

SMUD Comments to CAISO August 3, 2009 GMC Charge Code Market Usage Forward Energy Discussion Paper

The Sacramento Municipal Utility District (SMUD) appreciates the California Independent System Operator's (CAISO) efforts to clarify and address the application of Charge Code (CC) 4537, the Market Usage Forward Energy (MUFE) Grid Management Charge (GMC), to Inter-Scheduling Coordinator Trades (ISTs), as outlined in its August 3, 2009 Discussion Paper (Discussion Paper). SMUD generally supports Option 1, which, as discussed in more detail below, is more aligned with principles of cost causation than the CAISO's current practice of allocating MUFE to ISTs. Moreover, it appears to better comport with the existing rate design than Option 2.

SMUD believes that the 2008 GMC testimony of Ben Arikawa quoted by the CAISO in its Discussion Paper is clear as to whether MUFE should be applied (or should have ever been applied) to ISTs:

Q. What is the appropriate classification of Forward Scheduling costs?

A. Forward Scheduling costs are driven by the number of schedules processed rather than the MW included on each schedule because the systems that process schedules do not distinguish between schedules with large or small MW quantities. Each schedule requires approximately the same time and effort to process and verify regardless of the MW quantity. Therefore, Forward Scheduling costs vary with the number of schedules and not with the energy scheduled. Accordingly, the Forward Scheduling charge is assessed on a per-transaction basis.

Q. What is the appropriate classification of Market Usage costs?

A. Market Usage costs are classified as energy-related, meaning that they are a function of the volume of energy transacted. Accordingly, using MWhs as the billing determinant allows for recovery of prices on the basis of energy transacted from participants whose bids clear these markets. (Emphasis added.)

SMUD infers a few things from Mr. Arikawa's testimony: 1) there are some forms of CAISO transactions that are not volume related -- these would include ISTs; 2) since these functions are volume neutral, application of a volumetric charge such as MUFE violates cost causation principles; and 3) it is unclear, based on the CAISO's own testimony, why these charges were ever assessed in the first place since MUFE is "energy-related."

As the CAISO itself notes, ISTs are purely financial and administrative: "The purpose of both types of trades [Physical and Financial ISTs] is to allow for contractual delivery of bilateral energy contracts at agreed-upon locations and to 'reverse' the ISO charges from one party to its counter party." Discussion Paper at 4. In other words, the IST function is merely a charge reversal. It does not matter to the market software whether the IST is for

1 MWh or 1,000,000 MWh. By definition, therefore, IST should not be charged based on volumes.

For this reason, Option 1 makes sense to SMUD. It would more properly align the MUFE charge with the intended CAISO market transactions that are volume-related. Further, Option 1 appears to be more closely aligned with the current GMC design; since the netting of Generation and Load already occurs -- it was the allocation to ISTs that has created the concerns. In any event, the CAISO is moving in the right direction and therefore either Option 1 or Option 2 appear to be an improvement over the current design.