

State of California

Public Utilities Commission
San Francisco

M E M O R A N D U M

Date : December 8, 2006

**To : The Commission
(Meeting of December 14, 2006)**

**From : Laurence G. Chaset, Legal Division
Keith White, Energy Division
Bishu Chatterjee, Energy Division**

**Subject : FERC Docket No. RM05-25-000; RM05-17-000 - Preventing Undue
Discrimination and Preference in Transmission Services – Staff Seeks
Authorization to File Comments on Redispatch Issue**

INTRODUCTION

On May 18, 2006, the Federal Energy Regulatory Commission (“FERC”) released a Notice of Proposed Rulemaking (“NOPR”) proposing amendments to regulations adopted in the 1990’s in Orders 888 and 889 to ensure that transmission services are provided in a nondiscriminatory and just and reasonable basis. One of FERC’s proposals in the NOPR was to modify the redispatch obligations associated with long-term firm point-to-point service. Based on prior Commission authorization, staff has already addressed this issue in a limited fashion in Comments on the NOPR.

However, FERC is now seeking further comment on the proposal of the Transparent Dispatch Advocates (“TDA”) for transmission providers to post redispatch cost information and provide real-time redispatch. Staff seeks the Commission’s authorization to file further comments in this proceeding that will actively support the TDA group’s redispatch proposal. Comments are due on December 15, 2006.

BACKGROUND

The CPUC has already submitted several rounds of comments in this proceeding, which reflect previous Commission policy authorization. The CPUC’s most recent comments (dated September 20, 2006) address, in part, FERC’s proposal in this NOPR to expand access to useful transmission service via improved use of redispatch, conditional

firm service, and/or other means to address allocation of congested (oversubscribed) transmission. In its September 20 comments, the CPUC noted that specific new requirements proposed by FERC did not apply to the California Independent System Operator Corporation (“CAISO”), which already provides open, nondiscriminatory access to transmission, including transparent access to redispatch services via the CAISO’s congestion management process, and also (under the Market Redesign and Technology Update, “MRTU,” which is expected to be implemented in late 2007), access to congestion revenue rights to hedge congestion (redispatch) costs.

The CPUC also commented that “a major limitation on efficient use of the existing grid to accommodate both new and existing transmission customers in the California electricity market comes from a lack of comparable transparency and nondiscriminatory access in neighboring control areas.” In this regard, the CPUC recommended that FERC extend “redispatch or other requirements that FERC is considering to facilitate transmission access and efficient use of the grid” to unregulated transmission providers, and also that FERC generally require greater transparency of redispatch processes and associated price information, for non-independent transmission providers in general, whether or not they are currently regulated by FERC.

Enhancing nondiscriminatory transmission access and efficiency of grid use via improved redispatch or companion measures initially received less emphasis than other less sensitive components of FERC’s proposed OATT reforms. However, prominent stakeholders representing transmission operators, market interests and academic perspectives have emphasized the fundamental importance of universal transparent and nondiscriminatory redispatch, if existing transmission is to be used efficiently, and without discrimination, consistent with the premises underlying FERC’s open access transmission policy.

A group of these interested stakeholders, the TDA group, developed a proposal which was submitted to FERC several months ago. In response to the TDA proposal, FERC has opened an additional comment period specifically on this redispatch issue. CPUC staff has participated in various meetings and conference calls addressing the TDA group’s proposal and generally agrees with much of what the TDA group has proposed. However, in the absence of specific Commission authorization, staff has not endorsed this proposal, formally or otherwise.

Concurrent with this opportunity to provide additional focused comments to FERC on the redispatch question affecting transmission facilities important to California, FERC is holding a Technical Conference on December 14-15 in Phoenix, AZ in the MRTU proceeding (Docket # ER06-615-002) on the physical and financial interaction of the CAISO-operated transmission system and market with surrounding areas that operate their transmission systems in a less transparent manner. Redispatch, as a method to manage congestion, is not only a key component of the efficient overall management of a

transmission grid, but it also represents an area where the CAISO's practices differ substantially from those of many surrounding areas. Accordingly, redispatch is a fundamental aspect of the seams issues that are being debated and are about to be addressed in the upcoming Technical Conference.

