

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

California Independent System Operator Corporation)))	Docket Nos. ER09-556-000, ER08-367-003, and ER06-615-039
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**MOTION FOR LEAVE TO FILE ONE DAY OUT-OF-TIME, ANSWER TO
MOTIONS TO INTERVENE AND COMMENTS, MOTION TO FILE ANSWER,
AND ANSWER TO PROTESTS, OF THE CALIFORNIA INDEPENDENT
SYSTEM OPERATOR CORPORATION**

The California Independent System Operator Corporation (“ISO” or “CAISO”)¹ hereby files a motion to submit the instant filing one day out-of-time. The ISO also hereby submits its answer to the motions to intervene and comments filed in these proceedings in response to the ISO’s January 15, 2009, submittal of clarifying revisions to the CAISO Tariff.² Further, the ISO hereby submits a motion to file an answer and its answer to the protests filed in this proceeding.³

¹ Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the CAISO Tariff (also known as the Market Redesign and Technology Upgrade or MRTU Tariff), and except where otherwise noted, references to section numbers are references to sections of the CAISO Tariff.

² The following entities filed motions to intervene, comments, and/or protests in these proceedings: the California Department of Water Resources State Water Project (“SWP”); City of Santa Clara, California; Imperial Irrigation District; Metropolitan Water District of Southern California; Modesto Irrigation District (“MID”); M-S-R Public Power Agency; Northern California Power Agency; NRG Companies; Pacific Gas and Electric Company; Powerex Corp. (“Powerex”); Sacramento Municipal Utility District (“SMUD”); Southern California Edison Company (“SCE”); Transmission Agency of Northern California; and Turlock Irrigation District.

³ The ISO submits this filing pursuant to Rules 212 and 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. §§ 385.212, 385.213 (2009). The ISO requests waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to permit it to make an answer to the protests. Good cause for this waiver exists here because the answer will aid the Commission in understanding the issues in the proceeding, provide additional information to assist the Commission in the decision-making process, and help to ensure a complete and accurate record in this case. See, e.g., *Entergy Services, Inc.*, 116 FERC ¶ 61,286, at P 6 (2006); *Midwest Independent Transmission*

The ISO does not object to any of the motions to intervene. For the reasons explained below, the Commission should accept the clarifying tariff revisions as submitted by the ISO in these proceedings, subject to the additional tariff modifications proposed herein.

I. Motion for Leave to File One Day Out-of-Time

The ISO respectfully requests that the Commission accept the instant filing one day out-of-time.⁴ Commission acceptance is appropriate because the filing will assist the Commission in its decision-making process and its acceptance will not cause any undue prejudice or delay in this proceeding.⁵ Moreover, the parties' comments in this proceeding were not, by and large, raised in the stakeholder process and this is the first opportunity for the ISO to address them. In this regard, the tariff stakeholder process was successful in addressing a large number of concerns and comments prior to this filing, thereby limiting formal comments only to those incremental issues that parties discovered since the stakeholder process concluded.

System Operator, Inc., 116 FERC ¶ 61,124, at P 11 (2006); *High Island Offshore System, L.L.C.*, 113 FERC ¶ 61,202, at P 8 (2005).

⁴ The ISO makes this request pursuant to 18 C.F.R. § 385.213(d).

⁵ See, e.g., *San Diego Gas & Electric Co., et al.*, 120 FERC ¶ 61,201, at P 9 (2007); *California Independent System Operator Corp.*, 125 FERC ¶ 61,055, at PP 18-19 (2008).

II. Answer⁶

A. Dispatch of Contingency Only Reserves in the Real-Time Market

SWP argues that the ISO's proposed revisions to Section 34.2 give the ISO a new entitlement to deploy Contingency Only Operating Reserves as part of the automated Real-Time Unit Commitment ("RTUC") process.⁷ SWP is incorrect. The tariff revisions simply clarify that the RTUC can be operated in a mode in which Contingency Only resources can be committed; the revisions do not create any new entitlement. The tariff already provided that the ISO could procure Ancillary Services from Contingency Only reserves.⁸ Section 34.2 also already provided that through RTUC the ISO would make commitment decisions regarding Fast Start and Short Start Units, which is the only energy related action RTUC takes. The newly proposed change merely adds additional detail to clarify how the Contingency Only reserves are considered in this process. That is, the ISO will use the Contingency Flag activation to commit such resources through RTUC. This action, however, can only be conducted under a Contingency, an imminent System Emergency, or an actual System Emergency. The proposed changes, therefore, do not alter the conditions under which the ISO can dispatch Contingency Only resources. However, it is important to note that the implication of turning the Contingency Flag on is that the RTUC will at that point no longer be procuring Ancillary Services. Therefore, it is important that the Contingency Flag

⁶ All of the section headings below (other than Section II.M, concerning miscellaneous issues) correspond to the relevant section headings in the transmittal letter for the ISO's tariff clarifications. The discussion in Section II.M concerns proposed tariff changes that were addressed solely in the table provided as Attachment C to the tariff amendment filing.

⁷ SWP at 10.

⁸ See Appendix A to the CAISO Tariff, definitions of Contingency Only and Contingency Flag.

is only turned on in RTUC when there is a Contingency or an imminent or actual System Emergency because it is such circumstances that warrant such treatment of Ancillary Services. In terms of actual dispatch of Energy, this action is somewhat insignificant as the Energy commitment is not binding and is only advisory. The real-time dispatch of Energy from Contingency Only reserves as described in Section 34.8 is actually effectuated through Real-Time Dispatch.

