

Constellation Energy Commodities Group, Inc. Comments on Removal of Certain Transmission Facilities from CAISO Control

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Constellation Energy Commodities Group, Inc. ("CCG") submits these initial comments in response to the CAISO's market notice of June 27, 2012, that states: "The ISO intends to relinquish operational control over certain 115kV transmission lines and facilities of Southern California Edison (SCE)." Within that market notice the CAISO provided the following information about the proposed relinquishment of control (the "Proposal"):

Pursuant to the process stated in Section 4.7 of the Transmission Control Agreement, the ISO intends to relinquish its operational control over the 115kV facilities affected by the SCE Devers - Mirage split project. This project created two separate radial systems, the Devers 115kV system and the Mirage 115kV system. Generating facilities connected to transmission facilities that are reclassified as distribution facilities will have to obtain and pay for distribution services from SCE, as the generating facilities will no longer be under the terms and conditions of the ISO Tariff. Interested parties have 45 days to submit written objections to the proposed removal.

The affected facilities include: 220/115kV transformers and 115kV buses; 115kV capacitor banks at Devers and Mirage Substations; the Farrell, Eisenhower, Thornhill, Garnet, Tamarisk, Santa Rosa, Concho and Indian Wells 115kV Substations; and associated 115kV lines. A table itemizing the facilities and the basis for their removal is posted on the ISO website at <http://www.caiso.com/Documents/Devers-MirageFacilityRemovalDetails.pdf>.

Before it may relinquish any transmission lines or associated facilities under Section 4.7 of the Transmission Control Agreement, CAISO must "inform the public through WEnet and the ISO internet website of its intention to do so *and of the basis for its determination pursuant to Section 4.7.1.*"¹ The description offered in CAISO's June 27, 2012 Market Notice does not meet this requirement. There is no meaningful explanation of the basis for CAISO's determination, but rather an assertion that CAISO intends to relinquish operational control over certain 115KV facilities and a perfunctory one sentence reference to the fact that SCE's Devers-Mirage split

¹ Transmission Control Agreement § 4.7.2. Section 4.7.1 identifies three conditions justifying relinquishment of operational control, including subsection ii, referring to "lines and associated facilities which by reason of changes in the configuration of the ISO Controlled Grid, should be classified as "local distribution" facilities in accordance with FERC's applicable technical and functional test, or should otherwise be excluded from the facilities subject to ISO Operational Control consistent with FERC established criteria."

project will create two separate radial systems. There is no way that any interested party can determine from CAISO's notice whether the proposed relinquishment is consistent with applicable CAISO and FERC requirements, and how CAISO intends to address impacts on Market Participants. For this reason CCG protests the insufficiency of the June 27 Market Notice, and expressly reserves the right to supplement this protest after the CAISO addresses this deficiency by informing the public of the basis for its determination as required under Section 4.7.2. CCG discusses below the type of information needed in order for Market Participants to analyze whether the proposed relinquishment comports with applicable requirements, and whether CAISO has adequately considered the direct and indirect impacts of its proposal on Market Participants.

First, CAISO should provide to all interested parties more detailed information about CAISO's proposed relinquishment of control of the affected facilities listed above (the "Facilities"), including but not limited to (1) a specific explanation, with supporting documentation, of CAISO's determination that the proposed relinquishment of control is consistent with FERC's established criteria for classifying facilities and other relevant FERC requirements, and (2) clarity on the timing of the change and the resulting steps that will need to be taken by generators and/or scheduling coordinators (e.g., the termination of existing interconnection agreements, and the execution of new agreements to be included in CAISO model, which is only run on a quarterly basis).

At a minimum, CCG and other potentially affected Market Participants should have an opportunity to review the details associated with any assessments the CAISO performed to determine that it was appropriate to deem the Facilities as distribution-level rather than interconnected transmission facilities. In addition, CCG requests that the CAISO provide further information that will allow market participants to determine the extent to which market operations will be affected by the relinquishment of control to SCE, and objects to such relinquishment of the Facilities until additional and sufficient information has been provided. Moreover, the CAISO and SCE should provide more detailed information about why this further balkanization of the grid is beneficial and consistent with regional reliability objectives, including but not limited to making public the findings and conclusions of the CAISO that led them to grant SCE's request for relinquishment. Specifically, was any consideration given to the existing contracts of market participants that will be affected by the proposed change? Did the CAISO consider the possibility and magnitude of the potential financial implications to market participants?

CCG would like to understand what impact the relinquishment of the Facilities would have on the control of the grid and would like to further understand the potential impact that the

resulting flows would have on the reliability of the grid. While the CAISO may have determined that there is no negative impact to CAISO operations if the Proposal moves forward (this is implied but not stated or documented in the notice), the CAISO has apparently not considered or analyzed the market impacts and costs to impacted generators and scheduling coordinators.

Specifically, if the CAISO's proposal is approved, a number of affected generators and scheduling coordinators will require power purchase agreement modifications to change, for example, the point of delivery (POD) and point of interconnection (POI), as well as changes to various interconnection agreements. Similarly, it appears that many affected generators and scheduling coordinators currently under contract with CAISO and SCE may incur a potentially significant increase in costs as a result of the change; costs that neither party to the contracts in question contemplated at the time of contract execution, thereby changing the fundamental economic understandings of the contract parties. This could lead to a disruption of the benefit of the bargain initially structured by contract parties and could possibly result in an undue economic burden on one or more of the contract parties.

In addition, it appears there are several generators and scheduling coordinators in the interconnection queue impacted by the Proposal. The CAISO should detail the specific transactional and other anticipated impacts to such generators and scheduling coordinators and why the market and grid benefits of the Proposal outweigh the negative impacts. The CAISO should also provide additional information on the anticipated change in costs that generators and scheduling coordinators will shoulder, impacts to congestion management and congestion pricing, whether the generators and scheduling coordinators will face new costs imposed directly by SCE, and whether it will change the interconnection process for generators and scheduling coordinators that are in the interconnection queue. Lastly, the CAISO should list all the CAISO agreements that would require modification and any new agreements with SCE that would be required if the Facilities are removed from CAISO control.

Please note that CCG has requested additional information from CAISO [and SCE] and will continue to evaluate the Proposal based on the information we receive in response to those additional requests (as well as the requests for additional information set forth herein). As such, please note that the comments set forth above are preliminary based on the information received by CCG to date. As noted above, CCG expressly reserves the right to supplement these comments and to raise additional issues after CAISO has provided adequate information to assess the Proposal. CCG would be pleased to reconsider and reevaluate our objection to the Proposal upon completion of a review of the additional information requested.

Thank you for your consideration.