



California Independent  
System Operator Corporation

April 16, 2007

The Honorable Kimberly D. Bose  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D.C. 20426

**RE: *California Independent System Operator Corporation***  
**Docket No. ER07-613-\_\_\_\_**

**Motion for Leave to Answer and Answer**

Dear Secretary Bose:

Enclosed for filing in the above-referenced docket is the California Independent System Operator Corporation's Motion for Leave to File Answer and Answer to Motions to Intervene, Comments, and Protests.

Thank you for your assistance in this matter.

Respectfully submitted,

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**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

**California Independent System            )            Docket No. ER07-613-000  
Operator Corporation                    )**

**MOTION FOR LEAVE TO FILE ANSWER AND ANSWER TO MOTIONS TO  
INTERVENE, COMMENTS, AND PROTESTS OF THE CALIFORNIA  
INDEPENDENT SYSTEM OPERATOR CORPORATION**

Pursuant to Rules 212 and 213 of the Commission’s Rules of Practice and Procedure,<sup>1</sup> the California Independent System Operator Corporation (“CAISO”) respectfully files this motion for leave to answer and answer to motions to intervene, comments, and protests in the above-captioned docket.

**I. Introduction.**

On March 9, 2007, the CAISO submitted certain amendments (the “March 9 Filing”) to the currently-effective ISO Tariff<sup>2</sup> designed to enable implementation of the Market Redesign and Technology Upgrade (“MRTU”) program. In the March 9 filing, the CAISO requested that:

1. The Commission grant early effectiveness for certain previously conditionally accepted MRTU Tariff provisions concerning Transmission Rights and Transmission Curtailment (“TRTC”) Instructions; these will provide the CAISO with the requisite authority to collect important information from its Market Participants to enable the CAISO to: (1) properly model Existing Transmission Contracts (“ETCs”), Converted Rights, and Transmission Ownership Rights

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<sup>1</sup> 18 C.F.R. §§ 385.212 & 385.213 (2006).

<sup>2</sup> Capitalized terms, unless otherwise defined, are used in accordance with the definition of the Master Definition Supplement, Appendix A to the ISO Tariff, or Appendix A to the MRTU Tariff. For the purposes of this transmittal letter, the term “ISO Tariff” refers to the CAISO’s tariff currently in effect, and the term “MRTU Tariff” will refer to the tariff filed and conditionally accepted in Docket No. ER06-615-000, and further revised through compliance filings made on November 20 and December 20, 2006 in FERC Docket ER06-615 and on January 29, 2007 in compliance with the Commission’s long-term financial rights Final Rule in Docket No. ER07-475. As described in the March 9 Filing, certain of the amendments to the ISO Tariff filed herewith constitute early implementation of provisions of the MRTU Tariff already conditionally accepted by the Commission or modified versions of provisions of the MRTU Tariff already conditionally accepted by the Commission.

("TORs") in the Congestion Revenue Rights ("CRR") Allocation and CRR Auction processes; and (2) to be ready to honor the terms of ETCs, Converted Rights, and TOR at the onset of MRTU;

2. The Commission find just and reasonable additional, detailed tariff language to include additional informational requirements for the TRTC Instructions that will permit the CAISO to properly model and validate the use of ETCs, TORs, and Converted Rights and to clarify that Converted Rights holders must participate in the provision of TRTC Instructions;
3. The Commission grant early effectiveness for previously conditionally accepted provisions of the MRTU Tariff concerning CRRs to enable the CAISO to conduct the CRR Allocation and Auction processes later this summer; this will ensure that eligible Market Participants will have CRRs in place at the commencement of MRTU;
4. The Commission find just and reasonable the additional tariff language on the registration and qualification process and requirements for Candidate CRR Holders;
5. The Commission find just and reasonable the revisions to the ISO Tariff regarding creditworthiness and other Financial Security provisions to facilitate the CRR Auction and CRR Allocation;
6. The Commission find just and reasonable the *pro forma* agreement the CAISO must execute with entities that wish to qualify for and intend to hold CRRs (the "CRR Entity Agreement");
7. The Commission grant early effectiveness for previously conditionally accepted provisions of the MRTU Tariff concerning the provision of market information to Candidate CRR Holders and CRR Holders; and
8. The Commission grant early effectiveness for previously conditionally accepted provisions of the MRTU Tariff setting forth the definitions of new defined terms used in the substantive provisions of the MRTU Tariff for which early effectiveness is requested by incorporation of such terms in the ISO Tariff.

These amendments do not pertain to current ISO Market operations but are designed to enable the CAISO to obtain the necessary information and authority to ensure that previously conditionally accepted aspects of the MRTU market concerning

the treatment of ETCs, TORs, Converted Rights, and CRRs are in place and ready to be implemented at the start of MRTU.

Several entities filed motions to intervene, comments, and protests to the March 9 Filing. The CAISO does not object to any of the filed interventions. The CAISO answers certain issues raised in those pleadings here to clarify the record and aid the Commission in resolving these important issues.

## **II. Motion for Leave to File Answer**

Although the Commission's procedural rules generally do not provide for answers to protests, answers, or similar filings unless otherwise ordered,<sup>3</sup> the Commission may, for good cause shown, permit such answers.<sup>4</sup> Good cause exists in this case to permit the CAISO to respond to Motions to Intervene, Protests, and Comments filed in this proceeding. This Answer will assist the Commission's resolution of the issues presented by providing for a complete and accurate record at a time when timely resolution of these important issues is critical.<sup>5</sup> To that end, the CAISO's answer only addresses issues that serve to correct misconceptions raised in comments and protests or otherwise help clarify the record.<sup>6</sup>

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<sup>3</sup> 18 C.F.R. § 385.213(a)(2).

<sup>4</sup> 18 C.F.R. § 385.101(e).

<sup>5</sup> See, e.g., *Michigan Elec. Transmission Co., LLC*, 106 FERC ¶ 61,129 at 61,452 (2004) (allowing responses "as they provide additional information that assists the Commission in the decision-making process"); *PJM Interconnection, L.L.C.*, 104 FERC ¶ 61,031 at 61,077 (2003) (admitting answer "since it will not delay the proceeding, will assist the Commission in understanding the issues raised, and will insure a complete record upon which the Commission may act").

<sup>6</sup> The fact that the CAISO has not addressed every issue in the protests and comments should not be deemed to be agreement or acquiescence by the CAISO on the issues not addressed.

### **III. Answer**

The CAISO appreciates the time and care with which Market Participants have worked with the CAISO in the stakeholder process that led up to the filing in this docket and in their review of the CAISO's submittal. The proposed provisions have benefited from this input and the CAISO agrees with certain of the additional comments as discussed in the sections below. The CAISO does not agree, however, that the Commission's acceptance of the filing should be delayed, that the filing inappropriately interferes with existing contractual or ownership rights, or that the scope of the information requested is unnecessary or inappropriate. With the additional modifications, as agreed to below, the filing should be accepted by the Commission as a necessary precursor to implementation of MRTU.