SWP also incorrectly asserts that the revisions to Section 34.2 contrast with the existing provisions of the CAISO Tariff allowing use of Contingency Only Operating Reserves only in the event of an actual Contingency.⁹ SWP further argues that the ISO's reference in its transmittal letter to Section 34.8 does not engender greater clarity, because that section contains incomplete sentences and indicates that economic ISO market failures (*e.g.*, insufficient Economic Bids) may warrant use of Contingency Only Operating Reserves. According to SWP, the Commission should require the ISO to clarify that Contingency Only reserves such as Participating Load will be used only for a genuine physical Contingency, not for economic problems associated with ISO market failures, and that Participating Load may opt out of expanded MRTU use of Contingency Only reserves. Assuming such an opt-out is possible, SWP supports restricting use of Contingency Only Participating Load to an unplanned Outage, a Contingency, or an imminent or actual System Emergency, as the ISO states in the transmittal letter.¹⁰ The CAISO Tariff is already sufficiently clear that the ISO may dispatch Contingency Only reserves only in the event of an occurrence of an

⁹ SWP at 10-11.

¹⁰ *Id.* at 11-13.

unplanned Outage, a Contingency, or an imminent or actual System Emergency. This statement is explicit in Section 34.8. Therefore, the use of the Contingency Flag in RTUC assists in the commitment of resources for dispatch under the same circumstances that they are ultimately dispatched as provided in Section 34.8. In its review of the tariff provisions to respond to SWP's claim, the ISO noted that the definition of Contingency Only reserves is missing the specification of an imminent or actual System Emergency as specified in Section 34.8, and elsewhere in the tariff where the Contingency Only resources are discussed. The ISO proposes to correct the definition of Contingency Only reserves so that it is consistent with the remaining tariff provisions.¹¹ Participating Load is treated no differently from all other resources with respect to a resource that has been designated as Contingency Only. Therefore, the ISO does not believe that any changes – other than aligning the definition of Contingency with the tariff authority to dispatch Contingency Only resources – are appropriate.

B. Dispatch of Ancillary Services

Powerex asserts that the ISO should further modify Section 34.16.3.1 to state that it will dispatch Ancillary Services in accordance with applicable North American Electric Reliability Corporation (“NERC”) and Western Electricity

¹¹ For example, Section 30.5.2.6.2 requires that each Ancillary Services Bid contain “an indication whether the capacity reserved would be available to supply Imbalance Energy only in the event of the occurrence of an unplanned Outage, a Contingency or an imminent or actual System Emergency (Contingency Flag)” (emphasis added). Section 8.5.7 of the ISO's currently effective (*i.e.*, pre-MRTU) tariff contains an essentially identical provision. The new ISO proposes to make the definition of Contingency Only reserves consistent with these sections with the following changes. “A resource providing Operating Reserve capacity that may be Dispatched by the CAISO only in the event of a Contingency or an imminent or actual System Emergency.”

Coordinating Council (“WECC”) reliability requirements.¹² Powerex overlooks the fact that the tariff *already* requires the ISO’s dispatch of Ancillary Services to be consistent with NERC and WECC reliability requirements. For example, Section 8.1 states that the ISO “shall be responsible for ensuring that there are sufficient Ancillary Services available to maintain the reliability of the CAISO Controlled Grid consistent with NERC and WECC reliability standards.” As a result, there is no need to make the change that Powerex requests.

C. Exceptional Dispatch Tariff Provisions

SWP protests the ISO’s proposal to modify Section 34.9.2 to state that the ISO may issue Exceptional Dispatch instructions in order to “reverse the operating mode of a Pumped Storage Hydro Unit.” SWP asserts that the tariff should be further modified to allow Exceptional Dispatch to reverse pump storage operating mode only upon the consent of the pump storage facility’s operator, and the operator should be permitted to decline the Exceptional Dispatch.¹³ The Commission should accept the ISO’s proposed changes and reject SWP’s. The currently effective language in Section 34.9.2 authorizes the ISO to issue Exceptional Dispatch instructions to “resources” generally, without making exceptions for any particular type of resource. Therefore, the ISO’s modification to Section 34.9.2 was recommended by SAIC as a mere tariff a clarification insofar as the ISO is already authorized to issue binding Exceptional Dispatch instructions to all types of resources, including Participating Load (which includes Pumped-Storage Hydro Units). As a result, SWP’s argument that the ISO should

¹² Powerex at 4-5.

¹³ SWP at 2-6.

not be not authorized to issue binding Exceptional Dispatch instructions to Pumped-Storage Hydro Units goes beyond the scope of the instant proceedings.

SWP has explained to the ISO that, unless SWP has a Bid in the market, it does not want to be subject to the obligation to stop pumping pursuant to an Exceptional Dispatch instruction. SWP's concern is the same concern expressed in other dockets, including the Exceptional Dispatch dockets (ER08-1178 and EL08-88) and the parameter tuning docket (ER09-240). In essence, SWP's comments in all these dockets express the desire to be treated as Participating Load (that is, as a Generating Unit, *only* when it has submitted a Bid to curtail demand) and otherwise to be treated as non-Participating Load (regular ISO demand). This is not the premise of the currently effective ISO Tariff or the future MRTU Tariff and would involve modifications to the tariff and Participating Load Agreement beyond the scope of the tariff clarifications presented in this docket. Nevertheless, as noted in the Commission's February 20, 2009 order in the Exceptional Dispatch proceeding, the ISO is engaged in discussions with SWP to resolve issues relating to the role of Participating Load under MRTU.¹⁴ The ISO commits to pursuing these discussions diligently in an effort to resolve, as soon as possible, SWP's concerns about the ISO's exercise of its Exceptional Dispatch authority, though not necessarily prior to MRTU as these issues require stakeholdering and tariff changes.

Finally, SWP is not obligated to comply with an Exceptional Dispatch if complying with such dispatch would cause it to violate any legal requirements

¹⁴ *California Independent System Operator Corp.*, 126 FERC ¶ 61,150, at P 240 (2009).

related to water management.¹⁵ The ISO understands that SWP is also concerned with its obligation to serve the needs of its water contractors, which may or may not fall within the scope of Section 22.13. The ISO respects these obligations and will endeavor to avoid utilizing Exceptional Dispatch of Participating Load when Participating Load has not submitted Bids unless necessary for reliability needs.

