California Department of Water Resources State Water Project Comments to CAISO on the Market Usage Forward Energy Rate Structure Final Proposal

October 12, 2009

California Department of Water Resources – State Water Project (CDWR-SWP) appreciates the opportunity to submit comments to CAISO on its final proposal of the Market Usage Forward Energy (MUFE) Rate Structure Final Proposal.

1. **The Net Option is reasonable**

   Under the Net Option, the MUFE rate structure is based on a Scheduling Coordinator's (SC's) Net Forward Energy. The formula for assessing the MUFE to Net Forward Energy would be as following:

   Billing Determinant = (Generation + Import) – (Load + Export). If a SC has 10 MWh of Generation, 20 MWh of Import, 30 MWh of Load, and 40 MWh of Export, the Billing Determinant for this SC will be (10+20) – (30+40) = -40 MWh.

   The theory behind this option is that the balanced part can be deemed as the SC self provided Market Service. For the imbalanced part (Net Forward Energy), since CAISO has to find counterparties to match from the market, the MUFE charges should be proportional to the Net Forward Energy.

   This option is reasonable because CAISO does not provide Market Services to this SC for the balanced part. CAISO does not need to commit any generation unit for the balanced part of the SC's portfolio.

2. **The Gross Option could lead to double charging**

   Under the Gross Option, the MUFE rate structure is based on a SC's Gross Forward Energy. The formula would be as following:

   Billing Determinant = (Generation + Import) + (Load + Export). If a SC has 10 MWh of Generation, 20 MWh of Import, 30 MWh of Load, and 40 MWh of Export, the Billing Determinant for this SC will be (10+20) + (30+40) = 100 MWh.

   The theory behind this option is that CAISO provided Market Usage services to all scheduled energy. To continue the example in the Net Option, since the Generation, Import, Load, and Export might be at different locations on the grid, CAISO has to address each individual schedule separately. So the MUFE will be assessed to individual schedules.

   The concern is that under the Gross Option, the MUFE that is designed to assess SCs for Market Usage service only would assess SCs for Energy Transmission Service related cost.

Since the Energy Transmission Service charges are assessed to SCs already, the MUFE would lead to double charging.

3. The Max Option does not have any supporting theory

Due to the fact that some stakeholders support the Net Option, while others support the Gross Option, CAISO proposed a hybrid option which is called the Max Option. Under this option the Formula would be as following:

Billing Determinant = Max((Generation + Import), (Load + Export)). If a SC has 10 MWh of Generation, 20 MWh of Import, 30 MWh of Load, and 40 MWh of Export, the Billing Determinant for this SC will be Max((10+20), (30+40)) = 70 MWh.

Under this option, CAISO assesses MUFE to SCs based on their generation and load profiles. CDWR-SWP does not support this option because it does not encourage permanent or spot market demand response and does not have any supporting theory.

4. ETC Energy should not be assessed any MUFE Charges

Existing Transmission Contract (ETC) energy should be exempt from MUFE charge under all options because ETC energy does not use CAISO MUFE services. First, ETC energy are balanced; therefore, CAISO doesn't need to commit generation units to service ETC demand or find a demand to consume ETC generation. And if the ETC schedules are not balanced, CAISO will reject the unbalanced part of the ETC schedule or treat them as a non-ETC schedule. Second, ETC schedules are only constraints when CAISO optimizes the market, but are not part of the CAISO market and don't benefit from the CAISO market. Third, during market settlement, ETC transactions are cost/revenue neutral between the SC and CAISO, which indicate that ETC energy does not use CAISO MUFE service. In summary, ETC energy is not using the MUFE service, and CAISO should not assess any MUFE charges to ETC energy.