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Comments of Northern California Power Agency
Subject: GMC Charge Code 4537 – Market Usage Forward Energy

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1. Which of the options listed in the CAISO whitepaper as a potential change to the structure of the Market Usage Forward Energy GMC Charge Code do you support?

Comment Summary: The current methodology employed within the CAISO Tariff to allocate Market Usage Forward Energy (MUFE) costs has been found to be just and reasonable by FERC, therefore no change to the current allocation basis is required. The CAISO discussion paper provides no evidence that the current methodology used to allocate MUFE is not just and reasonable. The only explanation provided by CAISO regarding a need to modify the current allocation methodology is that “many” Scheduling Coordinators do not believe that the current methodology reflects cost causation. This reasoning is not sufficient evidence to prove that the current methodology is not just and reasonable. With that said, NCPA generally supports the use of a market stakeholder process to review any proposed enhancements to the current MUFE allocation methodology, to determine if any alternative allocation methodologies may provide an improved and more equitable solution for allocating MUFE to all market participants that receive benefits from the Day-Ahead Market (DAM) functions and processes. As described below NCPA believes that Option #1 proposed by CAISO does not accomplish this goal, does not provide an equitable basis for allocating MUFE costs, and therefore should not be adopted. NCPA does find that Option #2 is superior to Option #1, and that with some minor adjustments, may be a valid option worth exploring as part of this market stakeholder process to determine if this proposed

methodology may provide a more accurate and equitable solution for allocating MUFE to all market participants. NCPA’s proposed revisions to Option #2 are described in detail within these comments.

Comments on CAISO Recommended Option #1: Northern California Power Agency (NCPA) opposes CAISO proposed Option #1. In this option the CAISO proposes to allocate costs for MUFE to net energy usage by Scheduling Coordinators in the DAM based on Load, Generation, Imports and Export schedules, while excluding Inter-SC Trades (IST) from the calculation. Option #1 does not reflect cost causation or a Scheduling Coordinator’s actual usage of the DAM market functions.

Some market participants have argued that ISTs, including physical and APN ISTs, should not be included in the calculation of a market participant’s net usage of the CAISO DAM. They argue that all ISTs are “financial” transactions and thus are not scheduled in the Integrated Forward Market (IFM) software, and therefore do not impact any DAM functions or receive any benefits from the DAM process. While ISTs may not be optimized in the IFM, they do contribute to the DAM process and they receive benefits from the DAM process. NCPA understands that the intent of the MUFE charge is to allocate costs associated with DAM market functions to those market participants who use the DAM market functions and receive the benefits resulting from such process, and that the MUFE is not designed to allocate costs for DAM functions solely related to schedules that are processed or optimized through the IFM. The CAISO’s whitepaper clearly explains that there are many costs elements collected through the MUFE charge code, and that not all of these costs are directly related to the IFM. For example, the CAISO lists the following activities¹ and associated costs that are collected through the MUFE rate, but which are not directly tied to the IFM process:

- Monitoring and reporting on congestion management market performance
- Investigating and reporting potential gaming and market power abuses (congestion)
- Performing weekly, daily and hourly load forecasting

¹ CAISO GMC Charge Code 4573 Market Usage Forward Energy Discussion Paper; Page 7

- Operating A/S and Real-Time markets
- Maintenance of market information postings (transmission/market OASIS)
- Developing and managing demand response participation
- Administration of Congestion Revenue Rights
- Monitoring and reporting on market performance
- Performance of special studies on market efficiency, bidding behavior
- Development of new market rules or changes to market rules in response to market behavior
- Preparing and providing reports to regulatory authorities
- Implementation and calculation of penalties and sanctions for noncompliance

Many of these market services are not directly related to the amount of Load, Generation, Import or Export MWhs scheduled into the IFM. For example, the administration of Congestion Revenue Rights (CRR) is not directly related to the amount of Load, Generation, Import or Export MWhs scheduled in the IFM. In fact, the CAISO has clearly explained in the past that CRRs are purely financial instruments. CRRs are used by market participants to manage congestion (generally load serving entities), or can be used as a speculative tool to gain profits through the CAISO markets. When used for speculative purposes, the use of Congestion Revenue Rights does not require the submission of any schedules into the IFM process.

The current methodology for allocating MUFE charges has been found to be just and reasonable by FERC. If the objective of Option #1 is to calculate a market participant's net usage of the DAM process, ISTs must be accounted for because many market participants use ISTs to serve load. If a methodology based on portfolio netting is employed ISTs must also be fully accounted for, or used as an offset, in a market participant's portfolio; otherwise a market participant who has contracted to purchase energy through long-term or short-term bilateral contracts will be harmed by this proposal, and will be unable to manage its exposure to MUFE cost allocation. Such a result will provide a disincentive for market participants to transact using ISTs. This should not be the result of a Grid Management Charge allocation process.

Comments on CAISO Recommended Option #2: CAISO has also proposed, in Option #2, to allocate MUFE based on the absolute values of all Load, Generation, Import and Export MWhs scheduled in the DAM, without netting sources and sinks in a market participant's portfolio. NCPA believes this methodology is more logical, and therefore superior to CAISO's Option #1, but the methodology proposed in Option #2 must also account for IST transactions and Ancillary Services (AS) transactions scheduled in the DAM. These transaction/schedule types also benefit from the DAM functions listed in the CAISO discussion paper, but are not required to bear any of the associated costs under the CAISO's current proposal. For example, a market participant who does not schedule Load, Generation, Imports or Exports in the CAISO DAM, but rather schedules IST and/or AS transactions, will receive benefits from the DAM functions without paying any associated costs. Some market participants may argue that GMC charge code 4512 (GMC Forward Scheduling Inter-SC Trades), which is based on the number of ISTs scheduled within the CAISO, fully accounts for all costs associated with IST, but this charge code is only intended to collect administrative costs associated with the processing and settlement of such schedules. Charge code 4512 fails to capture many of the costs that are allocated through the MUFE charge associated with functions that produce benefits for market participants who use IST. For example, the Locational Marginal Prices used to value IST transactions are developed through the CAISO DAM solutions. Many of the costs associated with market monitoring activities and reporting, which ensuring that prices assigned to IST and AS transactions are accurate, are collected through the MUFE charge code. A market participant whose portfolio consists of a majority of these transaction types would not pay any of the costs associated with these activities under the current proposal.

Therefore, in order to ensure that Option #2 more equitably represents cost causation, and allocates MUFE costs to all market participants who receive benefits from the DAM, Option #2 must be modified to also include the absolute value of MWhs provided from IST and AS schedules in the calculation of MUFE.