#### **A. The Requests to Delay Acceptance of the Filing Are Without Merit**

Several parties request that the Commission not permit the early effectiveness filing to go into effect until the collaborative process set forth in Section 16.4.1 is completed. Alternatively, they request that the Commission leave the docket open for parties to ETCs to return for assistance, in this proceeding, if the TRTC Instruction tariff provisions prove unworkable to ensure the ETCs are fully honored.<sup>7</sup> These requests to delay the effectiveness of the provisions are without merit. As proposed, the tariff already provides an orderly process that ensures both the timely provision of information to allow the CAISO to implement TRTC Instructions in furtherance of its implementation of the "perfect hedge" and scheduling priority to be afforded to ETCs,

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<sup>7</sup> See SVP/M-S-R at ¶17-18; Transmission Agency of Northern California ("TANC") at ¶12-16; Modesto at ¶15-19.

TORs and CVRs, and a methodology for resolving any disputes that may arise regarding the implementation of the TRTC Instructions.<sup>8</sup>

Effectiveness of the provisions filed on March 9 in this docket is essential to enable the CAISO to collect the information required under sections 16.4.5 and 17.1.4 as filed and conditionally approved in the September 21 MRTU Order and further amended in the March 9 Filing. The tariff already provides for a collaborative process under proposed Section 16.4.1, so that the Participating Transmission Owner (“Participating TO”) and the existing rights holder have an affirmative obligation to “attempt to jointly develop and agree on any TRTC Instructions that will be submitted to the CAISO.”<sup>9</sup>

The real issue is whether or not the CAISO should utilize TRTC Instructions submitted by the Participating TO, absent the agreement of the existing rights holder.

With regard to this issue, the proposed Section 16.4.8 provides:

#### 16.4.8 CAISO Role in Existing Contracts.

The CAISO will have no role in interpreting Existing Contracts. The parties to an Existing Contract will, in the first instance, attempt jointly to agree on any TRTC Instructions that will be submitted to the CAISO. In the event that the parties to the Existing Contract cannot agree upon the TRTC Instructions submitted by the parties to the Existing Contract, the dispute resolution provisions of the Existing Contract, if applicable, shall be used to resolve the dispute; provided that, until the dispute is resolved, and unless the Existing Contract specifies otherwise, the CAISO shall implement the Participating TO’s TRTC Instructions. If both parties to an Existing Contract are Participating TOs and the parties cannot agree to the TRTC Instructions submitted by the parties, until the dispute is resolved, and unless the Existing Contract specifies otherwise, the CAISO shall implement the TRTC Instructions of the first Participating TO for which the Existing Contract is an Encumbrance. The CAISO shall not be responsible for resolution of any disputes that arise over the accuracy of

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<sup>8</sup> See proposed Appendix BB, Part B, Section 16.4.8.

<sup>9</sup> See proposed Appendix BB, Part B, Section 16.4.1.

the TRTC Instructions consistent with its obligations in Section 16.4.5 of this Appendix.

First, the CAISO notes that, as shown in the blacklines in Attachment C to the March 9 Filing, the substance of Section 16.4.8 is unchanged from the language previously accepted by the Commission for the MRTU Tariff in Docket No. ER06-615. All the CAISO is doing in this proceeding is starting the previously-approved process of developing the instructions – the CAISO is not modifying the manner in which the instructions were to be developed.

Moreover, the process for the development of the TRTC Instructions follows the same format for the provision of operating instructions for ETCs that the Commission approved at the commencement of CAISO operations. The purpose of the TRTC Instructions is no different than the operating instructions previously provided to the CAISO by the Participating TOs. Like operating instructions, the TRTC Instructions are for the purpose of implementing the rights held under ETCs and TORs, but have been developed specifically to address the new market design to be implemented under MRTU as opposed to the current zonal markets. As determined by the Commission on its October 1997 Order:

ISO Tariff Section 2.4.4.4.1.1. states:

The ISO shall have no role in interpreting Existing Contracts. The parties to an Existing Contract will, in the first instance, attempt jointly to agree on any operating instructions that will be submitted to the ISO. In the event that the parties to the Existing Contract cannot agree upon the operating instructions submitted by the parties to the Existing Contract, the dispute resolution provisions of the Existing Contract, if applicable, shall be used to resolve the dispute; provided that, until the dispute is resolved, and unless the Existing

Contract specifies otherwise, the ISO shall implement the Participating Transmission Owner's operating instructions.

A number of parties argue that the provision that the ISO implement the Participating Transmission Owner's operating instructions pertaining to Existing Contracts is unfair and unreasonable. TANC argues that, at a minimum, disputed operating instructions should not be implemented until the dispute is resolved. We disagree. We find it is reasonable for the ISO to rely on the operating instructions of the Participating Transmission Owner. The Participating Transmission Owner is the entity most familiar with performing the operating instructions on a day-to-day basis under the existing contract. In addition, we find TANC's recommendation to not implement the disputed instructions until the dispute is resolved to be unworkable.<sup>10</sup>

Furthermore, there is no need to keep this proceeding open to respond to any disputes. As the Commission has concluded previously, "parties should resort to the ADR procedures of the existing contract or the ISO Tariff to resolve their differences."<sup>11</sup> The CAISO has already launched a comprehensive collaborative process to assist parties to such agreements to complete the TRTC Instructions. The CAISO recognizes that because the contracts in question were created at a time when MRTU or even the CAISO itself had not been contemplated there will be a need to work with parties to identify the appropriate nodal information to model the existing rights. The CAISO does, however, anticipate that for the most part the contract rights in question should be consistent with nodal modeling of such rights as these contracts were created based on Points of Receipt and Points of Delivery identified under traditional OATT-like service. For those instances where special provisions were made for certain customers, the CAISO believes it can assist parties in identifying the appropriate modeling points through the TRTC Instructions process it has developed. The TRTC Instructions

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<sup>10</sup> *Pacific Gas and Electric Company, et al.*, 81 FERC ¶ 61,122 at 61,473 (1997), *rehearing denied*, *California Independent System Operator Corp.*, 101 FERC ¶ 61,219 at ¶ 26 (2002).

<sup>11</sup> *California Independent System Operator Corp.*, 101 FERC ¶ 61,219 at P 26.

process is consistent with its current practice to allow for resolution of any contract interpretation disputes between the affected parties without preventing the CAISO from operating its market reliably. The CAISO has already conducted several stakeholder meetings to discuss the details of the TRTC Instructions and has also begun its individual discussions with affected parties to implement specific TRTC Instructions for the existing rights.