D. Bidding Rules

SCE notes that Section 30.5.2.6 states that “[n]o System Resource, including Dynamic Resource-Specific System Resources and Non-Dynamic Resource-Specific System Resources, can be used for self-provision of Ancillary Services.” SCE asserts that the quoted tariff language directly violates Section 8.1, which states that “[t]he CAISO will not accept Submissions to Self-Provide Ancillary Services that are imports to the CAISO Balancing Authority over the Interties with interconnected Balancing Authority Areas, except from Dynamic System Resources certified to provide Ancillary Services or if provided pursuant to ETCs [Existing Transmission Contracts], TORs [Transmission Ownership Rights] or Converted Rights.” SCE further notes that Section 30.5.6.2 states that “Scheduling Coordinators must comply with the Ancillary Services requirements of Section 8.” SCE asks the Commission to require the ISO either to clarify that the reference to Section 8 overrides the stated restriction in Section 30.5.6.2 against Dynamic System Resources providing Ancillary Services, or modify language in Section 30.5.2.6 providing a specific exception for dynamic system

¹⁵ See Section 22.13.

resources.¹⁶ The ISO agrees that Section 30.5.2.6 should be clarified to be consistent with Section 8.1 and Section 8 generally, which recognizes that Dynamic System Resources can self-provide Ancillary Services.

SCE argues that the ISO should clarify the statement in Section 30.5.2.6 that “[s]ubmissions to Self-Provide an Ancillary Service submitted in the Day-Ahead Market must be accompanied by a Self-Schedule,” because, by definition, the quoted statement is not true for Non-Spinning Reserve.¹⁷ The ISO did not propose to modify the statement in its tariff amendment but still, for purposes of providing clarification, the ISO proposes to revise Section 30.5.2.6 on compliance in these proceedings to the extent required to make the following clear. First, a Scheduling Coordinator proposing to self-provide an Ancillary Service must have a Self-Schedule – not necessarily from the resource providing the Ancillary Service – in order to self-provide an Ancillary Service. In other words, the self-provision of an Ancillary Service must be with respect to a particular Self-Schedule. Second, if the Scheduling Coordinator is self-providing Spinning Reserve, then it must have submitted a Self-Schedule for that resource. Third, SCE is correct – at least for Fast Start Units – that a Self-Schedule for that resource is not required; if the resource is not a Fast Start Unit then it would have to be self-scheduled.

SCE asserts that Section 30.5.2.6 defines Maximum Operating Limit or Minimum Operating Limit as required Ancillary Service bid components but the ISO’s Scheduling Infrastructure Business Rules (“SIBR”) software does not allow

¹⁶ SCE at 4.

¹⁷ *Id.* at 4-5.

these items to be included within bids. Similarly, SCE asserts that Section 30.5.2.6.1 defines the Scheduling Point, interchange ID, Balancing Authority ID, and NERC tag number as requiring Ancillary Service bid components for Dynamic System Resources, but the SIBR software does not allow these requirements to be included within bids. SCE requests that the stated requirements be deleted from Sections 30.5.2.6 and 30.5.2.6.1.¹⁸ The ISO did not propose revisions to the requirements in its tariff amendment but nevertheless, on compliance, proposes to delete the requirement because SCE correctly notes that the SIBR software does not permit or require these items to be included within Bids. Rather than Bid parameters, these parameters are reflected in the Master File and SIBR validates Bids submitted against the Master File information. These clarifications are consistent with the purpose of other tariff clarifications proposed in this proceeding and should be made to align tariff and software requirements.

SCE also notes that the ISO proposes to add to Section 30.5.2.6.1 a provision stating that “[a] Regulation Down bid will be erased unless there is an Energy Bid or Self-Schedule at a level that would permit the resource to provide Regulation Down to its lower regulation limit.” SCE requests that the ISO provide an exemption from the quoted provision for Use-Limited Resources or clarify that all resources do not have an implied obligation to bid Regulation Down to their lower regulation limits.¹⁹ In order to resolve this issue, the ISO proposes to further modify the section on compliance to state that the resource’s Energy Bid

¹⁸ *Id.* at 5.

¹⁹ *Id.*

or Self-Schedule must allow for the resource to provide Regulation Down service consistent with the capacity offered in the resource's Regulation Down Bid which may or may not reflect the resource's certified Regulation Down capacity.

SCE notes that Sections 30.7.3.1, 30.7.6.1, and 40.6.8 describe bid validation and actions the ISO will take under certain scenarios but do not mention of how Use-Limited Resources will be treated. SCE states that its understanding is that the ISO will not insert or extend energy or Ancillary Service bids on Use-Limited Resources. SCE suggests that the ISO should be required to reference Sections 40.6.4.3.1 (Non-Hydro and Dispatchable Use-Limited Resources) and 40.6.4.3.2 (Hydro and Non-Dispatchable Use-Limited Resources) each time that ISO modifications to bids are discussed.²⁰ In order to resolve this issue, the ISO proposes on compliance to modify the tariff to state that the bidding rules under these sections that are applicable only to Resource Adequacy Resources that are note Use-Limited Resource Adequacy Resources.

E. Accounting for Unscheduled Flow in the Real-Time Market

MID argues that, although the ISO states that Section 33.2 already accounts for unscheduled flow in the Hour-Ahead Scheduling Process ("HASP"), MID is unclear on whether estimates of unscheduled flow at the interties will be made in the Day-Ahead Market. MID requests clarification on this issue.²¹ To the extent that MID is suggesting that the Commission should require the ISO to account for unscheduled flow in the Day-Ahead Market as it will do in the HASP and the Real-Time Market ("RTM"), MID's suggestion is outside the scope of

²⁰ *Id.* at 5-6.

