

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

**California Independent System) Docket No. ER10-188-000
Operator Corporation)**

**REPLY COMMENTS OF THE CALIFORNIA INDEPENDENT
SYSTEM OPERATOR CORPORATION IN SUPPORT OF THE
OFFER OF SETTLEMENT**

Pursuant to Rule 602(f) of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.602(f) (2009), the California Independent System Operator Corporation (“ISO”) hereby submits its reply comments on the Offer of Settlement (“Settlement”) that it filed on behalf of various parties on March 23, 2010, concerning the ISO’s market usage-forward energy charge. The ISO requests that the Commission approve the Settlement as filed.

I. BACKGROUND

The background information on the Settlement itself is set forth in the Explanatory Statement and the ISO’s comments. On April 12, 2010, the ISO and the Alliance for Retail Energy Markets filed comments in support of the Settlement. On April 13, 2010, the California Department of Water Resources-State Water Project (“State Water Project”) filed comments out-of-time. No other parties filed comments.

State Water Project stated that it does not oppose the Settlement. State Water Project, however, takes the position that self-schedules pursuant to existing transmission contracts should be exempted from the market usage-forward energy charge.

State Water Project contends that such self-schedules do not impose

costs on the ISO for energy market transactions in that they do not use the market service, do not impact the market outcome, and do not benefit from the market.¹

II. REPLY COMMENTS SUPPORTING OFFER OF SETTLEMENT

As an initial matter, the ISO notes that no party has raised contested issues of fact or even opposed the Settlement. Accordingly, the Commission should approve the Settlement as fair and reasonable and in the public interest pursuant to Rule 602(g)(3) of the Commission's Rules of Practice and Procedure, particularly in light of the evidence presented by the ISO in its comments.

Nonetheless, the ISO believes that it should respond to the concerns expressed by State Water Project. The State Water Project stated the same concerns in comments on the ISO's October 30, 2009, filing that initiated these proceedings. The ISO responded to those concerns in an answer filed on December 7, 2009, which the Commission declined to accept and which is therefore not part of the record. Accordingly, the ISO reproduces its response here.

State Water Project's comments all arise from a fundamental misapprehension of the manner in which the ISO processes existing transmission contract self-schedules in the new markets. An existing transmission contract self-schedule comprises a demand self-schedule and a supply self-schedule. With only a few exceptions, the ISO's market processes existing transmission contract self-schedules in the same manner as other bids. The market optimization software treats all submitted supply and demand bids –

¹ State Water Project Comments at 2.

including self-schedules – as separate "controls" (i.e., transactions that can be adjusted to reach a solution). The supply self-schedule and the demand self-schedule within a scheduling coordinator's submitted bid are not linked in any way in the running of the software. For clearing the market, which includes congestion management as well as clearing energy and procuring ancillary services (i.e., the "integrated" concept behind IFM), all submitted supply and demand bids and self-schedules, including existing transmission contracts, must be taken into account in managing congestion and clearing the energy market, and any of them may be adjusted. Thus, existing transmission contract self-schedules are very much a part of the ISO's markets, and cause the ISO to incur *market-related costs*.

There are only two significant instances in which the ISO's markets treat existing transmission contract schedules differently.² First, the ISO validates existing transmission contract schedules before putting them into the market to ensure that they comply with their rights as specified by the relevant participating transmission owner. Second, the market software provides for an adjustment hierarchy so that the market will try to reach a reasonable solution by adjusting economic bids and non-existing transmission contract self schedules (other than reliability must run and transmission ownership rights schedules) before existing transmission contract schedules, thus giving existing transmission contracts a significant degree of scheduling priority. These features do not in any way reduce the impact that existing transmission contract self-schedules have on the

² In addition to these differences with respect to the running of the ISO markets existing transmission contracts are, of course, treated quite differently in settlements. They are not, for example, subject to transmission access charges or congestion charges.

operation of the ISO markets and, therefore, do not provide any basis for reducing the exposure of existing transmission contract schedules to the market usage-forward energy charge.

There is no basis for State Water Project's argument that existing transmission contracts assist the ISO in managing congestion. State Water Project contends that existing transmission contracts specify a particular quantity of transmission service to which the parties to the contract agree, thereby ensuring the CAISO that the existing transmission contract holder cannot request more than specified in the contract. An existing transmission contract does nothing of the sort. An existing transmission contract holder will schedule more or less than the existing transmission contract capacity according to its load needs and its supply availability; the only constraint imposed by the existing transmission contract is a limit on the amount that can be scheduled under the terms of the existing transmission contract rights, which provide the scheduling priority noted above and exemption in settlement from transmission access and congestion charges. The fact that scheduling coordinators for holders of existing transmission contract rights can submit self-schedules in quantities that exceed the MWh amount of their rights is why the ISO software systems must include validation rules and procedures.

State Water Project also argues that, to the extent that an existing transmission contract holder does not use all of its contracted capacity in the Day-Ahead market, the unused contract amount could be freed up for the CAISO's benefit in mitigating congestion. This is not, however an advantage of existing transmission contracts. Rather, this fact only puts existing transmission

contract schedules on a more comparable footing to other schedules in terms of the congestion management burden imposed on the ISO. Prior to the ISO's comprehensive market redesign, the inability of the ISO to schedule on unused existing transmission contract capacity significantly complicated congestion management by causing "phantom congestions."³ By providing that the ISO could schedule on the unused capacity, the market reforms simply eliminated a problematic and unnecessary burden.

Indeed, it could be argued that the special treatment of existing transmission contract self-schedules actually *adds* to the cost of operating the ISO's forward markets. Additional resources are necessary in order to perform the additional validation steps required to ensure that submitted existing transmission contract self-schedules comply with the parameters of their actual rights. Further, the need to enforce a complicated hierarchy of scheduling priorities makes the software more complicated and reduces the efficiency of market solutions. There is thus no merit to the argument that existing transmission contract self-schedules do not affect the costs of operating the ISO's forward market, and, accordingly, it is just and reasonable to allocate the market usage-forward energy charge based on all market energy schedules, including existing transmission contract schedules, as the ISO has proposed.

III. CONCLUSION

For the reasons stated above, the ISO respectfully requests that the Commission approve the Offer of Settlement.

³ See, e.g., *Cal. Indep. Sys. Operator Corp.* 109 FERC ¶ 61,301 at PP 17-21(2004).

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have caused a copy of this document to be served upon each person designated on the official service list for the above-referenced proceeding in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated this 22nd day of April, 2010, at Washington, DC.

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