

**SWP Comments to CAISO on  
“Parameter Tuning for Uneconomic Adjustments”  
May 22, 2008**

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In accordance with the schedule set forth at the May 13, 2008 California Independent System Operator (CAISO) presentation concerning “Parameter Tuning for Uneconomic Adjustments (Adjustments),” the California Department of Water Resources State Water Project (CDWR-SWP) provides the following comments.

CDWR-SWP appreciates the opportunity to comment on the conceptual Adjustments. These Adjustments apparently would curtail self-schedules whenever certain Locational Market Pricing (LMP) outcomes are deemed by the CAISO to be “extreme” (*i.e.*, too costly). The proposal apparently contemplates curtailment of physical firm Existing Transmission Contract (ETC), Converted (CVR), and Transmission Ownership Rights (TOR) schedules that are required to be honored, but are deemed “self-schedules” under Market Redesign and Technology Update conventions.

CDWR-SWP relies upon reliable electric transmission service to provide essential water deliveries to millions of Californians. Drought conditions and recently imposed severe environmental restrictions placed on CDWR-SWP pumping operations at the Bay/Delta Banks facilities, which serve as the intake point for the California aqueduct, have vastly reduced CDWR-SWP’s ability to tolerate interrupted or altered operations to accommodate the power grid. Thus CDWR-SWP must be able to rely on the physical firm transmission rights it has under contract, even after MRTU becomes effective.

CDWR-SWP still strongly supports the fundamental policy decision dating to CAISO startup that physical firm transmission rights shall not be curtailed absent an otherwise unsolvable reliability problem or emergency. CDWR-SWP has particularly relied upon the CAISO’s assurance in its February 9, 2006 MRTU filing before FERC that physical firm transmission rights would not be curtailed for reasons of economic outcomes of LMP pricing within MRTU because:

“the CAISO’s proposed approach to accommodating ETCs is consistent with the Commission’s definition of firm service. In that regard, firm service:

“implies certainty with respect to delivery and price. Once a customer taking firm service . . . agrees to pay the transmission rates and schedules service, it has the full assurance that it will be able to transmit power between its chosen receipt and delivery

points without service interruption (absent force majeure or curtailment) and without being subject to any additional costs.

“Remedying Undue Discrimination Through Open Access Transmission Service and Standard Electricity Market Design, 100 FERC ¶ 61,138, at P 143 (2002). That is exactly what the CAISO is doing in the instant filing. Valid ETC Schedules and schedule changes will be honored. Moreover, ETC rights holders will not be responsible for Redispatch costs on the internal network that are incurred to relieve constraints or accommodate ETC schedule changes. Thus, the CAISO is honoring the firm nature of ETCs.”

Although the CAISO expects “extreme cases” resulting in self-schedule curtailments to be quite rare, CDWR-SWP opposes any market curtailment of firm ETC rights. SWP recommends that the CAISO balance its desire to avoid extreme LMP price outcomes against its obligation (including compliance with the Energy Policy Act of 2005) to honor the physical, firm nature of ETCs, CVRs, and TORs by restricting its LMP price-based curtailments to actual self-schedules in the sense of price-takers under MRTU, which do not involve these categories of physical firm rights. Other alternatives, including but not limited to reserving transmission capacity in order to honor ETCs, CVRs and TORs, should also be considered before physical firm rights are abrogated to mitigate extreme LMP outcomes.

If the CAISO is intending to abandon the policy of providing “the full assurance that [a firm customer] will be able to transmit power between its chosen receipt and delivery points without service interruption (absent force majeure or curtailment),”<sup>1</sup> CDWR-SWP requests CAISO clarification of the following points:

- How will the tariff be amended to authorize curtailment of such schedules? Will the CAISO deem an otherwise valid ETC/CVR/TOR schedule invalid if the CAISO determines that extreme LMP pricing is about to occur, or employ some other mechanism to interrupt firm transmission based on extreme LMP pricing outcomes?
- How will the CAISO maximize advance notice to firm ETC/CVR/TOR holders that their firm service will be interrupted based on extreme LMP pricing outcomes, so that those who have relied on firm transmission rights are given adequate time to make alternate arrangements?
- What is the CAISO’s assessment of economic consequences to ETC/CVR/TOR customers from Parameter Tuning and the economic consequences to other parties—and who bears the costs and benefits?

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<sup>1</sup> *California Independent System Operator Corp.*, Docket No. ER06-615, CAISO MRTU Transmittal p. 72 (filed Feb. 9, 2006) available at <http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=10954348> (quoting FERC).

- How will the CAISO make ETC/CVR/TOR holders whole for such interruption of their firm transmission?
- While CDWR-SWP appreciates the recognition in Section 5.2 of the Parameter Tuning issue paper that differences in ETC priority of physical firmness should be recognized through assignment of higher values to higher priority service, it would like to understand how such value differentials will be developed, and whether such differentials adequately distinguish different priorities of service.

Customers using non-ETC/CVR/TOR self-schedules for transmission to support long term firm power contracts or, as in the case of SWP, to manage critically important water management responsibilities, also had expected to use self-schedules as a means of expressing their need for uninterrupted transmission service. In this regard, SWP strongly urges maximum transparency, predictability, and advance notification to enable customers to cope with the prospect of service interruption based on excessively high LMP outcomes. So that transmission customers can better understand, plan for, and cope with transmission interruptions, the CAISO should:

- Provide a detailed explanation of exactly how transmission customers will be affected by this proposal. For instance, the CAISO papers and presentations discussed curtailment of generation—will self-scheduled loads or CDWR-SWP Participating Load be subject to interruption, and if so under what CAISO tariff provisions would this occur?

Involuntary load curtailments for CDWR-SWP at a single location can be expected to trigger cascading adjustment of pumping strings along the aqueduct, as well as a need for make-up adjustments in CDWR-SWP water and power schedules over the next several days. Thus if loads are to be curtailed as part of Parameter Tuning, CDWR-SWP would like to comment further on this proposal.

- What is the CAISO's assessment of economic consequences to self-scheduling customers from Parameter Tuning and the economic consequences to other parties—and who bears the costs and benefits?
- Define and publicly state the dollar amount or other trigger(s) that create an “extreme case” warranting interruptions of self-scheduled transmission.
- Develop and publicly state known and stable procedures for invoking such transmission curtailments, which need to be “locked down” in the software
- As required under 18 CFR § 37.6(e)(3), develop reporting and other mechanisms to create customer confidence that the trigger(s) and “penalty prices” are consistently applied among transmission customers and among various scenarios—and that this shall not change without prior notice and stakeholder input
- Provide advance notice systems to give maximum prior notice of curtailment, so that self-schedule customers can make alternative arrangements as efficiently as possible

- Explain whether self-scheduled generation or loads that might be curtailed under this program would be compensated for such curtailments

### Summary

CDWR-SWP opposes any market curtailment of ETC rights. Moreover, CDWR-SWP lacks sufficient information to provide a meaningful response, recommendations, useful suggestions or alternatives to address the concerns apparently identified in Parameter Tuning. Thus we recommend that the CAISO develop a more detailed and specific explanation of the exact nature of the triggers and definition of the Parameter Tuning problem, Parameter Tuning's impacts on physical firm transmission rights and self-scheduled transmission customers, and its affects on FERC/MRTU policy objectives of honoring ETC/CVR/TOR rights and encouraging long term firm power purchase contracting. To ensure a meaningful stakeholder process, another round of comments should occur after such additional information is provided.