The concerns of existing rights holders have been addressed by the proposed tariff provisions which represent a course of conduct in the development of the TRTC Instructions that has received prior Commission approval. No party offers a sufficient basis to overturn this precedent. The Commission has correctly determined that the “recommendation to not implement the disputed instructions until the dispute is resolved to be unworkable.”<sup>12</sup>

### **B The Filing Does Not Impact ETC and TOR Rights**

The Commission must not undo through its order in response to this filing what has taken almost four years to develop through numerous stakeholder meetings, conceptual filings and orders, and tariff filings, namely, the proper balance between implementing LMP-based markets and continuing to honor parties’ existing rights.<sup>13</sup> The CAISO has clearly articulated before its stakeholders and the Commission its intent to continue to honor existing rights through the perfect hedge and scheduling priority. The CAISO and all other Market Participants have relied on the Commission’s order approving this construct, and, at this time, the CAISO is only seeking an ability to implement this previously-approved policy.

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<sup>12</sup> See *Pacific Gas & Electric Co., et al.*, 81 FERC at 61,473.

<sup>13</sup> See September 22 ETC Order at P 31.

Two parties, the California Department of Water Resources (“CDWR”) and Imperial Irrigation District (“IID”), raise concerns in their respective protests about how the CAISO’s TRTC Instructions will impact their ETC rights.<sup>14</sup> CDWR opposes the implementation of TRTC Instructions as proposed by the CAISO, claiming they violate EPAct and prior Commission orders by abrogating ETC rights under MRTU.<sup>15</sup> CDWR’s primary concern is that by requiring submission of detailed source and sink information into the Master File, the TRTC Instructions do not allow CDWR the flexibility that it is currently afforded through its ETC rights. Similarly, IID argues that the Commission should reject the March 9 Filing because it abrogates its ETC rights.<sup>16</sup> In the interim, IID argues that the Commission should delay by one month the May 9 deadline for filing TRTC Instructions with the CAISO until it is clear what the TRTC Instructions requirements will be.<sup>17</sup> IID also argues that to comply with the TRTC Instructions it would have to dramatically change its buying patterns by entering into new generator-specific agreements that would result in lost flexibility by restricting the units from which it could make purchases in the spot market.<sup>18</sup>

Metropolitan Water District (“Metropolitan”) strongly objects to having to identify “resource names for the physical resources as the eligible sources” as part of its TRTC

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<sup>14</sup> CDWR at 1-22; IID at 5-9. CDWR raised similar protests in its answer to the CAISO’s compliance filing in Docket ER06-615. While those comments in CDWR’s pleading were inappropriately out of scope because the CAISO had not proposed any changes to the applicable sections at that time, the CAISO’s response in this Answer addresses those comments as well. See Comments and Protest of the California Department of Water Resources and State Water Project in ER06-615-000 filed on January 31, 2007.

<sup>15</sup> CDWR at 2-3.

<sup>16</sup> IID at 5-8.

<sup>17</sup> *Id.* at 8-9.

<sup>18</sup> *Id.* at 6-7.

Instruction submittal, as requested in Section 17.1.4(5)(b).<sup>19</sup> For Metropolitan the requirement to speculate and anticipate all of the potential generating resources from which it might purchase power for so many years simply to permit the CAISO to validate Metropolitan's TOR Self-Schedule "would unreasonably limit Metropolitan's ability to utilize its own transmission lines."<sup>20</sup> Metropolitan is also concerned that Section 17.1.4(5)(d) requires identification of the Scheduling Coordinator permitted to submit a TOR Self-Schedule "for each physical source and sink" and that the information sought by the CAISO appears to be far in excess of what would reasonably be required for validation of a TOR Self-Schedule, contending that all that is necessary is identification of the Scheduling Coordinator(s) entitled to submit a TOR Self-Schedule, and the maximum MW that may be submitted at the TOR Scheduling Points or at any boundaries between the TOR and the CAISO Controlled Grid.<sup>21</sup> Finally, Metropolitan protests the requirement in Section 17.1.4(c) to identify "each physical source or sink" that an entity holding an agreement to which a TOR is subject can schedule using the TOR, stating that this would permit the CAISO to achieve indirectly what the parties are unlikely to do directly, i.e., modify the terms of an agreement to require a party to anticipate all potential sources from which it might schedule energy using the TOR.<sup>22</sup>

As a threshold matter, the CAISO reiterates that a primary purpose of the TRTC Instructions is to allow the CAISO to implement the previously-approved method in which the CAISO will continue to honor ETCs and TORs under MRTU. Indeed, the

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<sup>19</sup> Metropolitan at ¶ 17

<sup>20</sup> *Id.*

<sup>21</sup> *Id.* at ¶ 22.

<sup>22</sup> Metropolitan at ¶ 21

TRTC Instructions are a tool that CAISO will use to input the characteristics of the ETCs, CVRs, and TORs into the Master File so that the CAISO may validate the ETC, CVRs and TORs Self-Schedules and implement the scheduling priority and the perfect hedge for such schedules. This tool is not a new feature of MRTU and indeed the CAISO engaged in lengthy stakeholder process, followed with a series of conceptual filings culminating with the February 9, 2006 filing as conditionally accepted by the Commission in the September 21 MRTU Order.<sup>23</sup> The filing does not address or modify the other approved provisions in the MRTU Tariff that define how ETCs or TORs are to be scheduled, validated, and settled. The modifications made to the TRTC Instructions as proposed in the March 9 Filing are in furtherance of this exact treatment of ETCs, CVRs and TORs.

The perfect hedge treatment and scheduling priority do not, however, come without a cost to the rest of the market and, therefore, it is the responsibility of the CAISO to ensure to the best of its ability to minimize the risks and burdens. Unlike CRRs, the perfect hedge and scheduling priority for existing rights are directly tied to the rights holder's use of the system under such rights, and the provision of this treatment to well-defined valid and balanced portions of the use of such rights has been accepted by the Commission.<sup>24</sup>

The CAISO intends to use its redispatch ability under LMP-based markets to accommodate ETC and TOR Self-Schedules. At the interties the CAISO will specifically reserve ETC/TOR transmission capacity entitlements to ensure it can continue to honor

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<sup>23</sup> September 21 MRTU at PP 942-946.

<sup>24</sup> September 21 MRTU Order at P 926 and P 942; see also September 22 ETC Order at P 28.

such contracts.<sup>25</sup> So long as participants submit valid ETC and TOR Self-Schedules that reflect the use of their rights, the CAISO is able to validate their receipt of complete exemption for such schedules from Congestion Costs. Because the CAISO will redispatch in order to honor the scheduling priority of existing rights, LMPs are affected by the degree to which these rights have to be accommodated in the market. The CAISO's requirement for physical sources and sinks for validation of such rights is important to ensure that gaming opportunities under existing rights holdings are minimized. For example, if the CAISO does not require the identification of physical sources and sinks, rights holders could declare a non-physical source (Point of Receipt or "POR") and declare a non-physical sink (Point of Delivery or "POD") and still receive their perfect hedge. In reality, that entity could be using a physical source to serve its sink without actually incurring any real Congestion Costs but would still receive revenue as a result of the price difference between the declared POR and POD of the contract. Also, providing scheduling priority based on a source only effectively allows that source a priority to the entire transmission system and is effectively able have scheduling priority access to the entire transmission system based on the total distribution of the load which is not expressly using the existing rights.

