

Although an answer is permitted in response to comments, the CAISO recognizes that, unless authorized by the Commission, the Commission's Rules of Practice and Procedures precludes an answer to protests. However, the Commission has accepted answers that are otherwise prohibited if such answers clarify the issues in dispute, *Southwest Power Pool, Inc.*, 89 FERC ¶¶61,284 at 61,888 (2000); *Eagan Hub Partners, L.P.*, 73 FERC ¶¶ 61,334 at 61,929 (1995), or assist the Commission, *El Paso Electric Co.*, 72 FERC ¶¶ 61,292 at 62,256 (1995). The CAISO submits that this answer does both, and therefore respectfully requests that, to the extent that this pleading involves answers to protests, the Commission accept this answer.

The CAISO also recognizes that, under the Commission's Rules, answers are generally submitted within fifteen days after the filing being addressed. The comments and protests on the November 20 Compliance Filing raise a wide range of issues and questions which required sufficient time for review and consideration by CAISO staff. In addition, due to an extension granted by the Commission, these comments and protests were filed immediately before the Christmas and New Years' holidays. In the December 4 motion requesting this extension, the Indicated Parties stated that they did not object to the CAISO being permitted to respond to comments on the November 20 Compliance Filing by January 15, 2006. The CAISO therefore requests that the Commission accept the answer as timely because the additional time taken to prepare this answer will result in a better record on the November 20 Compliance Filing and

("SDG&E"); Southern California Edison Company ("SCE"); the Western Area Power Administration ("WAPA"); and Williams Power Company ("Williams").

no party will be harmed by permitting the CAISO sufficient time to prepare this answer.

For the reasons explained below, the Commission should reject comments seeking substantial alterations to the November 20 Compliance Filing and accept the modifications to the MRTU Tariff as proposed in the November 20 Compliance Filing, with only those clarifications and revisions the CAISO commits to make in the instant filing.

I. BACKGROUND

The CAISO's market redesign efforts can be traced back to a series of Commission orders, commencing in the year 2000, directing the CAISO first to overhaul its approach to managing transmission congestion and then to engage in a more comprehensive redesign of its market structure, including the creation of a Day-Ahead Energy market to replace the defunct markets of the California Power Exchange. Based on those directives, the CAISO developed a series of conceptual market design proposals that were filed for Commission review. Since 2002, the Commission has issued a series of orders on those conceptual filings that provided direction on the further development of the Market Redesign and Technology Upgrade ("MRTU") market design. These orders shaped the development of the MRTU Tariff.

The culmination of over three years of stakeholder development efforts was realized on February 9, 2006, when the CAISO filed with the Commission its complete MRTU Tariff proposal ("MRTU Tariff Filing"). This filing consisted of all

of the proposed modifications to the CAISO Tariff reflecting the numerous changes to the CAISO's market structure included in the MRTU initiative, as well as hundreds of pages of testimony from numerous witnesses explaining these changes, and a comprehensive transmittal letter and attachments describing the changes and the MRTU process in detail.

On September 21, 2006, the Commission accepted for filing the MRTU Tariff to become effective on the proposed effective date of November 1, 2007,³ subject to a number of modifications, as detailed in the September 21 Order. In addition to tariff changes, the Commission also directed the CAISO to take various other actions, including providing additional details concerning several of its proposals, filing with the Commission status reports on specific issues, and making certain information available to Market Participants. The Commission provided several timeframes for the CAISO to comply with these various requirements. The November 21 Compliance Filing represented the first of the compliance filings directed by the Commission, consisting of the items that the Commission required the CAISO to file within 60 days of the date of the September 21 Order. On December 8, 2006, the Commission granted a motion for extension of time to file comments and protests on the November 20 Compliance Filing, setting the date such filings as December 22, 2006.

³ As the CAISO has previously informed the Commission, on December 19, 2006, the CAISO Board of Governors approved a revision to the scope, schedule and budget of MRTU, modifying the implementation date for Release 1 of MRTU from November 2007 to January 31, 2008 (for Trading Day February 1, 2008).

