

**Comments of The Metropolitan Water District of Southern California
on Advanced Transmission Technologies - LEAPS**

February 20, 2007

- 1) Should the pump storage component of the LEAPS project be included in the TAC?
a) Provide specific reasons why or why not.

Until a detailed cost-benefit analysis of the LEAPS project using accurate estimates is undertaken, no entity can provide a rational response to that over-arching question. Even assuming that the projected benefits of the project were anticipated to exceed its cost, however, stakeholders would be wary of LEAPS' inclusion in the TAC due to:

- The strong potential for compromise and conflict with ISO's core mission to provide open transmission access in a non-discriminatory and efficient manner;
- The strong potential for compromise and conflict with ISO's core mission to facilitate effective markets and infrastructure development;
- Concern that other owners of pump-storage generation projects might seek inclusion of their project revenue requirements and assumption of their project operating and administrative costs in the TAC if this was offered to LEAPS, resulting in a very significant, cumulative TAC increase; and
- Potential incompatibility with the ISO's tax-exempt status.

Based upon the conclusion of FERC Staff in the Final EIR for the LEAPS Project that its generation would cost between \$75-80/MWh above market, Metropolitan is highly pessimistic that the Project will withstand cost-benefit scrutiny. Nevertheless, Metropolitan provides comment on the following options assuming that the project is proven to be cost-effective. If the project isn't found cost-effective, Metropolitan presumes the ISO would neither seek nor be required to include LEAPS project costs in the TAC.

- 2) Options if the combined project is included in the TAC
- a) Option 1: The ISO schedules and bids the unit with a firewall mechanism in place
i) Pros, Cons and Recommendation.
This option is clearly the most problematic because it portends the greatest potential for actual conflict with ISO core missions. It also is the most likely to compromise the ISO's tax-exempt status. It should not merit serious consideration.
- b) Option 2: The right to schedule and bid the unit is auctioned to a third party
i) Pros, Cons and Recommendation
This option isn't sufficiently detailed to permit meaningful response. For example, would the third party retain profit from operation of the project? If not,

how would the project be operated to optimize its economic and technical value?
What if any performance obligations would be imposed upon the project?

- c) Option 3: The ISO enters into a contract with a third party to schedule and bid the unit pursuant to terms set by the ISO
 - i) Pros, Cons and Recommendation
This option isn't sufficiently detailed to permit meaningful response. For example, would the third party retain profit from operation of the project? If not, how would the project be operated to optimize its economic and technical value?
 - d) Option 4: LEAPS would be treated in the same manner as other transmission facilities under the ISO's operational control and the capacity would be available for A/S. Any bids into the energy market would be at \$0 and revenues would be credited to TAC
 - i) Pros, Cons and Recommendation
This option will adversely affect the market clearing price for energy and AS, and diminish the value and price signal for energy and AS that would otherwise be established. Those impacts and distortions will be magnified to the extent the project's bid doesn't reflect the other ISO costs recovered from other bidders. Also, it's unclear whether all LSEs paying the TAC would benefit from the energy and AS provided by LEAPS. To the extent all LSEs pay but only some benefit, the option is discriminatory.
- 3) Hybrid Option
- a) Option 5: TNHC or a third-person would bid unit into the Market. A portion of fixed-cost recovery would be in TAC. It would be comparable to a RMR 1 unit.
 - i) Pros, Cons and Recommendation
An RMR unit is so designated by the ISO on an annual basis. At the stakeholder meeting, Metropolitan understood TNHC representatives as rejecting annual scrutiny of the project in the TAC. Accordingly, this option does not appear viable.
- 4) Options if the combined project is not included in the TAC
- a) Option New A: The unit is operated like other merchant generator units by TNHC or some other person.
 - i) Pros, Cons and Recommendation
Stakeholders aren't generally asked to comment upon this circumstance for other proposed merchant generators. Metropolitan assumes the TNHC investors will perform their due diligence and determine whether the project should be built, at their cost.
 - b) Option 6: The unit is operated like other merchant generator units by TNHC or some other person, but if project is not completed there would be some sharing of abandoned plant costs between TNHC and the TAC.
This option isn't sufficiently detailed to permit meaningful response. The rationale for inclusion of abandoned plant costs in the TAC nor the circumstances leading to abandonment haven't been explained.

- c) Option New B: The ISO enters into a long-term contract with the unit to provide reliability services. (It would be like an RMR contract but would not be RMR). If this option is selected what would the appropriate terms and conditions of the contract be? Under what circumstances should the ISO be able to dispatch the unit? What would be the appropriate rate for the unit? How should the costs of such a contract be allocated?

i) Pros, Cons and Recommendation

An RMR unit is so designated by the ISO on an annual basis. At the stakeholder meeting, Metropolitan understood TNHC representatives as rejecting annual scrutiny of the project in the TAC. Furthermore, if this option were included in the TAC, it's unclear whether all LSEs paying the TAC would benefit from the energy and AS provided by LEAPS. To the extent all LSEs pay but only some benefit, the option is discriminatory. If specific PTO(s) are identified as beneficiaries of the project's operation, but demonstrate they could provide similar reliability services at a lower cost, Metropolitan questions whether FERC would find allocation of LEAPS cost just and reasonable.

- 5) Can the ISO effectively operate the combined project in the context of being an independent system operator?

Metropolitan anticipates it would be a huge challenge to avoid compromise and conflict with the ISO's core missions as stated above.

- 6) Is it appropriate to include a cost-based, fixed revenue requirement in the TAC when the benefits associated with that revenue requirement will be determined from the market? Metropolitan understands certain RMR units are similarly situated. However, Metropolitan understands RMR unit owners are responsible for paying otherwise applicable ISO administrative charges, and TNHC proposes it pay no ISO costs.