Inter-SC Trades, especially financial trades (Inter-SC Trades at Aggregated Pricing Nodes), are not a valid source or sink for use of the existing rights because the Inter-SC Trades themselves are not physical and are effectively only a financial instrument to true-up bilateral arrangements between parties. Since they are not physical and they are effectively irrelevant to the security constrained dispatch, allowing

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<sup>25</sup> See *California Independent system Operator Corp.*, 110 FERC ¶ 61,113 (2005) at PP 34 to 38.

an Inter-SC Trade to be the source or sink is effectively equivalent to having a single sided source or sink and thus has the same issue with inappropriate provision of priority access to the transmission system as discussed above.

Permitting such a practice would circumvent the intent of the perfect hedge and provision of scheduling priority to preserve a party's ability to use its existing rights in the way that was intended – namely that parties with ETCs would use their contracts as they were used prior to the commencement of CAISO operations. By allowing the CAISO to obtain meaningful information about the actual use of the contractual rights, the CAISO is able to implement the perfect hedge and scheduling priority based on appropriate use of the ETC and limit the cost to the rest of the market of implementing these rights.

The application of the perfect hedge also means that, while ETC and TOR Self-Schedules create Congestion on the system, the CAISO will not be assessing Congestion charges for these schedules. Congestion revenue is the revenue source for CRRs allocated and auctioned by the CAISO. Therefore, the CAISO must account for the use of existing rights in allocating and auctioning CRRs so that it can minimize the risk of revenue inadequacy for CRRs. In balancing the need to apply the perfect hedge and still make an adequate number of CRRs available to Load Serving Entities, the CAISO has adopted, both in numerous filings before the Commission and in its tariff, the responsibility to model CRRs usage so as to maximize CRR coverage while minimizing the risk for revenue adequacy.<sup>26</sup> The CAISO, therefore, needs the TRTC Instructions information to adequately model existing rights at a nodal level, consistent

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<sup>26</sup> See MRTU Order at P 907.

with their reasonably foreseeable usage patterns in order to efficiently release CRRs in its upcoming first annual CRR Allocation and CRR Auction later this summer. The CAISO's ability to define expected usage of such rights, based on the information to be provided by parties under the TRTC Instructions, is crucial to enable it to minimize such revenue inadequacy.

The CAISO's requirement for physical sources and sinks is also no surprise to stakeholders. The CAISO will require that all Bids including Self-Schedules be submitted at actual physical sources and sinks and is imposing no additional burdens to ETCs. Furthermore, the CAISO has already in numerous filings explained its need for source to sink information to validate and implement the perfect hedge.<sup>27</sup> Admittedly, the CAISO did not include the specification of the need for physical sources and sinks in Section 16.4.5 of the MRTU Tariff when filed on February 9, 2006. At that time the CAISO had not had an opportunity to detail all of its business practices. In May of 2006, however, the CAISO published a draft of its Business Practice Manual ("BPM") for Market Operations which included the specific request for physical sources and sinks. At that time, CDWR, IID and MWD raised no opposition to this requirement, even though the CAISO has kept an open mailbox to receive comments on any aspect of this BPM since its posting. Furthermore, upon consultation by parties both formally and informally on the subject of whether or not EZ Gen Hubs are permissible sources or sinks under ETCs, the CAISO has consistently expressed its concern over the risks associated with moving away from nodal modeling of ETC rights. Therefore, the CAISO

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<sup>27</sup> See, e.g., May 23, 2006 filing of the CAISO in Docket No. ER06-902-000.

finds it insincere for parties to claim that not until this filing were they made aware of the need to provide physical sources and sinks for ETCs and TORs.

Moreover, the CAISO believes that the request for physical sources and sinks should not be burdensome for the majority of its existing transmission rights, as Existing Contract rights are largely based on transmission rights principles which rely on the specification of physical sources and sinks. Even Network Integration Transmission Service as provided under the Commission's *pro forma* OATT required specification of Network Resources that are permissible under the network service. In its recent Order 890, the Commission requires that all new designations and undesignations of sources be posted on the transmission provider's OASIS.<sup>28</sup> That said, the CAISO recognizes the need to consider certain contracts which may be based on a more flexible use of physical rights.

Most importantly, the CAISO does not intend to dispute any assertion by any party that it may hold existing rights that warrant special consideration. Consistent with the CAISO's long-standing policy, the CAISO does not attempt to interpret Existing Contracts for the parties, unless the parties request such CAISO involvement, and leaves it to the parties to interpret the permissible rights and takes its instructions from the Participating TOs to implement such rights. Therefore, before any conclusions can be made on the nature of CDWR's contracts, the Participating TO should be afforded an opportunity to speak to such rights.<sup>29</sup>

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<sup>28</sup> Order No. 890 at P 88.

<sup>29</sup> PG&E's recent Answer in response to CDWR's protest underscores for the CAISO the importance of dealing with the individual contracts based on the interpretation by the parties to the contracts (the Participating TO and the rights holders). Any disputes with regard to the creation of the TRTC Instructions can, as has always been the case, be dealt with through the dispute resolution process as provided in Section 16.4.8.

Contrary to CDWR's assertion, the CAISO is not acting contrary to the statutory provisions of the Energy Policy Act of 2005. Indeed, the CAISO has not at any time sought to convert CDWR's ETC to new firm use under the ISO Tariff – but instead has maintained that it will apply the scheduling priority and scheduling timelines of the ETCs. Nor has the CAISO engaged in an “impermissible collateral attack on the Commission’s determination in Docket No. ER04-928.”<sup>30</sup> It is important to remember that one of the purposes of that proceeding was to determine which of the ETCs could be modified based on the more lenient “just and reasonable” standard and which could only be modified on the basis of the more stringent “public interest” standard.<sup>31</sup> The CAISO understands, based on the information submitted in Docket No. ER04-928, that the ETCs of both CDWR and IID are subject to modification on the “just and reasonable” standard.

In summary, the CAISO has good cause to require information on sources and sinks in the TRTC Instructions. As noted above, the CAISO is responsible to maximizing the efficient use of the ISO Controlled Grid. The Commission has previously noted the serious problem of “phantom Congestion” when the CAISO had to withhold transmission capacity from the market in order to accommodate ETC rights holders who subsequently failed to utilize their rights.<sup>32</sup> While the CAISO must seek to maximize the efficient use of transmission capacity, it must be prudent in the amount of CRRs made available for allocation or auction. If the CAISO releases too many CRRs

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<sup>30</sup> CDWR at 6.