²¹ MID at 6-7.

these proceedings. The ISO acknowledges that accounting for unscheduled flow at the interties at MRTU start-up will be limited to the HASP and the Real-Time Market, but the tariff clarifications proposed in these proceedings were not intended to expand that accounting in any way. The ISO has not proposed to account for estimates of unscheduled flow at the interties in the Day-Ahead Market because it has not yet developed an accurate methodology for doing so, due to the limited data it has available regarding external, unscheduled flows. The ISO discussed this limitation in the Integrated Balancing Authority Area (“IBAA”) proceeding in Docket No. ER08-1113, and the Commission found that, based on the data limitations, the different methodology submitted in the IBAA proceeding is a just and reasonable approach to modeling and pricing flows at highly integrated interties.²² The ISO plans to develop a methodology that will allow it to more effectively model unscheduled flow at the interties in the Day-Ahead Market and, after a stakeholder process, the ISO will make any necessary filings to implement such a change. However, the ISO is not prepared to do so at this time.

SMUD argues that Section 3.1.9 of the Business Practice Manual (“BPM”) for Market Operations and Section 4.2.4.3 of the BPM for the Full Network Model, which the ISO cited in its transmittal letter as documenting the method of accounting for unscheduled flow, appear to address unscheduled flow solutions for New Participating TOs but it is not clear whether they are intended to apply otherwise. SMUD asserts that the term “compensating injections” should be

²² *California Independent System Operator Corp.*, 124 FERC ¶ 61,271, at PP 148-49 (2008).

more clearly defined in the BPMs and the tariff, and expresses hope that its discussions with the ISO to discuss compensating injections concepts further will resolve SMUD's concerns.²³ The ISO clarifies that the unscheduled flow methodology it cited in the BPMs applies to all the interties and not only the New Participating TO model. The ISO also notes that SMUD has previously made similar requests for clarification in the proceeding on the ISO's parameter tuning filing in Docket No. ER09-240, on which the Commission has recently ruled.²⁴ The ISO has found recent discussions with SMUD to be helpful in understanding SMUD's concerns. Given that the ISO does not intend to make any changes to the compensating injections methodology in either the parameter tuning proceeding or the instant proceedings, the ISO is hopeful that continued dialogue between the neighboring Balancing Authorities (including SMUD) can yield improved methodologies for managing congestion associated with unscheduled flow. At this time, the ISO proposes to continue with its current method for compensating injections in the HASP and the Real-Time Market. If it becomes necessary to make further tariff changes to address this matter, the ISO will conduct an appropriate stakeholder process and will submit the changes for Commission approval.

F. Voltage Support and Black Start

MID argues that the ISO's proposes to revise the Black Start cost allocation in Section 11.10.8 to include "Measured Demand," contrary to other

²³ SMUD at 2-3.

²⁴ See *California Independent System Operator Corp.*, 126 FERC ¶ 61,147, at PP 68-70 (2009).

ISO statements.²⁵ The ISO agrees that, in order to adapt the pre-existing and currently effective ISO Tariff policy that Black Start costs are not allocated to exports, the second sentence in Section 11.10.8 also needs to expressly exclude “exports to neighboring Balancing Authority Areas.” The ISO commits to make this change on compliance.

G. Constrained Output Generators

SCE questions why a Scheduling Coordinator must make its election of Constrained Output Generator (“COG”) status before each calendar year under the ISO’s revisions to Section 27.7.1. SCE proposes that any time a Master File change to PMin or PMax results in the conditions outlined in Section 27.7.1, the ISO must deem the Scheduling Coordinator’s resources to be COGs.²⁶ The Commission should reject SCE’s proposed change. The ISO’s policy on COGs – as reflected in filed and accepted tariff language – always required an annual election by resources eligible to participate as a COG.²⁷ In addition, as explained in the ISO’s transmittal letter (at 13), the MRTU software requires that COG-eligible resources be registered in the Master File as having a small amount of capacity above PMin (0.01 MW) in order to permit the MRTU software to utilize Calculated Energy Bids. Accordingly, a COG eligible resource must have this value in place for the entire year since it is an annual election. A COG eligible resource that does not elect COG status can, of course, change its Master File information during the year as necessary to reflect actual operating constraints.

²⁵ MID at 7-8.

²⁶ SCE at 3-4.

²⁷ SCE does not appear to understand that COG status is optional; optional, that is, unless a resource actually has zero capacity between PMin and PMax.

SCE asserts that the Commission should direct the ISO to clarify whether, for MRTU market start, Market Participants must have made this designation prior to January 1, 2009, or whether there is an exception for the market start year.²⁸ No tariff clarification in this regard is necessary. The ISO issued a Market Notice on January 13, 2009 indicating that the Master File freeze would be implemented as of February 27, 2009. COG-eligible resources must elect COG status by this date through submission of a Master File change indicating that the resource's PMax-PMin is equal to 0.01. COGs with zero capacity between PMax-PMin can only participate as COGs.

H. Ramping Issues

SCE argues that the Commission should require the ISO to further revise Tariff Sections 34.5 and 34.15.1 to state that the ISO dispatch software will observe the lower of the Regulation Ramp Rate or the Operational Ramp Rate, not one or the other.²⁹ The ISO does not believe that any tariff changes are required. The ISO will observe the Operational Ramp Rate subject to the resource's Regulation Ramp Rate limits. If a Scheduling Coordinator believes that it is necessary to reflect a lower Operational Ramp Rate, it can alter its Operational Ramp Rate through a SLIC ticket.

I. Inter-Scheduling Coordinator Trades

SCE asserts that the new text in Section 28.1.6.3 should read "Day-Ahead Schedule or HASP Advisory Schedule," as is the case in Section 28.1.6.³⁰ The ISO agrees to make this clarification on compliance. SWP argues that the tariff

²⁸ SCE at 4.

