

Stakeholder Comments Template

Subject: Setting Parameter Values for Uneconomic Adjustments

Submitted by	Company	Date Submitted
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The State Water Contractors (SWC) wish to express their appreciation for the additional time and opportunity ISO management and its Governing Board have extended for consideration of the difficult task of trying to set parameter values in MRTU models that will maintain the existing relative priorities for honoring Existing Transmission Contracts and Transmission Ownership Rights. We value the ISO's recent affirmation of its commitment to honor such legacy legal entitlements, and look forward to further dialogue with staff and other stakeholders so that a mutually satisfactory resolution can be obtained.

1. Setting Prices in Real Time Dispatch.

With implementation of universal resource adequacy requirements on all Load Serving Entities within the ISO Balancing Authority Area and the ISO's ability to procure additional needed capacity through Residual Unit Commitment, the SWC anticipate the ISO will rarely, if ever, encounter this circumstance in its first 12 months of operation under MRTU. The SWC observe that FERC has previously accepted the ISO's recommendation to defer implementation of Scarcity Pricing until implementation of Markets and Performance 1, 12 months after start-up of MRTU. The ISO should seek to avoid unintended and premature implementation of Scarcity Pricing concepts by trying to address rare events during the initial MRTU timeframe.

2. Multiple priority levels for ETCs.

SWC initially note that Section 16.4.5(8) does not address priority differences between or among firm ETCs and voluntary self-schedules or other market bids. It addresses only differences among firm, conditional, or non-firm services within one entity's ETC. Nothing in this Tariff section addresses priorities among ETCs or between ETCs and other market schedules. The SWC are only aware of one circumstance involving transmission service over Path 15 that may give rise to the need to establish differing priorities among ETC customers. Whether those priorities are established through different priority levels in the MRTU software for ETCs, such priorities must be transparent to ETC holders, so that they can

confirm their schedules will be accorded the relative priority established under their ETC. SWC believe the ISO can provide such transparency and still maintain confidentiality of TRTC instructions. The ISO need only publicly affirm its intent to honor the relative priority for transmission service over Path 15 among ETC holders already publicly available as an exhibit to the ISO Transmission Control Agreement. Because ETCs on other paths are usually all "firm transmission service", the SWC believe it would be inappropriate for the ISO to establish any priority levels among ETCs except as described above.

3. Additional Parameter Tuning Testing

The SWC are very concerned that the parameter values initially proposed by the ISO to make uneconomic adjustments to Self-Schedules and other schedules in the IFM (MRTU section 31.4) and in the RTM as it decreases supply (MRTU section 34.10.2) may not maintain the scheduling priorities established in the referenced Tariff sections. Simply stated, the parameter values are far too compressed, and don't provide for sufficient separation between the balanced ETC/TOR schedules and other voluntary market self-schedules.

This concern is especially acute when effectiveness factors are applied, as they appear to have the potential to compromise the ISO's ability to honor the different scheduling priorities set forth in the Tariff. Indeed, the ISO appears to recognize this possibility in its July 23, 2008 white paper on parameter values wherein it states an ETC or TOR self-schedule may be adjusted in the IFM and RTM scheduling run if it has high [ETC] or very high [TOR] effectiveness in relieving a constraint that cannot otherwise be enforced.

The SWC request that the ISO run a number of additional studies to determine optimum parameter values that will enable the ISO to run its markets while still maintaining compliance with the Tariff scheduling priorities. SWC note that the ISO has far more discretion in establishing scheduling run values than it does for the pricing run due to the bid cap. SWC urge the ISO to take full advantage of such flexibility to ensure scheduling priority separation. In addition, the ISO might alternatively consider lowering the parameter values for self-scheduled ISO demand.

Finally, the ISO should ensure that the results of parameter value testing performed to date, and to be performed, is made available to affected stakeholders such as those entities holding ETC and TOR rights. Such entities need to have confidence that the parameter values ultimately adopted by the ISO will protect and honor their legacy rights.

4. Additional SWC concerns

The SWC are very concerned the ISO's proposed implementation of uneconomic adjustments threatens to unravel the hard-won resolution of honoring ETC/TOR legacy rights in MRTU. They are especially concerned that ETC/TOR self-schedules may be more vulnerable to adjustment in the IFM or RTM because they may be more "visible" to the ISO or relatively more "effective" because they are not generally included within LAP Demand. We would welcome a detailed and substantiated explanation from the ISO that such apprehension is unfounded.

SWC Comments on Uneconomic Adjustment Initiative

Some of the text used by the ISO to describe the circumstances under which self-schedules may be adjusted have left the SWC with the impression that ETC and TOR self-schedules may be adjusted due to economic constraints. It would be highly inappropriate, let alone contrary to the historical compromises, to utilize such schedules to resolve congestion. Prior to ISO commencement of operation they were never subject to adjustment to resolve economic congestion. That should not change with implementation of MRTU. The SWC look forward to an ISO explanation that will not occur.

The ISO must consider the ramifications of any involuntary adjustments it imposes on ETC and TOR self-schedules, which must be balanced under relevant Tariff provisions. ETC and TOR holders must be held harmless from any penalties or additional costs that would otherwise be imposed from the ISO's modification of their previously balanced schedules. In addition, SWC recommend the ISO publicize through market notice its implementation of uneconomic adjustments as they occur, in order for stakeholders to have confidence that such adjustments are occurring on an infrequent basis. A properly designed market should employ sufficient price signals and other incentives to avoid use of fairly arbitrary uneconomic adjustments. If the ISO utilizes uneconomic adjustments, market participants should be aware of such actions.

The SWC are also uneasy with respect to the considerable confusion that apparently exists with respect to treatment of SWP resources that may be scheduled as a Participating Load and through an ETC. We trust that the ISO will not consider an SWP resource scheduled through an ETC as Participating Load in the absence of a specific SWP designation to that effect.

Finally, SWC wishes to express its appreciation for the ISO's clear statement at the most recent stakeholder meeting that it does not intend to modify the compromise resolution earlier achieved re treatment of ETC/TOR rights. We look forward to further discussion with the ISO and stakeholders on this important topic.