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Sierra Nevada Customer Service Region  
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California Independent System Operator  
151 Blue Ravine Road  
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To Whom it May Concern:

Given the recent anomalous results in the California Independent System Operator Corporation's (CAISO) Market Redesign Technology Upgrade (MRTU) market simulation activities, the Western Area Power Administration (Western) continues to believe it is a mistake for the CAISO to implement its Integrated Balancing Authority Area (IBAA) default pricing proposal along with MRTU. Under the CAISO's IBAA pricing proposal, Western and other IBAA entities are not treated in the same manner as other Balancing Authorities (BAs); the CAISO discriminatorily prices all import from Western as if they were at the Captain Jack substation (Captain Jack), even though Captain Jack is not in the CAISO BA nor is it a physical interconnection point between Western and the CAISO. On October 3, 2008, Western reported a potential error that displayed the PNode Price for the on-peak locational marginal price (LMP) at Captain Jack as minus \$11,493.82 and an off-peak PNode Price at Captain Jack as minus \$11,434.10 for Trade Dates October 2, 2008 (Day Ahead) and September 30, 2008 (Real Time). After receiving assurances from the CAISO that this was an error and that it would not impact settlements because it was not in the Hour-Ahead Scheduling Process (HASP), on October 10, 2008, the CAISO testing reported a price of \$5,932 for injections at Captain Jack in the HASP. Western remains concerned these anomalies are not just minor outlier but may be an indication of a problem with the model, the model's components, or the market design. Western has significant concerns that the IBAA pricing proposal could impact supply and reliability. While these anomalies surfaced during the pre-IBAA testing period, Western is concerned with the CAISO's position that market participants should expect to see errors when MRTU goes live and the CAISO cannot spend more time in the market simulation to allow users to robustly test their systems. Significant consequences may result if the CAISO rushes to deploy its IBAA proposal without robustly testing it. While Western believes it is a mistake to rush forward and implement IBAA, to assist the CAISO in its endeavor, Western offers the following comments on the CAISO's latest IBAA Tariff language.

**A. General Comment.**

To be consistent with the Federal Energy Regulatory Commission's September 19, 2008, Order, the CAISO should replace the phrase "alternative pricing" with "actual pricing" wherever the term appears.

**B. Section 27.5.3.2.**

Section 27.5.3.2 is not clear. As the CAISO notes in its August 8, 2008, answer, "[A]fter-the-fact data can be used for an entity to obtain non-default pricing." Section 27.5.3.2 should be made clear that providing after-the-fact information is sufficient for obtaining actual pricing. While the CAISO states historic data may be used to establish a Market Efficiency Enhancement Agreement (MEEA), the language is unclear on whether historic, day-ahead, or real-time information is necessary after establishing the agreement. Rather than stating "MEEA must provide the following hourly information" it should state "MEEA must provide the following after-the-fact information." Similarly, the CAISO should change "This information is necessary..." to "This after-the-fact information is necessary..."

There is a second ambiguity in Section 27.5.3.2. This ambiguity could create a situation where all IBAA entities must execute MEEAs or none will get the actual pricing. Sections a through f could be read to require an entity to provide information for the total IBAA loads and resources, instead of just its own loads and resources. For instance, Section b requires an entity to provide "total gross energy scheduled into the IBAA from other Balancing Areas." Western does not have access to data to calculate the total gross energy scheduled into the Sacramento Municipal Utility District (SMUD)/Western/Turlock Irrigation District (TID) BAs from all IBAA entities. Western is able to provide only information related to Western's schedules. Under the CAISO's definition, the IBAA is comprised of SMUD, Western, TID, and other entities. Western does not have access to the schedules for all of the entities in the SMUD/Western/TID BAs and therefore cannot determine the "total gross energy scheduled into the IBAA." Western does not expect that any IBAA entity would have information for the total load/resources for the entire IBAA.

Finally, section 27.5.3.2 requires IBAA entities to provide information in an electronic format that is consistent with scheduling, bidding, operational, and settlement requirements of the CAISO. Western has previously raised concerns related to data format. Western's data for its Sub-BA may not be in the same format as the CAISO's data. Western cannot guarantee the accuracy of data unless they are reviewed at Western's facilities and in their native format. Furthermore, it is unduly coercive to require Western to provide data in a format that may change without notice. Western maintains its data in a format consistent with the Western Electricity Coordinating Council (WECC) requirements. Where the data's format meets the WECC requirements, Western and other IBAA entities should not be required to alter the format of data to meet the CAISO's needs.

**C. Section 27.5.3.2.2**

Western recommends the deletion of Section 27.5.3.2.2. If an entity executes an MEEA, it is entitled to actual pricing.

**D. Section 27.5.3.3.**

Section 27.5.3.3 places a good faith negotiation requirement on the IBAA entities but it does not place a good faith negotiation requirement on the CAISO. The CAISO Tariff should require both parties to negotiate in good faith to make modifications to the form of the MEEA.

Second, Western remains concerned about the durability of an MEEA under Section 27.5.3.3. Nothing in Section 27.5.3.3 ensures the MEEA will be durable. The CAISO (under Section 205) or anyone else (under Section 206) could unilaterally file to change the terms and conditions of the MEEA. This raises significant concerns for Western. In all agreements Western executes, it will require its counter party to consent to numerous provisions and Federal law. To bind Western, any change or modification to a Western contract must be executed by an authorized Federal contracting officer.