²⁹ *Id.* at 6.

³⁰ *Id.* at 4.

amendment inexplicably treats nodally priced Participating Loads differently from generation in terms of location for Inter-Scheduling Coordinator Trades. SWP contends that the ISO should be required either to justify the basis in revised Section 28.1.2 for denying Participating Loads the same ability as generators to use their nodes or Customer Load Aggregation Point for Inter-Scheduling Coordinator Trades, or else eliminate the different treatment for Participating Loads.³¹ This SWP issue goes beyond the scope of the clarifications the ISO proposed in the tariff amendment. The clarifications fully accord with existing tariff policies and reflect the permitted locations for Inter-Scheduling Coordinator Trades that were litigated years ago in the seller's choice proceeding (Docket No. EL04-108). Pursuant to the Commission's directives in that proceeding, the locations under Section 28.1.2 that can be used for Inter-Scheduling Coordinator Trades are limited to individual Pricing Nodes ("PNodes") of Generating Units and Aggregated PNodes. CDWR, of which SWP is a part – was itself the main proponent in the seller's choice proceeding of the rule limiting the locations for Inter-Scheduling Coordinator Trades in this manner. SWP provides no reason why this long-standing rule should be overturned in the instant proceedings. Nevertheless, the ISO is will to add this issue to the general discussion of potential tariff and Participating Load Agreement changes as noted above.

J. Clarification to Settlement Language to Ensure Revenue Neutrality Related to Congestion Revenue

With regard to the ISO's proposed clarifications of Section 11.2.4.4.1, MID requests that the ISO explain whether Congestion costs are included in the

³¹ SWP at 7.

Congestion Revenue Right (“CRR”) Balancing Account in order to have amounts to credit against. MID argues that if there are not amounts to credit against, the workability of the CRR Balancing Account is called into question.³² To the extent that MID questions the workability of the CRR Balancing Account, MID raises an issue that is beyond the scope of these proceedings. The purpose of the CRR Balancing Account is simply to collect the revenue associated with Congestion payments in the integrated forward market under the ISO’s Locational Marginal Pricing (“LMP”) paradigm and to distribute that revenue to CRR Holders, in a manner that smoothes out potential hourly congestion revenue surpluses or shortfalls over the course of each month. The ISO’s proposed clarifications do not in any way change the function or the viability of the CRR Balancing Account. The clarifications are only made for accuracy consistent with the fundamental elements of the CRR Balancing Account already contained in the tariff. The CRR Balancing Account accounts for all Congestion revenue received under the LMP paradigm in the Integrated Forward Market.³³ A fundamental principle of the ISO’s LMP market is that existing rights under Existing Contracts, Converted Rights, and Transmission Ownership Rights will receive a Congestion credit for the valid and balanced portions of their respective Self-Schedules.³⁴ That credit is also funded from the Congestion revenue collected under the LMP. In order to account for the distribution of the Congestion credit to holders of such rights for their integrated forward market self-schedules, the ISO must net the associated

³² MID at 7.

³³ Note that excess congestion revenue in the Real-Time is distributed through the Real-Time Congestion Offset as described in Section 11.5.4.2.

³⁴ See Section 11.2.1.5. Converted Rights will only receive this credit in the Day-Ahead Market.

Congestion revenue out of the CRR Balancing Account. Moreover, because these existing right self-schedules, as a result of the Congestion credit, do not pay congestion revenues into the CRR Balancing Account, likewise they should not be included as recipients in the distribution of the end-of-month balance in the CRR Balancing Account. The existing language in Section 11.2.4.4.1 already provided for the treatment just described, but with insufficient accuracy. In particular, prior to the ISO's submission of the clarifications in this proceeding, Section 11.2.4.4.1(c) did not specify how the amounts to be distributed relate to the net amounts of Congestion credits. The Commission should accept the clarifications as they do not materially change the function, the intent or the viability of the CRR Balancing Account, and they do ensure that the tariff specifies all of the essential features of that account.

SCE asserts that the revised language in Section 11.5.4.2 on the summing of IIE, UIE, and UFE for the purposes of determining any non-zero amounts that need to be allocated to Market Participants should be further modified to state that the pro rata shares of Measured Demand to be used in the allocation exclude valid, balanced, self-scheduled ETCs.³⁵ The Commission should reject SCE's proposal. The language in Section 11.5.4.2 to which SCE refers has to do with the general neutrality allocation, and there is no basis for SCE's proposed exemption of Measured Demand associated with ETCs. After further reviewing Section 11.5.4.2, however, the ISO believes that, over and above the changes the ISO proposes in the tariff amendment, additional changes are appropriate in order to net out the Real-Time Marginal Cost of Losses Offset,

³⁵ SCE at 3.

and to correct a typographical error. These further proposed changes to Section 11.5.4.2 are shown in underlined and struck-through text in the following:

The ISO will first compute (1) the Real-Time Congestion Offset and allocate it to all Scheduling Coordinators, based on Measured Demand, excluding Demand associated with ETC or TOR Self-Schedules for which a HASP and RTM Congestion Credit was provided as specified in Section 11.5.7, and excluding Demand associated with ETC, Converted Right, or TOR Self-Schedules for which an IFM Congestion Credit was provided as specified in Section 11.2.1.5; and (2) the Real-Time Marginal Cost of Losses Offset and allocate it to all Scheduling Coordinators based on Measured Demand, excluding Demand associated with TOR Self-Schedules for which a RTM Marginal Cost of Losses Credit for Eligible TOR Self-Schedules was provided as specified in Section 11.5.7.2, and excluding Demand associated with ~~ETC, Converted Right or~~ TOR Self-Schedules for which an IFM Marginal Cost of Losses Credit for Eligible TOR Self-Schedules was provided as specified in Section 11.2.1.7. For Scheduling Coordinators for MSS Operators regardless of whether the MSS Operator has elected gross or net Settlement, the CAISO will allocate the Real-Time Congestion Offset based on the MSS Aggregation Net Non-ETC/TOR Measured Demand. To the extent that the sum of the Settlement amounts for IIE, UIE, UFE and the Real-Time Ancillary Services Congestion revenues, less Real-Time Congestion Offset, and less the Real-Time Marginal Cost of Losses Offset, does not equal zero, the CAISO will assess charges or make payments for the resulting differences to all Scheduling Coordinators, including Scheduling Coordinators for MSS Operators that are not Load following MSSs and have elected gross Settlement, based on a pro rata share of their Measured Demand for the relevant Settlement Interval. For Scheduling Coordinators for MSS Operators that have elected Load following or net Settlement, or both, the CAISO will assess charges or make payments for the resulting non-zero differences of the sum of the Settlement amounts for IIE, UIE, and UFE and the Real-Time Ancillary Services Congestion Revenues, less Real-Time Congestion Offset and less the Real-Time Marginal Cost of Losses Offset, based on their MSS Aggregation Net Measured Demand.

The ISO additional review also reveals that the definitions of the terms Real-Time Congestion Offset and Real-Time Marginal Cost of Losses Offset require additional clarification. The definition of Real-Time Congestion Offset should be

revised to read as follows: “A component of neutrality adjustments as provided in Section 11.5.4.2 to account for the distribution of excess Real-Time Congestion revenue and for the non-assessment of the Marginal Cost of Congestion to Measured Demand for ETCs and TOR Self-Schedules in the Real-Time as provided in 11.5.7.” The definition of Real-Time Marginal Cost of Losses Offset should be revised as follows: “A component of the neutrality adjustments as provided in Section 11.5.4.2 to account for the distribution of excess Real-Time Marginal Cost of Losses and the non-assessment of Marginal Cost of Losses charges to Measured Demand for TOR Self-Schedules eligible for the RTM Marginal Cost of Losses Credit for Eligible TOR Self-Schedules as provided in Section 11.5.7.2.” Upon Commission approval of these proposed changes, the ISO would file them on compliance.

K. Elimination of the Requirement to Electronically Tag RUC Capacity

SCE asserts that the ISO’s statement that RUC capacity cannot be e-Tagged is incorrect and that documents on the ISO’s website indicate that the ISO can and does e-Tag capacity in today’s market. SCE requests that the ISO either provide further clarification as to why this becomes impossible under MRTU or keep the current e-Tagging requirements in the tariff.³⁶ Although the ISO understands SCE’s concern about the use of a RUC capacity tag to attempt to validate a Market Participant’s ability to deliver RUC capacity if awarded by ISO markets, SCE is incorrect in suggesting that the WECC Business Practices permit Scheduling Coordinators to e-Tag RUC capacity. While it is true that

³⁶ *Id.* at 2.

under the WECC rules Scheduling Coordinators e-Tag capacity and the ISO does require e-Tagging of capacity, that capability expressly applies only to on-demand spinning and non-spinning operating reserves.³⁷ By contrast, the WECC Business Practices provide no ability to e-Tag capacity as RUC capacity. Therefore, if the ISO were to require Market participants to e-Tag RUC capacity, there would be no “capacity” tag that could be applied under the WECC Business Practices.

The documents on the ISO website which SCE claims demonstrate that the ISO currently e-Tags capacity in today’s market address the tagging of Operating Reserves and/or Energy, not RUC capacity. The ISO had initially issued documents advising parties of the need to tag their RUC capacity consistent with the requirements of Sections 8.10.8.1 and 31.5.7.1, both of which sections the ISO proposes to modify in its tariff amendment. The ISO believes that maintaining those tariff requirements would unnecessarily create complications because of the lack of an unambiguous e-tagging obligation for RUC capacity across the interconnected Balancing Authority Areas. SCE has not demonstrated how it would be possible to maintain a requirement to tag RUC capacity under the WECC Business Practices.

The ISO does continue to believe that RUC capacity from System Resources that is found to be undispachable should have its RUC Availability Payment rescinded. However, the practice of basing that undispachability on

³⁷ Specifically, Requirement WR1.1 under WECC Business Practice INT-BPS-009-1 states that “Capacity e-tags shall only be used for On-Demand spinning and non-spinning Obligations/Resources.” See http://www.wecc.biz/documents/library/Standards/BPs/INT-BPS-009-1_02-05-08.pdf.

the lack of an e-Tag for the associated capacity will not be possible for RUC capacity as it is possible for Ancillary Services capacity. Also, RUC Capacity does not need to have transmission capacity reserved and as a result a tag for the capacity is not necessary for participation in RUC. This became apparent to the ISO as it worked towards implementing the requirement and the ISO has not found, nor have stakeholders offered, a viable alternative at this time. Therefore, as proposed in the tariff amendment, the ISO is constrained to eliminate the requirement. Should alternative methods for determining whether a System Resource is undispachable be found to be appropriate in the future, the ISO will file for approval of any appropriate amendments to its tariff to implement such methods.

In considering the impact of eliminating the RUC capacity e-Tagging requirement from the tariff, it is important to consider that only a limited subset of System Resources are eligible to participate in RUC. In order to participate in RUC, a System Resource has to be either a Resource Adequacy Resource or a Dynamic System Resource. Non-Dynamic System Resources that are not Resource Adequacy Resources are not eligible for RUC participation.³⁸ Moreover, Resource Adequacy Resources are not eligible for the RUC Availability Payment in any event. This eligibility requirement means that the RUC Availability Payment is only possible for RUC capacity procured from dynamically scheduled System Resources that are not Resource Adequacy Resources. This in turn means that there is a very limited amount of RUC

³⁸ See Section 31.5.1.1 (specifying that “Capacity from Non-Dynamic System Resources that has not been designated Resource Adequacy Capacity is not eligible to participate in RUC.”).

capacity from System Resources that might retain their RUC Availability Payments even if they are not dispatchable. It is also important to consider that once RUC Capacity is converted into energy in the Real-Time, a tag will be necessary for that energy. The ISO also notes that the rescission requirements in Section 31.5.7.2 will still continue to apply to RUC capacity, which means that the RUC Availability Payment will be rescinded to the extent that the dispatched energy associated with the RUC capacity is undeliverable in the Real-Time.