<sup>31</sup> July 1 Order at P 2 (“We do so, even though our approval of the CAISO’s proposal obviated any need to consider contract modification at this time, to ensure that the CAISO has the information necessary to implement its conceptual proposal and to ensure a complete and accurate record.”)

<sup>32</sup> *California Independent System Operator Corp.* 91 FERC ¶ 61, 205 at 61, 727 (2000) (It is difficult to justify the scheduling flexibility advantage in light of the congestion these rights cause the ISO).

and the transmission is not actually available, it creates the problem of revenue insufficiency. There is also the concern, not completely addressed in this early effectiveness filing, that flexible network rights with within-the-hour scheduling rights could be used in ways to game or take advantage of the market. Any specialized treatment raises the possibility of such opportunities for entities not restricted only to using their pre-CAISO rights in their historic manner, but also free to participate in the market.

In response to MWD's protest, the CAISO adds that for all the same reasons discussed above, the CAISO has always been specific that TORs will continue to be honored by providing the perfect hedge and scheduling priority like all other system encumbrances. TORs do not provide parties the right to use the CAISO grid beyond their physical points of interconnection to the CAISO grid. The specification of physical points of receipt and delivery is wholly consistent with the nature of TORs, and to afford such parties scheduling priority and the perfect hedge beyond the use of their own system would be an unjust and unreasonable impingement on the rest of the system. In the case of TORs, like ETCs, at a minimum if no physical resource use is identified, effectively, the TOR holder is able obtain congestion revenue from the perfect hedge for use on the CAISO system that goes far beyond the expressed TOR.

Finally, there is no reason for a one month delay in the effective date. The primary purpose of this filing is to obtain Commission approval of the modified set of parameters as to "what the TRTC Instructions will be." While the CAISO has also posted draft Business Practice Manuals pertaining to implementation of MRTU – it is the tariff that is controlling and it is the tariff that is under consideration in this docket.

The CAISO has properly specified the scope of the TRTC Instructions in the proposed tariff provisions. Moreover, these instructions are designed to recognize and not modify existing rights. The CAISO understands that it is not to impair the existing flexibility of the ETCs and TORs; however, the CAISO also does not want to unnecessarily withhold valuable transmission capacity from other Market Participants. The requested data on reasonably foreseeable and customer use of source and sinks will maximize the ability of the CAISO to release CRRs while minimizing the potential for revenue insufficiency.

### C. Submission of TRTC Instructions for Converted Rights

Six Cities<sup>33</sup> contends that it is inappropriate to require New Participating TOs to participate with Original Participating TOs in the development of TRTC Instructions for all Converted Rights held by the New Participating TOs.<sup>34</sup> Six Cities maintains that for Converted Rights that derive from a New Participating TO's ownership of transmission facilities or ownership-like entitlements in transmission facilities, participation of Original Participating TOs in the development of TRTC Instructions is inappropriate, because the Original Participating TOs have no pre-existing involvement in such rights.<sup>35</sup> Six Cities proposes the following modification to Section 4.3.1 .2.1 on Sheet 1254:

4.3.1.2.1 New Participating TOs shall complete TRTC Instructions ~~together with any Original Participating TO~~ **for their Converted Rights** as provided in Section 16.4.5 of this Appendix. **To the extent such Converted Rights derive from ETCs with Original Participating TOs, the New Participating TOs and the appropriate Original Participating TO shall develop the TRTC instructions together.**<sup>36</sup>

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<sup>33</sup> Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California.

<sup>34</sup> Six Cities at 4.

<sup>35</sup> *Id.*

<sup>36</sup> *Id.*

The CAISO agrees with Six Cities that to the extent that the Converted Right is associated with transmission facilities owned by the New Participating TO or are the result of contractual entitlements to transmission facilities, other than on facilities of the Original Participating TOs, the TRTC Instructions should come from the New Participating TO alone. Accordingly, the CAISO would commit to make the change proposed by Six Cities in a compliance filing.

**D. No Additional Protections Concerning Submission of Forecast Load Data Are Needed**

Six Cities are concerned about the requirement that the TRTC Instructions include forecasted use patterns.<sup>37</sup> The concern is that the CAISO's use of such forecasts may result in revenue insufficiency for released CRRs and give rise to potential claims against ETC rights holders and Converted Rights holders for recovery of such revenue insufficiency.<sup>38</sup> Six Cities requests that the tariff expressly state that by submitting non-binding forecast usage patterns for ETCs and Converted Rights, the rights holders have no responsibility to make up any CRR revenue insufficiency that may result if actual usage patterns deviate from the forecasts.<sup>39</sup>

While the CAISO appreciates the concern, the requested additional language is unnecessary. The CAISO understands that the forecast is not a guarantee of accuracy. It is enough that the forecast be done in good faith and in accordance with Good Utility Practice. Responsibility for submission of accurate data is covered by the Enforcement Protocol. Section 37.5.1.1 states that the Market Participant is to provide accurate and

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<sup>37</sup> *Id.* at 4-5

<sup>38</sup> *Id.* at 5.

<sup>39</sup> *Id.* at 5.

factual information and not submit false or misleading information. The CAISO notes that it requires forecasts from Market Participants in many different contexts.<sup>40</sup> The CAISO does not believe it would be necessary or appropriate to single out one type of additional protection that due to the possibility of forecast inaccuracies. While Six Cities may receive added protection against CRR revenue insufficiency, the mere specification of language may not provide the protection that Six Cities wants – for example, the inaccuracy may lead to a claim that additional CRRs should have been available. Thus, the CAISO maintains that the best course is not to provide additional specific protections in the tariff but to continue to rely on the more generally-applicable standards already in the tariff regarding acting in accordance with Good Utility Practice and not to submit false or misleading data.

#### **E. Publication of CRR Holdings**

Southern California Edison Company (“SCE”) maintains that the current tariff is not sufficiently clear and may not provide for the adequate publication of CRR holdings to allow participants to effectively monitor and reconcile CRRs transfers due to load migration.<sup>41</sup> First, SCE states it may be necessary to publish information on holdings on

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<sup>40</sup> See, e.g., Section 4.5.3.7 (Submitting to the CAISO the forecasted weekly peak Demand on the CAISO Controlled Grid and the forecasted Generation capacity. The forecasts shall cover a period of twelve (12) months on a rolling basis; Section 4.9.5.3 (The Scheduling Coordinator for the MSS shall provide CAISO with Demand forecasts of the MSS. To the extent that the Scheduling Coordinator does not provide requisite Demand Forecast for the MSS it represents, the CAISO shall produce a Demand Forecast for each MSS Load takeout point); and Section 4.9.10.1 (Each MSS Operator shall provide to the CAISO annually its ten-year forecasts of Demand growth, internal Generation, and expansion of or replacement for any transmission facilities that are part of the MSS that will or may significantly affect any point of interconnection between the MSS and the CAISO Controlled Grid).