II. ANSWER

A. Full Network Model Issues

Consistent with the Commission's September 21 Order, the CAISO's compliance filing in this matter amended two MRTU Tariff sections related to the Full Network Model ("FNM").⁴ The CAISO added MRTU Tariff Section 27.5.4 to describe the process the CAISO will follow in incorporating into the FNM information received, pursuant to Section 24 for transmission expansion and Section 25 for generation interconnection, to account for changes to the CAISO Controlled Grid and other facilities located within the CAISO Control Area. Limited comments were submitted in response to this new Section. Those that were filed seek greater detail on the specifics of the CAISO's intended process for incorporating topological changes into the FNM and for correcting errors or omissions to the FNM. As discussed below, the CAISO believes that Section 27.5.4 complies with September 21 Order and that the suggested revisions to that provision are either unnecessary or are beyond the scope of matters properly under consideration in the compliance filing.

The CAISO also modified MRTU Tariff Section 6.5.1 to comply with the directive in the September 21 Order that the Congestion Revenue Right ("CRR") FNM be made available to all Market Participants who sign non-disclosure agreements with the CAISO, not just CRR Participants who execute the agreement. Despite the narrow nature of these modifications, several parties have submitted comments that purportedly address the changes. In actuality, as

⁴ Capitalized terms not otherwise defined herein have the meaning set forth in the Master Definitions Supplement, Appendix A to the MRTU Tariff.

the CAISO will discuss below, the comments have little to do with the changes made in the compliance filing and are instead thinly disguised complaints about the CAISO's current process for making the CRR FNM available to Market Participants and their retained consultants. The CAISO contends that these complaints are beyond the scope of matters properly under consideration in this compliance filing. The CAISO further contends that, even if the Commission were to consider these complaints, they should be rejected because they are based on misassumptions, inaccurate facts, and a misunderstanding of the CRR FNM release process that is currently in place.

1. MRTU Tariff Section 27.5.4

Williams argues that proposed Section 27.5.4 is inconsistent with the Federal Power Act because it defers to a Business Practice Manual ("BPM") details that Williams claims are necessary inputs and assumptions used in the FNM that impact Locational Marginal Prices ("LMPs"). Williams' argument, however, is overreaching.⁵ It seeks to sweep into the Tariff a level of technical and mechanical detail beyond the "information, processes and practices that *significantly* affect rates, terms and conditions of service" that are required to be included in a Commission-approved Tariff.⁶ Section 27.5.4 sets forth the type of information that the CAISO will use to account for changes to the topology of the grid in the FNM, namely, information on transmission expansions received

⁵ Williams Comments at 3-4.

⁶ See *City of Cleveland v. FERC*, 733 F.2d 1368, 1376 (D.C. Cir. 1985) ("[T]here is an infinitude of practices affecting rates and service. The statutory directive must reasonably be read to require the recitation of only those practices that affect rates and service significantly, that are realistically susceptible of specification, and that are not so generally understood in any contractual arrangement as to make recitation superfluous.").

pursuant to Section 24 of the MRTU Tariff and generation interconnection information received pursuant to Section 25. Section 27.5.4 also explains how that information will be used to make changes to the FNM. The CAISO proposes to include in a BPM only additional procedural details concerning the process by which the CAISO will make the changes specified in Section 27.5.4, including the specific data to be submitted by Market Participants. Because the CAISO specifies in Section 27.5.4 the information and manner in which it will account for grid topology changes in the FNM, the CAISO's decision to defer to a BPM the procedural details of the process by which it accomplishes this does not run afoul of the requirement that it include in its Tariff practices that significantly affect rates and service.

Williams also argues that MRTU Section 27.5.4 is inconsistent with the September 21 Order.⁷ This argument overstates the requirements of the Commission's directive in its September 21 Order with respect to this provision. The September 21 Order directed the CAISO to submit revised tariff sheets "including *an outline of the general process* it intends to use to account for changes in the topology of the grid" (emphasis added).⁸ Proposed Section 27.5.4 complies with this directive. The provision identifies the topological information that will be incorporated into the FNM – transmission expansion information received pursuant to Section 24 and generation interconnection information received pursuant to Section 25 – and describes the process through which that information will be incorporated into the network model base, reflected

⁷ Williams Comments at 4.

⁸ September 21 Order at P 46.

in periodic model update cycle intervals, and incorporated into the FNM for use in the CAISO Markets.