L. Posting Requirements

MID contends that the ISO's proposal to modify Section 6.5.4.2.2 to delete the requirement to post total HASP Advisory Schedules and Ancillary Services awards by Scheduling Point will leave Market Participants, other Balancing Authorities, and Load Serving Entities ("LSEs") without the ability to see and adjust for Congestion after the Day-Ahead Market, and could lead to operational problems. MID requests that the Commission direct the ISO to retain this posting requirement.³⁹ The Commission should accept the tariff modification proposed by the ISO. As explained in its transmittal letter in these proceedings (at 17), the ISO proposed the modifications to Section 6.5.4.2.2 consistent with its request for approval of tariff changes in Docket No. ER09-213 to defer its ability to procure Ancillary Services at the interties in the HASP. The Commission recently approved that ISO request in Docket No. ER09-213,⁴⁰ which means that information regarding total HASP Advisory Schedules and Ancillary Services awards by Scheduling Point will be nonexistent at MRTU start-up and therefore

³⁹ MID at 9.

⁴⁰ See *California Independent System Operator Corp.*, 126 FERC ¶ 61,081, at P 58 (2009).

does not need to be referenced in Section 6.5.4.2.2. The HASP Advisory Schedules are non-binding schedules for internal resources, which are dispatched in the Real-Time Market rather than in the HASP. It is not evident that the absence of such information regarding internal resources could have any impact on other Balancing Authorities or could lead to operational problems. The ISO notes that it is not proposing to revise the tariff to alter its obligation to post on its Open Access Same-Time Information System (“OASIS”) the binding schedules at the interties, which will provide more information to its neighboring Balancing Authorities than those Balancing Authorities provide to ISO Market Participants.

Powerex argues that the Commission should direct the ISO to modify Section 6.5.3.2.2 to state that it will publish gross Total Day-Ahead Schedules for both imports and exports by Transmission Interface, not just the net import or export schedules as the ISO proposes. Similarly, Powerex argues that the ISO should revise Section 6.5.4.2.2 to state that it will post information on gross schedules for imports and exports by Transmission Interface for the HASP.⁴¹ The Commission should reject Powerex’s proposals. The ISO’s tariff clarification filing was not intended to make any changes that would require the expansion of MRTU functionality. That functionality would need to be expanded in order to accommodate what Powerex proposes, because the MRTU systems have long been designed to post net amounts only.⁴² With MRTU expected to be implemented on March 31, 2009, it would not possible to change the software

⁴¹ Powerex at 6-7.

⁴² MRTU market simulation may make more evident to Powerex that the posting of import and export schedules will be on a net rather than a gross basis,

specifications prior to MRTU start-up in order to produce the gross data. Even if it were possible to change the software specifications within the next six weeks, it would also be unnecessary. The main purpose of posting information pursuant to Sections 6.5.3.2.2 and 6.5.4.2.2 is to inform Market Participants about the Available Transmission Capacity with every market clearing. The posting of net amounts satisfies that goal and suffices for MRTU start-up. Any additional information requested by Market Participants will have to be considered for after start-up, when the ISO will have more time to consider software scope enhancements based on the value that such enhancements will provide the market as a whole.

M. Miscellaneous Issues

MID asserts that the ISO's tariff amendment should not be understood to imply that the ISO has fulfilled all of its obligations to adjust the tariff and software to address ongoing questions and concerns about MRTU. In this regard, MID states that within approximately six months after MRTU start-up, the ISO plans to address the issue that, under MRTU as it will go into effect on March 31, ETC schedules submitted in the Day-Ahead Market will have to be resubmitted in the HASP or else those schedules will lose the characteristics and protections of ETCs.⁴³ The ISO agrees that its tariff amendment in these proceedings is not intended to be a substitute for any other tariff or software adjustments. As explained in the MRTU readiness certification filing the ISO submitted in Docket No. ER06-615-038 on January 16, 2009, the ISO will make any such

⁴³ MID at 6.

adjustments as needed and they are not expected to affect the ISO's readiness to implement MRTU on March 31.

The ISO recently issued a notice that reminded participants that if they do not fully participate with the bidding rules there may be settlements consequences, and believes that this is the issue that MID is specifically raising. The bidding rules are more fully reflected in the BPM for Market Instruments, which are the bidding rules the market notice was refers. The market notice provided clarification for ETC and TOR Self-Schedules requires participants to submit an ETC or TOR Self-Schedule in the Real-Time Market for the Day-Ahead Market cleared ETC or TOR Self-Schedule in order to maintain the scheduling priority in the Real-Time market for the cleared Day-Ahead Market schedule and the perfect hedge treatment.⁴⁴ The protection with regards to scheduling priority of the ETC or TOR Self-Schedule in the Day-Ahead Market is already honored once the schedule is cleared. At this time the ISO believes it is possible to perhaps provide a technical alternative to this issue after MRTU go-live, but it cannot commit to the timeline MID specifies as it has not yet evaluated potential solutions. Until the ISO finds a software solution that does not require the submission of the self-schedule in the Real-Time, the ISO does not object to the inclusion of this rule in the tariff as this would satisfy MID's expressed concern. The ISO will include this detail on compliance if so ordered by the Commission.