<sup>41</sup> SCE at 2-3. (publication of holdings on an annual and monthly basis not be granular enough to verify CRR transfers due to load migration).

a daily basis.<sup>42</sup> Second, SCE suggests modifying sections 6.5.1.3.1 and 6.5.1.3.2 to include additional information on source and sink pairs.

The CAISO agrees that it is important to update the information on CRR holdings more frequently than monthly. Indeed, it is the CAISO's intent to update information on CRR holdings as any changes become effective. The CAISO will post new data on a daily basis, and each data set posted will include any outstanding ownership information.

The CAISO generally agrees with SCE's proposal to clarify Sections 6.5.1.3.1 and 6.5.3.2. However, in recognition that there are both point-to-point CRRs and multi-point CRRs, the CAISO would propose to amend the sections as follows:

**6.5.1.3.1 Annually**, the CAISO shall publish the following information including, but not limited to:

(a) Market Clearing Prices for all Aggregated PNodes available to use in the CRR Auction

clearing for on-peak and off-peak;

(b) CRR Holdings by Holder (including):

(i) CRR Source Name(s)

(ii) CRR Sink Name(s)

(iii) CRR quantity for each CRR Source(s) and Sink(s)

(iv) CRR start and end dates

(v) Time of use

(vi) Whether the CRR is a CRR Option or CRR Obligation

~~(c) CRR Source name;~~

~~(d) CRR Sink name;~~

~~(e) CRR start and end dates;~~

~~(f) Cleared CRR MW values; and~~

~~(g) Market Clearing Price for CRRs obtained in the CRR Auction.~~

**6.5.1.3.2 Monthly**, the CAISO shall publish the following information including, but not limited to:

(a) Market Clearing Prices for all Aggregated PNodes available for use in the CRR Auction

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<sup>42</sup> *Id. at 2*

clearing for on-peak and off-peak;

(b) CRR Holdings by Holder,  
(including):;

      (i) CRR Source Name(s)

      (ii) CRR Sink Name(s)

      (iii) CRR quantity for each CRR Source(s) and Sink(s)

      (iv) CRR start and end dates

      (v) Time of use

      (vi) Whether the CRR is a CRR Option or CRR Obligation

~~(c) CRR Source name;~~

~~(d) CRR Sink name;~~

~~(e) CRR start and end dates;~~

~~(f) Cleared CRR MW values; and~~

~~(g) Market Clearing Price for CRRs obtained in the CRR Auction.~~

## **F. Termination Provision**

Six Cities contends that the bases for terminating a CRR Entity Agreement as enumerated in § 4.10.3.1 and the nature of CRR obligations create uncertainty regarding the impact of terminating a CRR Entity Agreement under circumstances in which the CRR Holder holds unexpired CRRs at the time of termination that are expected to give rise to payment obligations over the remaining term.<sup>43</sup> Since maintaining a CRR Entity Agreement is a prerequisite to holding CRRs, Six Cities argues it would make sense for CRRs held by the terminated CRR Holder to terminate simultaneously with termination of the CRR Entity Agreement.<sup>44</sup> Six Cities cautions that, if the terminated CRR Holder holds CRRs that are expected to result in payment obligations over the remaining term, termination of such CRR obligations could result in a revenue insufficiency.<sup>45</sup> Under these circumstances, the terminated CRR Holder may not "owe" any amounts to the CAISO in the sense of having outstanding unpaid

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<sup>43</sup> Six Cities at 6.

<sup>44</sup> *Id.*

<sup>45</sup> *Id.*

invoices, but it should not be relieved of any payment obligations associated with the unexpired CRRs.<sup>46</sup> Six Cities recommends that the CAISO should retain security for estimated financial obligations associated with unexpired CRRs, and the proposed tariff language should be revised to make clear the CAISO's ability to do so.<sup>47</sup>

The CAISO appreciates the concern raised by Six Cities and agrees that it is important to make sure a CRR Holder is held financially responsible for the CRRs it possesses. With regard to termination, there are two possibilities: (1) termination by the CRR Holder or (2) termination by the CAISO.

If the CRR Holder seeks to terminate its CRR Entity Agreement, Section 4.10.3.1(b) of the tariff requires that the termination be done in accordance with the CRR Entity Agreement. Under Section 3.2.2 of the CRR Entity Agreement, the CRR Entity can only terminate the agreement if it “is no longer a CRR holder” – that is it has transferred any remaining rights and obligations associated with the CRR to another qualified Market Participant.

With regard to potential termination of a CRR Entity Agreement by the CAISO, the CAISO notes Six Cities' suggestion that CRRs held by the terminated CRR Holder should terminate concurrently with termination of the CRR Entity Agreement. The problem with this approach is that the CRRs may be necessary counterflows for CRRs held by a different Market Participant. In such a circumstance, the prudent course may be not to proceed with immediate termination but to continue to hold the party financially responsible, offset any sums owed with any payments that would have been made,<sup>48</sup>

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<sup>46</sup> *Id.*

<sup>47</sup> *Id.*

<sup>48</sup> See Section 11.29.3 of the MRTU Tariff.

and, as suggested by Six Cities, retain any security, until such time as the party is no longer potentially responsible for further payments related to its CRR.

Accordingly the CAISO agrees that a CRR Holder should not be relieved of any payment obligations associated with the unexpired CRRs and that the CAISO should retain security consistent with the CAISO's credit policies, including security for estimated financial obligations for the entire term of the CRR associated with unexpired CRRs until the liability has been transferred or expires. This is consistent with existing tariff authority in Section 4.5.4.4 of the ISO Tariff with respect to Scheduling Coordinators. In the case of terminated Scheduling Coordinator, the CAISO maintains Financial Security until the CAISO is satisfied that no sums remain owing. This same principle applies to CRR Holders.

**G. The CAISO Agrees that TORs can be Used to Self-Provide Ancillary Services**

Metropolitan does not believe there is any dispute regarding the ability of TOR holders to self-provide Ancillary Services but as clarification requests the following text as a new subsection (4) to Section 17.2, Treatment of TORs:<sup>49</sup>

**(4) The holder of a TOR may self-provide Ancillary Services.**

Metropolitan also states the CAISO may wish to modify Section 17.1.4 to identify that self-provision of Ancillary Services is permitted in submitted TRTC Instructions for TORs.<sup>50</sup>

The CAISO notes that Section 17.2.4 of the MRTU Tariff is not at issue in the instant proceeding. The CAISO has not sought to modify that provision and has not

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<sup>49</sup> Metropolitan at ¶ 23-24

<sup>50</sup> *Id.*

requested that it be made effective prior to the start of MRTU. Thus, while the CAISO agrees with Metropolitan that TOR holders should be able to utilize their facilities for the provision of Ancillary Services, this is not the forum to include such a change. The CAISO anticipates making a filing in May of 2007 to update the MRTU Tariff prior to MRTU implementation and would commit to include the requested change to Section 17.2.4 at that time. The CAISO does not believe a clarification in Section 17.1.4 is warranted. This section is the parallel to the provision in which TRTC Instructions are to indicate whether or not the ETC can be used to provide Ancillary Services. Given the CAISO's agreement with the issue raised by Metropolitan and the commitment to revise Section 17.2.4, there is no need to include parallel information in a TRTC Instruction for a TOR, as TORs will have an inherent right to be used to provide Ancillary Services.