DISCUSSION

Staff seeks Commission authorization to expand the CPUC's comments on the redispatch question along the following lines:

- The CAISO's approach to providing transmission access is different from, but at least as nondiscriminatory and open as, the pro forma approach assumed in FERC's OATT reform proposals. In assessing the CAISO's approach to seams issues and the implications of this approach, it is important to recognize that limitations and inefficiencies arise largely from the necessity for the CAISO to interact with neighboring control areas, in which transmission management processes, such as scheduling and redispatch, are significantly less transparent and open.
- A key step to improving the efficiency, transparency and openness of redispatch (and transmission management generally) is to provide improved communication of information regarding schedules (energy transactions utilizing the grid) and regarding costs or bids for redispatch to mitigate congestion. Besides addressing redispatch-related OATT improvements sought by FERC, such improved communication will specifically address, and help resolve, some of the major seams issues that the CAISO currently faces.
- Transparency and information exchange regarding schedules and the availability of redispatch should be applied to as many transmission flowgates (bottlenecks) as possible.
- One goal of any rule that FERC adopts in connection with redispatch should be to better manage congestion economically on a day-ahead basis, based on redispatch bids or costs, without waiting to fix it in real time.
- In an open, market-based system, future redispatch costs contributing to the cost of transmission access cannot be guaranteed. However, they can be anticipated if the system is transparent and consistent, and they can be hedged via financial transmission rights.
- FERC should encourage and facilitate the move from physical rights for transmission access to financial rights, where this is feasible and in the interests of transmission customers generally.

- When schedules are visible and redispatch is both transparent and open, the ability of CAISO and others to deploy established West-wide multi-step procedures to mitigate unscheduled flows and reliability-threatening overloads is in no way diminished. In fact, to the extent that the magnitude of such flows needing to be mitigated in real time is diminished, grid reliability will be enhanced.
- Seams issues between control areas arise at the interfaces between transmission providers in separate control areas as a result of transmission dispatch instructions, congestion management, and reliability rules. These, in turn, create transaction costs, which can be controlled if seams issues between control areas are effectively addressed. Although there have always been (and, to some extent, there always will be) seams between adjoining control areas, it is incumbent upon transmission providers to work collaboratively to reduce those seams and mitigate their impacts. In this regard, the CAISO's proposed MRTU is not intended to create any new seams. To the contrary, the CAISO, the CPUC and the CPUC-jurisdictional transmission providers that operate within the CAISO's control area stand ready to cooperate with transmission providers in adjacent control areas to try to eliminate or reduce to the extent possible the seams that currently exist between the CAISO and these other control areas.
- The West, as a region, will benefit from a well-functioning California market that mitigates existing seams issues. In this regard, the CAISO's filing relating to the upcoming FERC Technical Conference on the seams issues associated with the implementation of MRTU pointed out two fundamental areas where participants from outside control areas need to cooperate to resolve seams.
 - The unscheduled real-time loop flows between control areas need to be eliminated. Unscheduled loop flows unnecessarily reduce available transmission on the grid. The CAISO suggests that this problem can be solved via day-ahead data exchange of transmission schedules among all western Control areas.
 - Under MRTU, the CAISO's Full Network Model should be able to model transmission flows in neighboring and adjacent control areas. Since the CAISO's transmission network is so closely linked to the networks of neighboring control areas, without this information, CAISO may fail to recognize some congestion until real time, when its options for managing congestion will be limited. By incorporating information from outside control areas into the Full Network Model, the CAISO will be able to model external transmission availability, as well as congestion, contingencies and outages more accurately.

ACTION REQUESTED

Legal Division and Energy Division request authorization to submit comments on the redispatch issue in FERC Docket Nos. RM05-25-000 and RM05-17-000 that are consistent with the foregoing discussion.

Assigned Staff: **Laurence Chaset (LAU, 5-5595); Keith White (KWH, 5-5473); Bishu Chatterjee (BBC, 3-1247).**