SCE asserts that, in the ISO's proposed clarifications of the equation for extended self-commitment intervals in Section 11.8.1.2, a new variable

⁴⁴ <http://www.caiso.com/2338/2338ac0842610ex.html>.

(designated as “t”) was introduced but not explained anywhere in the section. SCE requests that the Commission should require the ISO to define t.⁴⁵ The ISO notes, as a review of the black-lined tariff changes to Section 11.8.1.2 indicates, the variable t was part of the preexisting tariff language, not a new addition. Nevertheless, the ISO now clarifies that in Section 11.8.1.2 the variable t indicates the time interval between the Real-Time Commitment Period and the Integrated Forward Market (“IFM”) or Residual Unit Commitment (“RUC”) Commitment Period as discussed in the section. As described therein, if a resource self-commits at a given hour (designated as the variable “h”), that Self-Commitment Period will be extended to the Commitment Interval $h + \text{Minimum Up Time}$ as a result of the tariff rule that the Real-Time Self-Commitment Period may not be less than the Minimum Up Time when considered jointly with an adjacent IFM Self-Commitment Period. The Commitment Period will be extended by the Commitment Interval h plus the Minimum Up Time unless there is a time interval due to an IFM or RUC Commitment Period before then, which is represented by the variable t.

SCE states that, with regard to Section 11.8.6.4(ii), in the second tier of the allocation of Net IFM Bid Cost Uplift, the valid, balanced, self-scheduled ETCs should be excluded from this uplift charge because the ETCs do not contribute to this cost. SCE asserts that the same should be done with regard to Section 11.8.6.6, in the allocation of Net RTM Bid Cost Uplift.⁴⁶ The ISO agrees that the specified uplift allocations in Sections 11.8.6.4 (ii) and 11.8.6.6 exclude

⁴⁵ SCE at 3.

⁴⁶ *Id.*

Measured Demand for cleared valid and balanced TOR Self-Schedules. This is confirmed both by the Charge Codes 6637 for the second tier of the allocation of Net IFM Bid Cost Uplift,⁴⁷ and 6678 for the allocation of Net RTM Bid Cost Uplift,⁴⁸ and by Section 17.3.3(3) of the Tariff, which states that valid TOR Self-Schedules are exempt from Minimum Load Costs. However, contrary to SCE's assertion, no such exclusion applies to Measured Demand associated with ETC Self-Schedules. While the ISO could further clarify in Section 11.8.6.4 (ii) and 11.8.6.6 exclude Measured Demand associated with valid and balanced TOR Self-Schedules, this is already specified in the tariff that the exemptions stated in Section 17.3.3, which affects other charges and payments as well. The ISO has previously decided to include the TOR exemptions in this specific location as opposed to specifying in each charge type whether or not the TOR Self-Scheduled demand is exempt.

SWP states that the ISO's tariff amendment contains numerous substantive changes to provisions concerning Pumps and Participating Load in Sections 11.8.2.1.3, 11.8.2.1.4, 11.8.3.1.2, 11.8.4.1.3, 11.8.4.1.4, 30.5.2.3, and 34.9.2, without any explanation in the transmittal letter. SWP requests that approval of the provisions be conditioned on their consistency with actual use of pumps and pump storage facilities and on their potential modification as a result of the outcome of the demand response stakeholder process.⁴⁹ There is no need for the Commission to condition approval of the provisions that SWP lists on their consistency with actual use of pumps and pump storage facilities, because the

⁴⁷ See <http://www.caiso.com/1b6a/1b6aa121652210.doc>.

⁴⁸ See <http://www.caiso.com/1b6a/1b6aa11f65228.doc>.

⁴⁹ SWP at 7.

ISO will not employ the provisions in a way that runs contrary to the actual use of such facilities. The ISO will provide sufficient assurance on this subject in the discussions it will have with SWP as described in Section II.C, above. Further, SWP fails to recognize that these are mere clarifying provisions that, although not discussed in the ISO's transmittal letter, *are* all addressed in the table provided as Attachment C to the tariff amendment. The changes to Sections 11.8.2.1.3, 11.8.2.1.4, 11.8.3.1.2, 11.8.4.1.3, and 11.8.4.1.4 were prompted by the SAIC, which noted that the descriptions in these sections as they pertained to pumps was not sufficient. The ISO has for many years now engaged in numerous discussions with SWP to discuss in significant detail the application of the principles already contained in these sections to pumps. These should pose no surprises to SWP and are a mere reiteration of the same principles for each of these cost components for generation resources as they apply to pumps. With respect to Section 30.5.2.3, SWP's comments are especially inappropriate as the changes there were merely changes to ensure consistent use of terminology. As noted above, SAIC recommended this clarification to Section 34.9.2 as consistent with existing tariff policies, but it can be addressed in ongoing discussions and stakeholder processes that could result in tariff amendments or modifications to the Participating Load Agreement to develop more nuanced treatment of Participating Load and to reflect any modifications that may be applicable as a result of the Demand Response stakeholder process and ensuing tariff amendments.

SWP argues that the ISO should further modify the definition of the term Energy Limit to include Participating Load and Use-Limited Resources, in order to afford non-discriminatory treatment to all resources.⁵⁰ It is not at all evident to the ISO what further changes are proposed by SWP. Changes are already being proposed to the definition for Participating Load for Pumped-Storage Hydro Units and other Participating Loads do not have Energy limits associated with them. In addition, the term already applies to Use-Limited Resources that are Generating Units and therefore no other specifications are necessary.

⁵⁰ *Id.* at 8.

III. Conclusion

For the reasons explained herein, the Commission should accept the clarifying tariff revisions as submitted by the ISO in these proceedings, subject to the additional tariff modifications described above.

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Dated: February 23, 2009

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing documents upon all of the parties listed on the official service list for the above-referenced proceedings, 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 23rd day of February, 2009.

/s/ Bradley R. Miliauskas
Bradley R. Miliauskas