## **H. Definitions and Other Clarifications**

### **1. Seasonal Load Metric**

Six Cities maintains that the definition of "Seasonal CRR Load Metric" in the definitions section of the proposed pre-MRTU amendments is inconsistent with the proposed tariff provisions.<sup>51</sup> Six Cities states that Section 36.8.2.1 of the pre-MRTU Amendments (Original Sheet No. 1270) correctly describes an LSE's Seasonal CRR Load Metric as "the MW level of Load that is exceeded only in 0.5% of the hours based on the LSE' s historical Load data," but in contrast, the definition of "Seasonal CRR Load Metric" at Original Sheet No. 1302 defines the term as "The lowest value among

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<sup>51</sup> Six Cities at 8.

the Monthly CRR Load Metrics for a Load Serving Entity calculated across the relevant season."<sup>52</sup>

The CAISO notes that neither of the two provisions at issue was substantively modified from the language previously-approved by the Commission. Nevertheless, the CAISO thanks Six Cities for identifying the issue and agrees that the definition reflected on Original Sheet No. 1302 is incorrect and should be revised to be consistent with Section 36.8.2.1. The CAISO would commit to make the change in a compliance filing.

## **2. Use of the Terms Existing Contracts and Existing Rights**

Metropolitan protests the use of the terms Existing Contracts and Existing Rights as it relates to TORs.<sup>53</sup> The CAISO agrees that Existing Contracts and Existing Rights are distinct from Transmission Ownership Rights. Accordingly, the CAISO agrees that Section 17.1.4(5) should be modified as follows:

The following information, as stored in the Master File: (a) the applicable Point(s) of Receipt and Point(s) of Delivery; (b) for each Point of Receipt, the resource names for the physical resources as the eligible sources (eligible physical sources include Generating Units and System Resources), and for each Point of Delivery the resource names for the physical resources as the eligible sinks (eligible physical sinks include Load PNodes, Custom Load Aggregation Points and System Resources); (c) for each physical source or sink the maximum ~~Existing Rights~~ capacity (MW) that can be scheduled as a ~~TOR~~ Existing Right under the Existing Contract; and (d) for each physical source and sink the Scheduling Coordinator(s) and their Business Associate Identification ("BAID") that is(are) eligible to submit TOR Self-Schedules utilizing these sources and sinks;

The CAISO commits to make this change in a compliance filing.

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<sup>52</sup> *Id.*

<sup>53</sup> Metropolitan at ¶ 19-20.

## I. The CRR Entity Agreement

Several entities protest details of the CRR Entity Agreement and request changes. As discussed below, the CAISO must comply with the requirements of Order No. 2001 with regard to whether or not to file individual CRR Entity Agreements. The CAISO also agrees with the comments of intervenors that the agreement should be subject to modification by the Commission under a just and reasonable standard under Section 206. In addition, the CAISO commits to work with NCPA to meet its needs as an aggregator for its member systems.

### 1. The CAISO Must Comply with the Commission's Filing Requirements

Modesto Irrigation District ("Modesto") and City of Santa Clara and the M-S-R Public Power Agency ("SVP/M-S-R") contend that the provisions in the CRR Entity Agreement that permit the CAISO the option not to file the agreement are unreasonable.<sup>54</sup> They are also concerned about the provisions concerning any notice of termination. The concerns of Modesto and SVP/M-S-R are without foundation. The CAISO is only trying to comply with the Commission requirements on filing of service agreements as reflected in Order No. 2001.<sup>55</sup>

Contrary to the assertions of the intervenors that all *pro forma* agreements must be filed, Order No. 2001 adopted a new requirement reflected at 18 C.F.R. § 35.1(g) which states:

For the purposes of paragraph (a) of this section, any agreement that conforms to the form of service agreement that is part of the public utility's

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<sup>54</sup> SVP at ¶ 19-22; See also, Modesto ¶¶21-24.

<sup>55</sup> *Revised Public Utility Filing Requirements*, Order No. 2001, 67 FR 31043, FERC Stats. & Regs. ¶ 31,127, *reh'g denied*, Order No. 2001-A, 100 FERC ¶ 61,074, *reconsideration denied*, Order No. 2001-B, 100 FERC ¶ 61,342 (2002).

approved tariff pursuant to § 35.10a of this chapter and any market-based rate agreement pursuant to a tariff shall not be filed with the Commission.

This is not some discretionary “option” on the part of the CAISO as to whether or not agreements must be filed but it is a matter of compliance with the Commission’s regulations. Executed service agreements that conform to the *pro forma* version accepted by the Commission are to be listed in the CAISO’s Electric Quarterly Reports. Non-conforming service agreements must be filed separately under Section 205.

The requirements regarding termination of service agreements follow a comparable approach. As stated by the Commission in Order No. 2001,

Under this rule, agreements that conform to approved standard forms of service agreement and market-based rate agreements may terminate by their own terms without the need for the public utility to file a notice of cancellation or cancellation tariff sheet with the Commission. The public utility simply removes the agreement from its Electric Quarterly Report the quarter after it terminates. For agreements that remain in public utilities' Commission-maintained tariffs after the implementation date of this rule (basically non-conforming agreements), public utilities also must comply with the requirements to file a notice of cancellation and a cancellation tariff sheet.<sup>56</sup>

The CAISO is not seeking in its *pro forma* CRR Entity Agreement to do anything more than reflect the filing obligations it has as a public utility under Order No. 2001. It will file non-conforming CRR Entity Agreements and it will list on its Electric Quarterly Reports conforming CRR Entity Agreements. No changes to the proposed *pro forma* agreement are warranted to address this issue.

## **2. The CAISO Agrees that the Agreement Should Be Modified Based on a “Just and Reasonable” Standard of Review**

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<sup>56</sup> Order No. 2001 at ¶ 249.

Several parties contend that the proposed standard of review in Section 11.9 of the *pro forma* CRR Entity Agreement regarding amendments to the agreement is unduly discriminatory.<sup>57</sup> They are concerned that the CAISO has proposed to impose the much more stringent "public interest" standard of review for modifications to the CRR Entity Agreement proposed by the Commission or other entities while retaining for itself the more lenient "just and reasonable" standard of review. Upon consideration of the comments, the CAISO agrees that the provision should be modified to reflect the "just and reasonable" standard of review for both Section 205 filings brought by the CAISO and Section 206 complaints instituted by either the Commission or other parties.

