

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

California Independent System Operator Corporation)	Docket No. ER06-615-026
)	ER07-1257-008

ANSWER OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION TO COMMENTS AND MOTION TO FILE ONE DAY OUT-OF-TIME

Pursuant to Rules 212 and 213 of the Commission’s Rules of Practice and Procedure, 16 U.S.C. §§ 385.212, 385.213, the California Independent System Operator Corporation (“CAISO”) ¹ submits its Answer to Comments on its July 21, 2008, filing (“July 21 Compliance Filing”) in compliance with the Commission’s “Order Conditionally Accepting, Subject to Modification, MRTU Compliance Filings,” 123 FERC ¶ 61,285 (2008) (“June 20 Order”) and a motion to file the answer one day out-of-time.

I. BACKGROUND

On February 9, 2006, the CAISO filed a proposed MRTU Tariff that included modifications to the then-current ISO Tariff reflecting the numerous changes to the CAISO’s market structure included in the MRTU proposal. On September 21, 2006, the Commission issued an order conditionally accepting the MRTU Tariff for filing, subject to modifications.² Subsequently, there have been various amendments to

¹ Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff, and in the Amendment.

² *California Independent System Operator Corp.*, 116 FERC ¶ 61,274 (2006) (“September 21 Order”).

the MRTU Tariff and corresponding Commission orders, only some of which need to be identified for the purpose of this Answer.³

Among the conditions in the September 21, 2006 Order was that the CAISO modify the MRTU Tariff concerning the use of Ancillary Service Sub-Regions and of Reliability Must-Run (“RMR”) resources and market resources in the CAISO’s procurement of Ancillary Services.⁴ The CAISO submitted a filing to comply with those Commission directives on March 20, 2007 (“March 20 Filing”). In the June 20 Order, the Commission conditionally accepted, subject to modifications, the March 20 Filing and certain other proposals it had not previously addressed. The July 21 Compliance Filing responded to the Commission’s directives in the June 20 Order.

On August 11, 2008, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") submitted comments on the July 21 Compliance Filing. First, Six Cities identified errors in Sections 11.10.2.1.3 and 11.10.2.2.2 of the Compliance filing. Six Cities also asserted that certain language included in Sections 36.8.2 and 36.8.3.4.1 went beyond that directed by the Commission and constituted a collateral attack on the June 20 Order. Finally, Six Cities stated that language included in Appendix C, Section A, was unclear.

On August 12, 2008, the California Department of Water Resources – State Water Project (“SWP”) filed comments and a motion to file one day out-of-time. SWP asked that the Commission “allow SWP to respond with increased pumping not only in reply to CAISO non-market requests, but also to price signals sent to

³ The full history of the MRTU proceedings is set forth in the CAISO’s July 21 Compliance Filing.

⁴ September 21 Order at PP 380-81.

SWP Participating Load through nodal pricing.” It also asked that it be permitted to preserve its right to rehearing regarding the allocation of Residual Unit Commitment costs to Participating Load.

II. ANSWER

A. Motion to File Out-of Time and Preservation of Rehearing Rights.

The CAISO does not oppose SWP’s motion to file out-of-time. The CAISO also does not believe that SWP’s failure to protest parts of the July 21 Compliance Filing would prejudice in any manner its pending rehearing request. The CAISO would not oppose any confirmation the Commission wishes to provide SWP in this regard.

B. Motion to File Out-of-Time.

Under Rule 385.213, answers to the comments of Six Cities would have been due on August 26, 2008. Conflicts with other pressing matters, however, precluded final counsel review of this Answer. The CAISO believes that this Answer will assist the Commission in responding to the comments of Six Cities. Accepting the Answer one day out-of-time at this stage of the proceedings will prejudice no party. Accordingly, the CAISO asks that the Commission accept this Answer.