PG&E has offered comments on Section 27.5.4 that go well beyond the scope of the compliance filing and the narrow subject matter of that provision. As just discussed, the CAISO proposed new Section 27.5.4 in the compliance filing to satisfy the requirement in the September 21 Order that revised tariff sheets include an outline of the general process to reflect changes in the topology of the grid in the FNM. Section 27.5.4 describes only that process. PG&E's comments, however, express concerns about how errors or omissions in general will be corrected in the model and how operating procedures, nomograms, RAS schemes, and loop flow estimation procedures will be used in the model. PG&E suggests that Section 27.5.4 be revised to address those matters.

It is well-established by the Commission that compliance filings – and by extension comments on those filings – must be limited to the specific directives ordered by the Commission.⁹ “The purpose of a compliance filing is to make the directed changes and the Commission’s focus in reviewing them is whether they comply with the Commission’s previously stated directives.”¹⁰ In accordance with this precedent, the CAISO submits that the Commission should reject PG&E’s comments and suggestions for further revisions to Section 27.5.4 since they clearly fall outside the bounds of the required compliance filing.

⁹ See, e.g., *AES Huntington Beach, LLC, et al.*, 111 FERC ¶ 61,079 at P 60 (2005); *Pacific Gas and Electric Company*, 109 FERC ¶ 61,336 at P 5 (2004); *Midwest Independent Transmission System Operator, Inc.*, 99 FERC ¶ 61,302, at p. 62,264 (2002); *ISO New England, Inc.*, 91 FERC ¶ 61,016, at p. 61,060 (2000); *Sierra Pacific Power Company*, 80 FERC ¶ 61,376, at p. 62,271 (1997); *Delmarva Power & Light Company*, 63 FERC ¶ 61,321, at p. 63,160 (1993).

¹⁰ *AES Huntington Beach, LLC, et al.*, 111 FERC ¶ 61,079 at P 60 (2005).

The CAISO also notes that the “BPM for Managing Full Network Model” addresses many of the points raised by Williams and PG&E and that they will have the opportunity to pursue their concerns during the BPM review process, with the next version of the “BPM for Managing Full Network Model” due to be issued on or around January 19, 2007 and a further set of BPMs to be posted on our about April 2, 2007.¹¹

2. MRTU Tariff Section 6.5.1

The CAISO proposed a process for distributing the CRR FNM by Market Notice dated August 15, 2006.¹² Over the intervening months, the CAISO revised the proposed process to take into account questions and concerns expressed to CAISO by the PTOs and other stakeholders in response to that Market Notice and subsequent Market Notices, and made during discussion at MRTU preparedness meetings and teleconferences. The CAISO believes that the resulting revised process achieves a fair and equitable means to distribute the CRR FNM to Market Participants in order to assist them in preparing for the implementation of MRTU, while at the same time protecting the confidential and/or security-sensitive information that the model contains.¹³ That current process, as set forth in the November 17, 2006 Market Notice, is as follows:

¹¹ The CAISO filed a motion on January 11, 2007 requesting that the April 2 version of the BPMs trigger the compliance obligation set forth in Paragraph 1370 of the September 21 MRTU Order. Paragraph 1370 required the CAISO to file with the Commission any additional tariff language to support detail in the BPMs. The Commission will then schedule a Technical Conference for purposes of further discussion as to whether additional tariff language should be filed.

¹² The CAISO is including with this filing, as Attachment A, all of its Market Notices addressing distribution of the FNM.

¹³ The CRR FNM contains information pertaining to transmission facilities that is similar to information that transmission owners annually submit to Commission on FERC Form 715, Annual

- For Market Participants who are Western Electricity Coordinating Council (“WECC”) members: The Market Participant must execute the CAISO’s Non-Disclosure Agreement (“NDA”) and each employee who will have access to the model must sign the non-disclosure statement attached as an exhibit to the NDA.
- For Market Participants who are not WECC members: The Market Participant and employees who will have access to the model must execute the CAISO’s NDA, as just described, and must submit a fully executed Non-member Confidentiality Agreement with the WECC.¹⁴
- For consultants retained by a Market Participant: A consultant for a Market Participant may access the model, but only through the Market Participant who retains the consultant’s services. Each employee of the consultant who will have access to the model must sign the non-disclosure statement that is an exhibit to the CAISO’s NDA as executed by the Market Participant. The consultant will be permitted access to the model on the premises of the Market Participant. The model cannot be copied and provided to the consultant.
- Alternative for off-site access: A Market Participant who would like to obtain a copy of the CRR FNM for its consultant’s off-site use may contact the California investor-owned utilities (“IOUs”) to request a

Transmission Planning and Evaluation Report, which the Commission treats as Critical Energy Infrastructure Information.

