

# SP15 /NP15 (LMP-EEI) Delivery Point Definitions - Discussion of Optional Provisions

Version 1.1  
9/09/05

## **SP15/NP15 (LMP-EEI) DELIVERY POINT DEFINITIONS – DISCUSSION OF OPTIONAL PROVISIONS**

### **A. Background**

The California electricity market is in the process of moving from a zonal-based market to an LMP market design. Over the past many months there have been numerous stakeholder meetings and discussions as the CASIO attempts to establish how an LMP-based market design will be implemented in California. Helpful early presentations related to this process can be found in the CAISO's market design whitepaper entitled "CAISO Status Update on the Development of Trading Hubs Under LMP" dated October 26, 2004, and the CAISO presentation at the ISO Stakeholder Meeting on January 11, 2005. While the anticipated implementation date for the LMP design has been periodically delayed, the current anticipated redesign date is sometime in 2007.

Given the likely move to LMP in California, members of the EEI Drafting Committee believed it would be beneficial to determine if there was a manner in which an electricity-based product could be traded today that would encompass both the current zonal design as well as a definitive delivery obligation in a post-LMP marketplace.

A Sub-Committee of the EEI Drafting Committee was assembled to attempt to arrive at a definition for California delivery points at the hubs. This Sub-Committee reviewed what they observed in the marketplace, participated in certain of the CASIO meetings regarding the market redesign and held extensive discussions, including with the CAISO, concerning the redesign of the California electricity market.

### **B. Sub-Committee Comments – Optional Language for SP15/NP15 (LMP-EEI) Delivery Points**

The optional SP15/NP15 (LMP-EEI) Delivery Point language is an attempt to provide clarity and certainty to the obligations of a buyer and seller of electricity if and when LMP is introduced in California based on the information that is available today. Not all information is available today. Moreover, it is likely that there will be further changes.

In the CAISO Materials, the CAISO has stated it will provide pricing at "individual generation nodes and aggregated pricing points (trading hubs and load aggregation points)".<sup>1</sup> Of these trading hubs, the CAISO has repeatedly stated that it intends to provide "Existing Zone Generation Trading Hubs ("EZ Generation Hub") as successor delivery points under LMP for today's existing internal congestion zones (NP15, SP15 and ZP26)".<sup>2</sup> According to the CAISO, "[t]he EZ Generation Hub prices

---

<sup>1</sup> CAISO Materials, p.2

<sup>2</sup> CAISO Materials, Attachment A dated March 11, 2005 p.5 . In its Transmittal Letter to FERC, the CAISO stated that "The Proposal [in Attachment A] represents a complete, detailed description of the

will represent the average price paid to generation within the zone and as such, will be based on only the LMPs at generation nodes.”<sup>3</sup> In its most recent filing, the CAISO told FERC that while it was not yet making a Tariff filing that the “Commission should view [the Proposal regarding the trading hubs] as a final product, which can be converted into Tariff language at a later date without substantive modification or expansion of detail.”<sup>4</sup> FERC approved the CAISO’s filing including the “proposed creation of EZ Gen Hubs as successor delivery points under LMP for the CAISO’s existing internal congestion zones.”<sup>5</sup>

While it appears from all of the recent CAISO statements and filings that the CAISO is committed to an EZ Generation Hub concept there are still many details not yet known with the same degree of certainty. Nevertheless the Sub-Committee felt that it was critical to provide certainty as the delivery obligations assuming that the EZ Generation Hubs are created by the CAISO. With that goal, the Sub-Committee thought that it would be helpful to provide a few comments with respect to the use of the optional SP15/NP15 (LMP – EEI) Delivery Point language:

1. The definition provided could be used for new transactions where the delivery obligations go beyond 2007; for shorter-term transactions, the language does not appear necessary since LMP is not planned to be introduced until 2007 at the earliest.
2. The language provided is not a “conversion” product and is in no way intended to impact or effect the rights and obligations of parties with respect to existing transactions in California.
3. The language provided does not eliminate all risks associated with trading in markets that will be modified in the future. There are still many details about the EZ Generation Hubs to be determined by the CAISO. For example, while the CAISO states that the EZ Generation Hub prices are intended “to represent the average price paid to generation with in the zone.... the precise weighting factors used to calculate the EZ Generation Hubs will be deferred for further stakeholder input and study.”<sup>6</sup> Notwithstanding how that issue is subsequently resolved, however, the optional language provided would maintain the Delivery Point at the designated EZ Generation Hub. Similarly, the CAISO appears now to provide that there will be no “physical validation” offered at the aggregated pricing points

---

services the CAISO will provide with respect to the settlement of Inter-SC Trades of energy under the new market design and includes a description of Existing Generation Trading Hubs (“EX Gen Hubs”) that the CAISO has developed through a stakeholder process as successor contract delivery points to today’s existing congestion zones under a locational marginal pricing (“LMP”) based market design.” CAISO Materials, p.2

<sup>3</sup> CAISO Materials, p.2

<sup>4</sup> CAISO Materials, p.2

<sup>5</sup> *California Independent System Operator*. 111 FERC ¶62,384 at p28 (2005)

<sup>6</sup> CAISO Materials, Attachment A dated March 11, 2005 p.5

- such services will be provided by the CAISO only at generation nodes. No matter what the outcome on this issue, however, the Sub-Committee felt that it was important to have certainty that resolution of this and similar open issues would not impact the certainty that post LMP, the delivery point would be the EZ Generation Hub.
4. Trading in California beyond 2007 involves different risks and will not match the risk profile of all organizations and should only be undertaken after a careful review and discussion of the risks. The optional language provided may be helpful if an organization desires to commit to a EZ Generation Hub today (as opposed, for example, to transacting at individual, specified nodes in California and/or permitting renegotiation of a transaction if and when LMP occurs), taking the risk of when, if ever, and in what form, the EZ Generation Hubs will come into existence. The optional language could be used either directly in confirmations as a description of the “Delivery Point”, or, alternatively, parties could use a side letter agreement to the effect that whenever a transaction provides for delivery obligations in SP15 or NP15 post 2007 that the optional language provided would be applicable.

### **C. Links to the Referenced Casio Materials**

1. **CAISO FERC Filing dated March 15, 2005**  
<http://www.caiso.com/docs/2005/03/17/200503171020425484.pdf>
2. **CAISO presentation at the ISO Stakeholder Meeting on January 11, 2005**  
<http://www.caiso.com/docs/2005/01/10/200501101608537215.pdf> 1/11
3. **CAISO Status Update on the Development of Trading Hubs Under LMP" dated October 26, 2004**  
<http://www.caiso.com/docs/2004/10/26/2004102613503922926.pdf>