C. Answer to Comments.

1. Sections 11.10.2.1.3 and 11.10.2.2.2.

Six Cities noted that, according to the transmittal letter for the July 21 Compliance Filing, Section 11.10.2.1.3 was to be amended to read:

Each Scheduling Coordinator's Ancillary Services Obligation percentage for Regulation Down in an hour is equal to the total

requirement for Regulation Down in that hour divided by the hourly metered CAISO Demand for that hour.

Parallel changes were to be made to Section 11.10.2.2.2 regarding Regulation Up. Six Cities correctly states that the revisions in the tariff sheets result in the omission of a portion of the quoted language (“in an hour is equal to the total requirement for Regulation Down[Up]”). The Commission should direct that the missing language be added to the sections.

2. Appendix C, Section A.

The July 21 Compliance Filing included a revision to Appendix C, Section A, which as Six Cities noted, was intended to clarify Section A by indicating that the marginal prices are limited by resources that are not eligible to set the price or have constraints such that they cannot be marginal. Six Cities correctly note that the revision made in the July 21 Compliance Filing includes an error such that it does not accomplish that purpose. Six Cities suggest that the error can be corrected by adding the word “not” between “are” and “determined” such that the relevant sentence would read:

The Locational Marginal Prices are not determined by resources that are not eligible to set the Locational Marginal Price, which includes resources that have constraints that prevent them from being marginal.

The CAISO agrees and asks the Commission to direct such a revision.

3. Changes to Sections 36.8.2 and 36.8.3.4.1.

Six Cities erroneously asserts that the CAISO has not complied with the Commission directive to add Tariff language providing that allowable Sources and Sinks for the CRR allocation process will be published thirty days prior to the due

date for nominations for allocated CRRs.⁵ Six Cities argues that the inclusion of certain language pertaining to the ability to update such lists without any explanation of why this is required renders the CAISO's filing contrary to the intent of the Commission's directive.⁶

The CAISO submits that it has fully complied with the Commission's directive by including in the tariff the requirement that the CAISO post the allowable CRR Sources and Sinks no later than one month before the date on which participants will be required to submit their nominations. The CAISO further submits that the language Six Cities refers to is both reasonable and consistent with the intent of the June 20 Order. Specifically, the CAISO has provided that "[i]n the event that unforeseen changes to network conditions arise after the thirty day release of the list of allowable CRR [Sinks or Sources] and warrant revisions to that list, the CAISO will provide updates to the list prior to the closing of nominations for the CRR Allocation." This language is not intended to undermine the CAISO's primary responsibility to post the allowable CRR Sources and Sinks 30 days prior to the close of CRR nominations, but rather it is intended to ensure that the participants have available for their use all the possible allowable Sources and Sinks in the event that network changes require the addition of new or the removal of previously listed allowable CRR Sources and Sinks. Therefore, in the event that the CAISO discovers unforeseen changes to the network after the 30-day posting but prior to the close of nominations, this information should be used to update the list of allowable CRR Sources and Sinks and it should be provided to the participants.

⁵ June 20 Order at P 137.

⁶ Six Cities Answer at 3-4.

Contrary to Six Cities' assertions, this language does not provide CAISO with broad authority that would "allow the CAISO to revise the list of allowable Sources and Sinks at any time." Only if the CAISO becomes aware of such unforeseen changes to the network after the required 30-day advance posting will it update the previously posted list of allowable CRR Sources and Sinks. The CAISO expects this to be a rare, but not impossible, occurrence. Indeed, the CAISO expects that Market Participants would want such updates in order to take such CRR Source or Sink changes into account in formulating their CRR nominations. Without a CAISO ability to update the list, Market Participants would not have the ability to take advantage of the allowable capacity on the system to the maximum extent possible.

