

helpful to the Commission by the deadline for filing answers. Because this Answer is being submitted only four days out of time, the CAISO submits that the Commission's decision to grant this motion will not cause prejudice to any party.³

II. BACKGROUND

A. Proposed Amendment

On October 31, 2008, the CAISO filed an amendment to the MRTU Tariff in this docket. The amendment deferred the availability of four features of MRTU as currently filed for which the necessary software had not been developed or which interfered with the proper functioning of the CAISO markets:

- Enforcement of Forbidden Operating Region constraints for Generating Units in the Real-Time Market;
- Unlimited Operational Ramp Rate changes for Generating Units;
- Procurement of Incremental Ancillary Services ("AS") in the Hour-Ahead Scheduling Process; and
- Automation of the commitment process for Extremely Long-Start Resources.

B. Interventions, Protests, and Comments

On November 20, 2008, J.P. Morgan Ventures Energy Corporation filed a motion to intervene in this proceeding. On November 21, 2008, motions to intervene were filed by the California Department of Water Resources State Water Project, the California Municipal Utilities Association, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California, the City of Santa Clara, California and the M-S-R Public Power Agency, the Modesto Irrigation District, and Pacific Gas and Electric Company.

³ See, e.g., *San Diego Gas & Electric Co., et al.*, 101 FERC ¶ 61,391, at P 14 (2002); *San Diego Gas & Electric Co., et al.*, 120 FERC ¶ 61,201, at P 9 (2007).

The Alliance for Retail Energy Markets (“AReM”) and Powerex Corp. (“Powerex”) , Dynegy Morro Bay, LLC, and Dynegy Moss Landing, LLC (together, “Dynegy”), Mirant Energy Trading, LLC, Mirant Delta, LLC and Mirant Potrero, LLC (collectively, “Mirant”), and the Western Power Trading Forum (“WPTF”) filed motions to intervene and comments on November 21, 2008.⁴ Dynegy and Mirant supported the comments submitted by WPTF (Dynegy Comments at 2, Mirant Comments at 3).

The Northern California Power Agency (“NCPA”) submitted a Protest and Motion to Intervene and request for suspension of tariff filing on November 21, 2008.

On November 26, 2008, the Transmission Agency of Northern California (“TANC”) submitted a motion for leave to intervene out-of-time and comments.⁵

III. ANSWER

A. Motions to Intervene and Reservation of Rights

The CAISO does not oppose the motions to intervene. Neither does it oppose TANC’s motion to file out-of-time.

⁴ Neither the AReM nor the Powerex comments opposed deferral. AReM stated that it did not oppose the proposed MRTU Tariff amendments, but expressed disappointment that functionality must be deferred. (AReM at 3). It disagreed that the deferred functionality provides minimal benefits, and claimed that CAISO’s filing provided vague statements about when CAISO plans to add this functionality. (*Id.*)

In particular, AReM declared concern for the deferment of enforcing Forbidden Operating Region constraints in the Real-Time market, and procuring incremental AS in the HASP. It claimed that both deferments will likely increase costs to Load Serving Entities and their customers. AReM requested that the CAISO implement deferred functionality “as quickly as possible, preferably within six months of MRTU startup.” (*Id.*)

While Powerex stated that it understood the need for deferment, it emphasized that the CAISO should implement the procurement of AS in the HASP as soon as possible after MRTU goes live. It expressed concern that delaying procurement of AS will deter market participants from making sales from external resources. It requested that the Commission direct the CAISO to implement AS procurement within six to nine months after MRTU go-live, and require filing of any amendments with the Commission for approval. (Powerex Comments at 4-5).

⁵ TANC’s comments merely repeat statements made in other proceedings regarding the implementation of MRTU. The CAISO does not believe TANC’s comments are relevant to this proceeding or require a response, and has therefore omitted a detailed description of those comments.

B. Answers to Comments

1. WPTF Comments

a. Limiting Operational Ramp Rate Changes

With respect to CAISO's proposal to limit operational ramp rate changes for Generating Units, WPTF argues that the CAISO should be required to reduce the higher ramp rate when the difference between ramp rates in adjacent operating regions exceeds the proposed ten-to-one limit. (WPTF at 2-3). WPTF claims that the CAISO, by increasing the lower ramp rate instead of lowering the higher ramp rate in order to achieve the targeted ten-to-one ratio, will subject generating units to imbalance energy penalties (when implemented), imbalance energy costs, and potential monetary penalties. (WPTF at 3.)