¹⁴ The CAISO’s CRR FNM contains confidential information received from WECC. WECC has advised the CAISO that it has no objection to the CAISO providing the model to WECC members since they are subject to existing WECC confidentiality provisions but that non-members must execute a WECC Non-member Confidentiality Agreement in order to access the information.

security check for its consultant and approval for the consultant to receive the model. The IOUs will forward documentation of each approval to the CAISO and the CAISO will provide a copy of the CRR FNM to the consultant. The Security Check Process for Consultants and the Consultant Security Check Request Form are posted on the CAISO's website, the link for which was provided in the December 21, 2006 Market Notice.

WAPA's comments, joined by SMUD, focus on this current process for distributing the CRR FNM and request that the Commission revise the CAISO's NDA to remedy what WAPA claims to be discrimination in the distribution process. WAPA has overlooked the fact that the CAISO's NDA to allow the CRR FNM to be distributed *prior to* MRTU Tariff Section 6.5.1 becoming effective is not before the Commission in this proceeding. Further, the September 21 Order and the CAISO's November 20 Compliance Filing only modify Section 6.5.1 to expand eligibility to receive the CRR FNM under the MRTU Tariff from CRR Participants with an NDA to Market Participants with an NDA. The modification does not address any other aspect of the distribution process or the terms of the NDA, either before or after Section 6.5.1 becomes effective. Accordingly, WAPA's comments about the NDA currently in use exceed the scope of matters subject to the compliance filing. Consistent with the precedent previously discussed concerning the scope of comments on compliance filings, WAPA's comments should not be considered by the Commission.

Even if WAPA's comments were appropriately submitted in this proceeding, its claim of discrimination is unfounded. The assertion is based on misassumptions, inaccurate facts, and a misunderstanding of the CRR FNM distribution process that is currently in place.

As a key element of its claim, WAPA refers to the CAISO's NDA as being discriminatory in favor of the Participating Transmission Owners ("Participating TOs") because Paragraph 3(a) of the NDA does not permit off-site access by other Market Participant's consultants. This ignores the fact that the distribution process has been revised to allow off-site access by a Market Participant's consultants, subject to a security check and execution of a non-disclosure statement. It also ignores the fact that the consultants of the Participating TOs are subject to the same requirement. They must undergo the same security check and sign the same statement.

WAPA next complains about the restriction in Paragraph 3(a) of the NDA that prohibits a Market Participant from copying the CRR FNM and providing it to its consultant. WAPA is concerned that this provision will limit its ability to access and use the model and will subject it to disparate and discriminatory practices. The concern WAPA raises in this regard is unfounded. Once a consultant has received the security check and submitted the signed the non-disclosure statement, it is the CAISO, not the Market Participant, that will provide the CRR FNM to the consultant. The CAISO provides the model to the consultant for off-site use under Paragraph 2 of the agreement. This allows the CAISO to number and mark each copy of the model that is distributed, in accordance with its

standard practice, and allows the Market Participant and consultant to each have a copy of the model. The CAISO fails to see how the CAISO providing the model to the consultant, rather than the Market Participant, could be considered to be a disparate or discriminatory practice, especially since the CAISO follows this practice with respect to all classes of Market Participants.

WAPA also claims that the security check is discriminatory and challenges the security check process on several grounds. None of these claims are valid.

First, WAPA asserts that the process defers to the security concerns of the Participating TOs and does not take into account similar security concerns held by other entities, such as WAPA. WAPA makes this assertion without any explanation of what security concerns it has, how the CRR FNM distribution process fails to protect those concerns, or how the process should be changed to address its security interest. WAPA has provided no support for its assertion.