4. Increased Consumption by Participating Loads.

In the transmittal letter to the July 21 Compliance Filing, the CAISO explained that, in response to an earlier Commission directive, it had earlier proposed to modify Section 11.8.6.5.3 in order to clarify that Participating Loads would not be subject to Tier 1 allocation of RUC compensation costs. Southern California Edison Company had subsequently protested that such an exemption would be unjust because the difference between a Participating Load's schedule and actual Demand might be the result of a failure to bid or follow CAISO instructions. The Commission directed the CAISO to modify this section such that if a Participating Load's actual Demand is more than its scheduled Demand, and the difference does not result from CAISO's instructions, the Participating Load is subject to a Tier 1 allocation of RUC compensation cost. The July 21 Compliance Filing included this modification.

In its Comments, SWP states that it appreciates the CAISO's proposed language insofar as it would avoid penalizing SWP for "underscheduling" but nonetheless asks that the Commission "allow SWP to respond with increased pumping not only in reply to CAISO non-market request, but also to price signals sent to SWP Participating Load through nodal pricing." While SWP raises an issue that is worthy of exploration following MRTU implementation, the Commission should reject the request at this time because, as discussed further below, such a directive would be entirely outside the scope of this compliance filing.

The CAISO's proposed tariff language in the July 21 Compliance Filing fully complies with the June 20 Order. SWP's request that CAISO be required to allow SWP to respond by increased pumping in reply to price signals amounts to a request that pump load be given the opportunity to respond to anticipated market conditions in the real-time by submitting a bid to pump more in the real-time.

Under the current MRTU functionality the CAISO will not have the ability to accept Demand Bids in Real-Time. The Participating Load functionality does, however, provide the opportunity for Participating Load to submit a "supply bid" in the Real-Time (*i.e.*, a bid to deviate from its Day-Ahead Schedule that would be treated as an Energy in the Energy market), unless the entity has opted to use the Aggregated Participating Load model that uses the extended non-Participating Load functionality. Therefore, right at the start of MRTU Participating Loads not using the Aggregating Participating Load model and instead using the pump-storage model will be able to submit a positive or negative supply bid that allows them to offer to either consume more or less and be dispatched accordingly. If such bids are

cleared in the Real-Time Market, the Dispatch Instructions will include this change and their resources will be settled accordingly. The language proposed appropriately captures such deviations and ensure that Participating Load does not get penalized for such CAISO directed changes in their consumption.

SWP's request beyond what this functionality currently provides amounts to a request that the CAISO be ordered to enhance its functionality so that Participating Load has the ability to respond to real-time price signals through a Demand Bid for all loads. While the CAISO has discussed this issue with SWP before and it does agree that such flexibility would be favorable, it is simply not feasible for the CAISO to deliver such functionality at the start of MRTU. However, the CAISO is committed to and continues to explore such changes for future enhancements to the Participating Load functionality.

The CAISO also notes that, contrary to SWP's suggestion, even under the limited functionality that is currently in place, the Participating Load can respond to requests for increases in pump load to address overgeneration problems through Exceptional Dispatch, which is already provided for in Section 34.9 of the Tariff. Furthermore, to the extent that the CAISO does issue an Exceptional Dispatch for this purpose, that Exceptional Dispatch is captured in the CAISO issued Dispatch Instruction. Because the tariff language as proposed by the CAISO on compliance specifically specifies that the Participating Load will not incur the first tier allocation of RUC Compensation Costs if the Participating Load is deviating from its scheduled demand due to a CAISO Dispatch Instruction, the language adequately addresses this possible cause of deviation and would appropriately provide for the

exemption of the Participating Load from the first Tier allocation of RUC Compensation Costs under these circumstances.

The CAISO, therefore, respectfully submits that the Commission should not, through its order on the compliance filing in this proceeding, expand the scope of the MRTU functionality required for MRTU to go live by granting SWP's request. Rather the CAISO submits that it be permitted to explore such future enhancements without jeopardizing the MRTU implementation schedule.

III. CONCLUSION

For the reasons stated above, the CAISO requests that the Commission approve the July 21 Compliance Filing with the modifications identified above.

Respectfully submitted,

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