According to WPTF, the CAISO's proposed solution is even more problematic because the MRTU Tariff reduces the permissible number of operational ramp rate segments from the number (nine) under the current CAISO Tariff to four. It claims that the reduced number of segments will make it more difficult for generating unit owners to represent the true ramping capability of their generating units, and will increase the likelihood of submitting operational ramp rates with adjacent segments that exceed the ratio. WPTF asserts that the CAISO's proposal gives the CAISO the right to unilaterally increase ramp rates beyond what the generator deems appropriate and exposes the generator to costs and penalties for violations of Tariff Section 37.5.1.1 (which requires market participants to submit accurate and factual information to the CAISO). WPTF states that the CAISO should not be allowed to increase the ramp

rate for a generating unit beyond the rate submitted by the Scheduling Coordinators.
(WPTF at 4.)

As a preliminary matter, the CAISO notes that the change from nine to four ramp rates segments was part of the overall MRTU market design, was subject to the stakeholder process and has since long been approved as part of the MRTU Tariff. The CAISO also notes that the ability to submit four segments is more than what other RTOs and ISOs provide in their energy markets. Moreover, this feature is also now fully incorporated in the MRTU software and changing it would not be feasible at this time.

WPTF's assertions regarding such penalties are hypothetical because the CAISO will not be implementing uninstructed deviation penalties at the start of MRTU. The arguments are thus inappropriate for consideration at this time

WPTF's recommendation that the CAISO lower the upper limit of the ramp rate rather than increase the lower limit is also inappropriate because this would severely limit the amount of capacity available to the CAISO. For example, assume a generator submitted a ramp rate from 10 MW to 200 MW. If the CAISO lowered the upper limit to achieve a 10:1 ratio, it would have a maximum of 100 MW available. By raising the lower limit to 20 MW, the CAISO maintains the availability of 200 MW.

WPTF's arguments that this would result in infeasible ramp rates and expose the generator to potential penalties for submitting inaccurate information are misplaced. The generator can avoid any such problem simply by submitting a ramp rate that accurately reflects its feasible operation but provides no more than a 10:1 ratio between adjacent operating regions. On the other hand, if the generator submits

a ramp rate change that violates the magnitude of change permitted under the 10:1 ratio CAISO is required to decreasing the upper limit, the generator has the opportunity to knowingly take actions that could lead to the reduction of available capacity to the market. The CAISO should not be forced to sacrifice available capacity because a generator fails to submit ramp rates in compliance with the tariff limitations or perhaps even knowingly with the result of forcing capacity out of the market. Moreover, all other ISOs and RTOs do not provide such flexibility on ramp rate changes. To avoid the need to address such issues, the CAISO requests that the Commission reject WPTF's proposed approach to ramp rates.

b. Automation of the Commitment Process for ELS Generators

WPTF notes that the proposed addition to CAISO Tariff Section 31.7 (formerly 31.7.10) reads: “[Extremely Long-Start] Resources receiving a commitment instruction are obligated to resubmit the same Bid in the next day’s Day-Ahead Market.”

Contending that the phrase “the same Bid” is ambiguous, WPTF presumes that the CAISO intended to mean “the same Energy and Ancillary Services Bids.” It objects to requiring a scheduling coordinator given an Extremely Long-Start commitment instruction for Day 1 to submit the same energy bid for Day 2. It claims that the requirement marks a distinct departure from previous MRTU Tariff language that established the automated process and will unjustly and unreasonably limit the generator’s ability to recover its fuel costs. (WPTF at 7.)

Furthermore, WPTF posits that the CAISO’s wishes to prevent Extremely Long-Start generators from taking advantage of knowledge that they will be operating because of a previous commitment instruction from the CAISO. WPTF’s counter to

this assumed purpose is to argue that, because Extremely Long-Start generators cannot know what energy they will be dispatched to on Day 2, any attempts to take advantage of the commitment will run the risk of being priced out of competitive markets or simply having their market bids mitigated by the CAISO's local market mitigation. (WPTF at 7-9.) Dismissing this requirement as "unnecessary," WPTF argues that it should be eliminated. (*Id.* at 9.) Alternatively, it argues that the Commission should direct the CAISO to authorize Extremely Long-Start generators to seek recovery of any increases in fuel costs incurred from the requirement to resubmit the same bid. (*Id.*).

WPTF's arguments should be rejected. The manual commitment process for Extremely Long-Start resources that the CAISO is proposing uses the same bid set—the bids submitted two days prior to the Operating Day—that the automated process would have used both for commitment decision (two days prior to the Operating Day) and for the following day's Day-Ahead Market (one day prior to the Operating Day). Requiring the Scheduling Coordinators to resubmit the same bid submitted two days prior to the Operating Day (once the commitment decision made) in the next day's Day-Ahead Market simply reflects the manual implementation of the same process, which considers which resources to commit and schedule based on the bids (Energy Bids and Ancillary Services Bids) received two days prior to the Operating Day. Allowing resources to submit different bids would undermine this process and should not be permitted.

