders with enough detail on the Uneconomic Adjustment proposal to understand its implications. The ISO believes that absent the Uneconomic Adjustment revisions, the current MRTU Tariff would lead to transmission constraint "solutions that are both operationally and economically unreasonable." See May 6 Parameter Tuning Issue Paper at p. 3. The ISO therefore proposes that it be allowed to adjust Self Schedules or relax certain constraints before exhausting all Economic Bids in order to avoid extreme, unreasonable outcomes. *Id.* However, as TANC noted in its June 20, 2008 Comments, the ISO has not defined what constitutes operationally and economically unreasonable,

TANC Comments
Uneconomic Adjustment Draft Final Proposal

and it is understood that the parameter values will provide context to these terms. Therefore, the ISO proposes that it be granted the authority to make Uneconomic Adjustments, before it has determined the meaning of key terms and conditions underlying the Uneconomic Adjustment process. The two phase process creates uncertainty as to the definition of these terms and the limits of the authority the ISO is requesting from the Commission under Uneconomic Adjustment. 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 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 parameter values in a Business Practice Manual fails to meet the statutory standard for rates, terms and conditions under the Federal Power Act. Scheduling run and pricing run parameters will significantly affect rates, terms and conditions, and therefore the ISO should include both the proposed scheduling run and pricing run parameters in the MRTU Tariff.