**E. Section 27.5.3.4.**

Western believes Section 27.5.3.4 is ambiguous. If the proposed Tariff language requires IBAA entities to provide such real time and day-ahead information, Section 27.5.3.4 appears to allow the CAISO to share such market sensitive information with all Scheduling Coordinators (SC). Western finds such an approach objectionable. SCs should not be able to obtain real-time and day-ahead data from Western or any IBAA entity as this information should only be available to system and reliability operators and should not be made available to SCs and other market participants for price discovery. Furthermore, this will put SCs in the IBAA at a competitive disadvantage. Even if the information in Section 27.5.3.4 is limited to only after-the-fact information, Western still would have a concern if other SCs were able to obtain information from the IBAA entities that is not otherwise available from other SCs. The CAISO should make it clear the after-the-fact information it is requiring under this section from IBAA entities is the same type of information required by all SCs.

**F. Section 27.5.3.7.**

Section 27.5.3.7 is unclear. "Any signatory to an MEEA may audit the price for any transactions entered into under an MEEA." This sentence is ambiguous. It can be read broadly -- so if Western were to sign an MEEA and SMUD were to sign an MEEA, Western could audit the price for a SMUD transaction because both are signatories to an MEEA. This language should be clarified to restrict it to mean only the CAISO and the specific counter party. Second, as previously mentioned, Western cannot guarantee the accuracy of information in non-native format. The CAISO's proposal may utilize Western's information in a non-native format; as a result, Western cannot guarantee the accuracy of it.

**G. Section 27.5.3.8.**

Western has concerns with the durability of the agreement in Section 27.5.3.8.

**H Appendix G.**

Section G.1.1 of Appendix G needs more detail. In Section G.1.1 (3), the CAISO anticipates that a single aggregated System Resource will be used for both imports and exports. However, the CAISO earlier states it is mapping imports to Captain Jack and exports to the SMUD hub. This statement is confusing.

Second, it would be helpful to have more details and a specific example of how the CAISO intends to calculate the distribution factors and network equivalence steps. Without more detail and specific examples, there is insufficient information in the proposed tariff language to calculate the distribution factor and network equivalence steps.

Section G.1.2 of Appendix G is confusing. Section G.1.2 states: "In the event that the Scheduling Coordinator ceases to pay, or pays an amount for transmission losses to Western Area Power Administration or the Transmission Agency of Northern California that is less than the amount that the Scheduling Coordinator would otherwise have paid the CAISO for charges associated with the applicable Marginal Cost of Losses for their Schedules at the applicable Interties, the CAISO will adjust the losses charges for such Scheduling Coordinator to ensure that appropriate marginal losses are paid and determine any amounts owing from prior periods. Any amounts owed to the CAISO for such Payments will be recovered in subsequent Settlements Statements and the CAISO shall with net any Payments owed to such Scheduling Coordinators until the outstanding amounts are fully recovered." Under this language, under the default pricing, it seems as if the CAISO proposes to use Captain Jack LMP but use Tracy Intertie (Tracy) marginal losses if an SC pays Western or TANC for losses. So, if the SC pays Western or TANC less than the amount it would have otherwise paid CAISO for losses at Captain Jack, the CAISO will charge them the difference between the Captain Jack marginal losses and Tracy marginal losses. However, this seems to confuse the issue. The CAISO's approach compares apples and oranges. The losses on Western's system are contractual losses while the CAISO charges marginal losses. Therefore, the CAISO cannot compare the differences resulting from the two calculations and should not use it to assess IBAA entities charges. In the event the CAISO attempts to do this, it may create unintended problems with other items, such as settlements, billings, or contracts – in addition, the CAISO would have to include provisions for payments to IBAA entities in the event losses at Captain Jack are higher than the losses at Tracy.

Furthermore, the only individuals paying Western directly for losses would be under Western's Open Access Transmission Tariff or some other Existing Transmission Contract where there is a loss factor. The Transmission Agency of Northern California (TANC) and others argued that under certain agreements, Western and TANC are responsible for losses but there is no rate charged for it. Since losses are self-provided, how is it possible to determine a value for losses?

Finally under Section G.1.2, it seems inequitable that an SC must declare under penalty of perjury that it is providing the actual amounts in losses paid to Western or TANC for use of the California Oregon Transmission Project. Given the fact that either Western or TANC provides the SC with such information, and if there was a good faith error by Western or TANC, the SC would still be subject to criminal penalties, including imprisonment for perjury because the information it provided was inaccurate.

Western continues to believe implementing IBAA along with MRTU is a mistake. Western does not believe the CAISO can robustly test IBAA between now and December 1, 2008, when CAISO has stated it will file its readiness certificate. Given the past "anomalies" of a negative \$11,500 LMP in real time and \$5,932 in HASP, Western believes the IBAA pricing proposal may impact supplies and reliability. Given the concerns raised in Western's Protest and Request for rehearing, Western does not plan on executing an MEEA. Western continues to encourage the CAISO to work with Western and other entities in SMUD/Western and TID BAs to develop a modeling and pricing proposal that would work for everyone.

By providing these comments, Western is not waiving any of its rights. There are many unresolved issues in the CAISO's implementation of MRTU (including IBAA) that may have an adverse impact on Western. While Western continues to work with the CAISO to resolve these issues, if these issues are not resolved and if there is an adverse impact on Western, Western will take all appropriate actions to ensure that it can continue to meet its statutory obligations.

Sincerely,

A handwritten signature in cursive script that reads "David Tucker".

David Tucker  
MRTU Program Manager