Although Extremely Long-Start Resources may have fuel price risk, these resources have the same fuel cost risks under the manual process that they would

have had under the automated process. Moreover, resources can mitigate this risk by electing the Registered Cost option for their Start-Up and Minimum Load Costs pursuant to CAISO Tariff Section 30.4 and by reflecting the risk in their Energy and Ancillary Services Bids utilized in the Extremely Long-Start process.

Resources that are not committed are, of course, free to submit different bids in the next day's Day-Ahead Market for commitment decisions the next day. Resources that are committed and have the obligation to resubmit the same bid in the next day's Day-Ahead Market are free from that obligation thereafter for as long as the resource remains on.

Finally, the CAISO would like to distinguish the Extremely Long-Start commitment process from use of Exceptional Dispatch of Extremely Long-Start resources. On the one hand, both the automated and manual Extremely Long-Start commitment process are bid based. That means that CAISO only considers resources with submitted Bids, including Resource Adequacy resources whether or not Bids have been submitted on their behalf. These commitments are not Exceptional Dispatches and the resources would not be eligible for any compensation based on proposals currently before the Commission in Docket No. ER08-1178. On the other hand, if the CAISO needs to commit Extremely Long-Start resources that have not submitted a bid and has no obligation to make its capacity available to the CAISO (*i.e.* the resource is not a Resource Adequacy resource or Reliability Must-Run resource and has no Interim Capacity Procurement Mechanism designation) then the commitment would require utilization of the CAISO's Exceptional Dispatch tariff

authority and would be eligible for compensation pursuant to rules developed and accepted by the Commission in Docket No. ER08-1178.

c. Enforcing Forbidden Operating Region Constraints

WPTF states that the CAISO's decision to abandon Forbidden Operating Region functionality in favor of accelerating its multi-state modeling effort is "the best of a set of undesirable choices." (WPTF at 10). WPTF, however, demands that the Commission add urgency and deadlines to the CAISO's Modeling Initiative. At the same time, it urges the Commission to ensure that the CAISO's efforts to implement this initiative do not displace other mandated efforts to balance the MRTU markets.

(Id.)

The CAISO reiterates its commitment to accelerating efforts to develop and implement the modeling functionality as soon as practicable after MRTU "go live." Indeed, that effort is well underway. The CAISO posted an Issue Paper regarding the multi-state modeling process on November 7, 2008. Comments were received in late November. The CAISO is currently considering these comments. It anticipates that the multi-state modeling functionality may be ready for implementation approximately six to nine months after MRTU "go live."

The Commission should not, however, impose arbitrary deadlines on the CAISO's development of this functionality. WPTF itself states that the CAISO's efforts to implement this initiative should not displace other mandated efforts to balance the MRTU markets. Because the amount of resource required to achieve this functionality is as yet unknown, the establishment of deadlines would be a recipe for the type of interference with other efforts that WPTF wishes to avoid.

2. NCPA Comments

NCPA argues that the Commission should only accept the proposed amendments subject to a refund. Furthermore, it claims that the Commission should reconsider whether implementation of the entire MRTU Tariff should be subject to a refund if the changes create greater market disruptions than can currently be predicted. (NCPA at 4.) In particular, it expresses concern about the provisions regarding the enforcement of Forbidden Operating Region constraints and limiting the number and magnitude of operational ramp rate changes for generating units. (*Id.* at 5.)

As an initial matter, the CAISO disputes NCPA's characterization of impact that these changes will have on the MRTU Tariff and Market Participants. There is no definitive evidence that the elimination of the Forbidden Operating Region functionality will increase the use of Exceptional Dispatch. As the CAISO noted in its October 31, 2008 Transmission Letter, the lack of multi-state modeling may be a greater reason for the need to use Exceptional Dispatch to prevent dispatches within Forbidden Operating Regions. Therefore, to assert that the deferral of this functionality with "increase" the use of Exceptional Dispatch is an overstatement.

NCPA's suggestion that the proposed amendment be subject to refund is not realistic. The amendment concerns operational features, not rates. If the Commission were somehow to determine at a later date that these amendments were not just and reasonable, it would be impossible to determine what charges would have been avoided, had the functions not been deferred, and from whom refunds should be collected.

NCPA's suggestion that the entire MRTU proceeding be subject to refund is not only equally infeasible, but totally inappropriate at this stage of the process. The MRTU Tariff received approval from the Commission on September 21, 2006. *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274, at P 1 (2006), *order on reh'g*, 119 FERC ¶ 61,076 (2007); *see also Cal. Indep. Sys. Operator Corp.*, 119 FERC ¶ 61,313 (2007). The consideration of these amendments involves a separate docket from the remainder of the MRTU Tariff. Reconsideration of the entire MRTU Tariff is simply not within the scope of this proceeding

IV. CONCLUSION

For the reasons stated above, the CAISO requests that its October 31, 2008, amendment be approved as filed.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service list in the captioned 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 at Washington, D.C. this 12th day of December, 2008.

/s/ Michael E. Ward

Michael E. Ward