

SMUD Comments to the CAISO's August 8, 2008, White Paper: "Release of 2009 CRRs and Start-up of MRTU Markets"

The Sacramento Municipal Utility District (SMUD) appreciates the opportunity to provide these comments in response to the California Independent System Operator Corporation's (CAISO) August 8, 2008 whitepaper entitled, "Release of 2009 CRRs and Start-up of MRTU Markets" (White Paper).

In its White Paper, "the CAISO suggests maintaining [sic] CRR allocation and auction under the current schedule and Tariff rules, except for adjusting the terms of CRRs in the first quarter to be effective on February 1, 2009." White Paper at 1. SMUD notes, however, that at the time of the development of Tariff rules involving congestion revenue rights (CRRs), the CAISO had not filed its integrated balancing authority area (IBAA) proposal (FERC Docket No. ER08-1113, filed June 17, 2008). Thus, SMUD, along with other named entities under the IBAA proposal, nominated CRRs to their scheduling points with the CAISO. The IBAA proposal, if approved by the FERC, however, would settle purchase transactions for SMUD at the so-called SMUD Hub.

The CAISO has stated that it would be unfair to hold entities to their CRR nominations given that the IBAA proposal it filed is different from the IBAA proposal it was discussing with stakeholders. And, to address this change brought about by its IBAA proposal, the CAISO recently allowed for SMUD and other affected parties to elect to change their CRR sink locations from the scheduling points nominated previously to the proposed IBAA SMUD Hub. But this is only half a solution. It assumes that the original CRR nominations were based on the former IBAA proposal. That would surely be reason, if the premise were accurate, to give those who made CRR nominations an opportunity to revise them. The problem, however, is that the change in circumstances under which the nominations were made was not the change from one IBAA proposal to another, but from *no* IBAA mechanism to the one that was filed. As SMUD has previously noted when it responded to the CAISO request on August 13, its proposal misses this major point and only partially resolves the problem. Besides presuming an outcome from the FERC (i.e., that the current IBAA proposal will be accepted by FERC), the proposed solution fails to account for the fact that SMUD 2008 CRR Nominations would have *increased* had SMUD been aware of the CAISO IBAA model during the nomination process--a process that occurred even before the first stakeholder meeting to describe what was even then a tentative proposal.

SMUD's CRR nomination would change under an IBAA model simply because using a hub-average for CRR nominations is different than nominating to specific intertie points. Indeed, the entire process and analysis is different. Therefore, simply aggregating SMUD's prior nominations will not provide a remedy for this issue since the CRRs nominated and awarded were based upon an entirely different set of assumptions.

There is an additional problem as well. The CAISO IBAA proposal filed with the FERC proposes that the so-called SMUD Hub will have static distribution factors between the Rancho, Lake, Elverta and Hurley substations. These distribution factors, which

determine LMP values at the proposed SMUD Hub, will change, however, on some yet-to-be-determined basis pursuant to some yet-to-be-determined process. Without knowing these future distribution factors, however, SMUD cannot analyze the value of the CRRs prior to the 2009 Nomination deadline. Thus, such nominations are premature.

By failing to recognize these changes brought about by its IBAA proposal and carrying over its rules used in the 2008 CRR process, the CAISO has effectively deprived SMUD of its Priority Nominations in subsequent years, including 2009.

If the CAISO uses the CRR rules in place for 2008, it should accommodate the ability of SMUD and others impacted by the IBAA proposal, should it be accepted by the FERC, to re-nominate CRRs based upon settled, not speculative, assumptions regarding CRR sinks. Re-nomination is notably imperative as the allocations awarded for 2008 are to be perpetually considered "Year One" priority nominations. If the CAISO believes such a process would significantly alter the overall allocations to other market participants, this merely underscores our concern. Conversely, if the CAISO believes these nominations would change very little, then it should have no problem making the accommodation.

Respectfully Submitted: August 21, 2008