Accordingly, the CAISO would propose to modify Section 11.9 as follows:

This Agreement and the Schedules attached hereto may be amended from time to time by the mutual agreement of the Parties in writing. Amendments that require FERC approval shall not take effect until FERC has accepted such amendments for filing and made them effective. If the amendment does not require FERC approval, the amendment will be filed with FERC for informational purposes. Nothing herein shall be construed as affecting in any way the right of the CAISO to make unilateral application to FERC for a change in the rates, terms, and conditions of this Agreement under Section 205 of the FPA and pursuant to FERC's rules and regulations promulgated thereunder. The standard of review the Commission shall apply when acting upon proposed modifications to this Agreement by the CAISO shall be the "just and reasonable" standard of review rather than the "public interest" standard of review. The standard of review the Commission shall apply when acting upon proposed modifications to this Agreement by the Commission's own motion or by a signatory other than the CAISO or non-signatory entity shall **also** be the "public interest" standard of review rather than the "just and reasonable" standard of review. Schedules 1 and 2 are provided for informational purposes and revisions to those schedules do not constitute a material change in the Agreement warranting Commission review.

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<sup>57</sup> SVP/M-S-R at ¶ 23-24; Modesto at ¶ 25-27; IID at p 11; Six Cities at 7.

The CAISO will make this change in a compliance filing. The proposed modification, which provides for the same standard of review, addresses the issue raised by the parties in this proceeding.

**3. The CAISO Agrees that the CRR Entity Agreement Needs To Take Into Account NCPA's Aggregator Role**

The Northern California Power Agency ("NCPA") does not object to the CRR Entity Agreement "per se, but is concerned that they do not properly accommodate NCPA's business structure for the CRR Allocation process."<sup>58</sup> The CAISO agrees that NCPA's role should be reflected and respected. However, rather than accomplish this by means of an amendment to the NCPA MSS Aggregator Agreement between the CAISO and NCPA (which also would have to be subsequently filed), the CAISO has proposed to address the agency relationship between NCPA and its members specifically for the purposes of the CRR Entity Agreement and participation in the CRR processes through a separate agency agreement, regarding which the CAISO intends to prepare a draft for consideration by NCPA.

As described by NCPA, there have been discussions between the parties and the CAISO wants to finalize a solution to this issue. The CAISO would agree to a condition in the Commission's order requiring it to work with NCPA and to file its proposed resolution to address NCPA's specific concerns by April 30.

**4. Execution of the CRR Entity Agreement Does Not Need To Await Finalization of the Business Practice Manual**

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<sup>58</sup> NCPA at 3-5. As stated by NCPA, it schedules and manages the NCPA aggregated loads and resources as a pool. *Id.*

IID contends that because the CRR Entity Agreement “turns on” details in the Business Practice Manuals that have not yet been fully developed, FERC should reject the CAISO’s requirement to sign an agreement with “undisclosed terms.”<sup>59</sup> IID’s protest is without merit.

Far from “undisclosed terms,” the CRR Entity Agreement is designed to facilitate implementation of the CRR process reflected in the detailed MRTU Tariff sheets approved by the Commission in Docket No. ER06-615. The tariff that specifies all critical components of CRRs – how Market Participants can obtain CRRs, how they may be transferred or resold, what are the rights and responsibilities of CRR Holders (including creditworthiness requirements), and what are the cost consequences and benefits associated with CRRs.

In its September 2006 Order, the Commission determined an orderly process for review of the Business Practice Manuals *prior to* implementation of the full MRTU market design.<sup>60</sup> The CAISO has posted drafts of the Business Practice Manuals and is actively engaged with Market Participants in an effort to finalize the documents and ensure they reflect the market design as authorized by the Commission.

There is no need to delay implementation of MRTU by preventing execution of the CRR Entity Agreement prior to finalization of the Business Practice Manuals. IID’s claim of insufficient information is a red herring designed only to delay the start of MRTU. The detailed tariff has been approved, the draft manuals have been developed and must be finalized in accordance with the approved tariff concepts. The CAISO disagrees with IID’s claim that the CRR Entity Agreement “turns on” the Business

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<sup>59</sup> IID at 11-12.

<sup>60</sup> *California Independent System Operator Corp.*, 116 FERC ¶ 61,274 at ¶ 1391-1371 (2006).

Practice Manuals. To the contrary, the manuals must reflect the authorized market design, and there is no reason to delay implementation of that design. IID has more than sufficient information to make its business judgments.

**J. Parties Should Not Use This Docket To Raise Issues From Other Proceedings**

**1. This Proceeding Is Not About Allocation of CRRs to Out of Control Area Load**

Both Modesto and IID use their protests to ask the Commission to require changes in the manner in which CRRs, including Long Term CRRs, are allocated to entities serving load outside the CAISO Control Area.<sup>61</sup> IID argues that the CAISO proposal to allocate CRRs to external load is unduly discriminatory and asks FERC to order the CAISO to implement a preference for all native load, whether inside or outside the CAISO Control Area. Modesto objects to Section 36.9.2 of the MRTU Tariff, which requires out-of-control area entities to prepay the CAISO Wheeling Access Charge. Modesto requests the Commission void the prepayment condition for allocated CRRs.

These arguments are nothing more than collateral attacks on the Commission's MRTU Order and on the CAISO's pending Long Term CRR filing in Docket No. ER07-475. This filing does not affect the manner in which CRRs are allocated. Accordingly, their protests should be rejected.

**2. NCPA's Issue About Access to the Model Are Out of Place**

According to NCPA, the instant filing, "highlights the need for the Commission to rule on the motion NCPA filed on January 26, 2007 in Docket No. ER06-615, and has reiterated on various occasions, seeking a ruling on the Non-Disclosure Agreement the

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<sup>61</sup> IID at 9-11.

CAISO is requiring market participants to sign in order to gain access to the full network model and other data related to the CRR process.”<sup>62</sup> NCPA’s complaint is an unnecessary tangent unrelated to the instant filing. The CAISO is simply seeking data from certain entities in order to construct a satisfactory model. As NCPA itself states, let the issue of subsequent access to that model be determined in one of those “other occasions.”

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<sup>62</sup> NCPA at 3. NCPA argues it should not have to give up legal rights in order to have access to the model. *Id.*

#### IV. CONCLUSION

For all the reasons stated herein, the CAISO respectfully requests that the March 9 Filing be accepted, as modified based on this answer, without suspension or hearing to go into effect on May 9, 2007 as requested.

Respectfully submitted,

**/s/ Anna A McKenna**

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Dated: April 16, 2007

## **CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in the above-captioned docket. Dated at Folsom, California on this 16<sup>th</sup> day of April, 2007.

**/s/ Anna A. McKenna**

Anna A. McKenna