Second, WAPA claims that the PTOs have been placed in an advantageous position by performing the security checks on other Market Participants and competitors. This assertion overlooks a critical aspect of the security check process – the security checks are performed strictly by the Participating TOs' security personnel without input or contact with any other employees in the transmission or marketing departments of the companies. For the reasons explained below, the CAISO has also determined that the Participating TOs' security personnel are best situated to perform checks related to the security of the transmission assets owned by the PTOs.

Third, WAPA's comments complain that the details of the security check have not been made available. At the time WAPA filed its comments, the security check process was still under development with the Participating TOs, but has since been posted on the CAISO's website and discussed in the December 21, 2006 Market Notice.

Fourth, WAPA asserts that the CAISO released the CRR FNM to the Participating TOs as early as August 18, 2006 giving them an unfair competitive advantage while other Market Participants' access has been delayed. Contrary to WAPA's assertion, the Participating TOs did not receive the CRR FNM until November 2006. The specific dates of production were November 17, 2006 to SCE and November 27, 2006 to PG&E. SDG&E has not yet requested a copy of the model.

Fifth, WAPA suggests that the CAISO be required to perform the security checks instead of the Participating TOs. That approach was considered by the CAISO as it developed a revised distribution procedure in response to the Participating TOs' security concerns. The CAISO believes, however, that performance of the security checks is more properly undertaken by the owners of the transmission facilities with ultimate responsibility for the security of their assets and that their security departments are better situated to determine whether access to their Critical Energy Infrastructure Information through the CRR FNM would present a security risk.

As a final matter, WAPA has requested that the Commission initiate an investigation of the issue. Its sole basis for the request is the allegation that the

Participating TOs have had access to confidential information, at the exclusion of other Market Participants, and will have a competitive advantage when the market opens. WAPA's allegation is not correct. SCE and PG&E did not receive the CRR FNM in August, as WAPA alleges. They did not receive the FNM until November 17 and 27, 2006, respectfully. SDG&E has not yet received the model at all. WAPA's allegation is both inaccurate and unsubstantiated and provides no basis for initiating an investigation.

NCPA's comments on Section 6.5.1 include a motion requesting that the Commission examine the terms of the CAISO's NDA for making the CRR FNM available to Market Participants. The motion should be denied. Like WAPA, NCPA overlooks the facts that the current NDA for distributing the CRR FNM is not before the Commission in this MRTU Tariff proceeding and that the terms of the NDA are not the subject of either the September 21 Order or the CAISO's compliance filing.

However, should the Commission consider this issue in this proceeding, the CAISO submits that the concerns NCPA have expressed with the NDA currently in use are baseless. NCPA's comments make clear that NCPA's real issue is with two particular provisions of the NDA under which the CAISO is currently making the CRR FNM available to Market Participants. First, NCPA claims that the "use" clause in Paragraph 1 of the NDA is too narrow. To the contrary, it provides for the confidential information received under the NDA to be used for "the Receiving Party's review and analysis of the CAISO's CRR Dry Run simulation and the CRR markets". The CAISO believes that review and analysis

of the CRR Dry Run and CRR markets allows the confidential information provided under the agreement to be put to broad analytic use. To the extent that NCPA seeks to use the confidential information for any further purpose, it may do so under Paragraph 2 of the NDA, with prior written consent by the CAISO.

Second, NCPA points to Paragraph 12 in the CAISO's NDA and offers a legal argument against it that refers to English law and rejects the formation of legal rights by contract. This argument misses the point. Paragraph 12 contains a standard term in non-disclosure agreements. Its purpose is to allow the CAISO to seek injunctive relief with respect to any actual or threatened violation of the NDA by the receiving party (or third party, for example, a contractor of the receiving party) in order to protect the transmission grid and the confidential and/or security-sensitive information of every Market Participant that is included in the model and distributed under the NDA. The paragraph also allows the CAISO to recover the costs of such action from the party that breached, or was about to breach, the NDA. This protects NCPA and other Market Participants from bearing those costs. While NCPA characterizes this term as a "potentially costly club," the fact is that the ability of the CAISO to act quickly to prevent or stop release of confidential, commercial, and/or security-sensitive information and to obtain reimbursement of costs from the cost causer is for the benefit of all Market Participants, including NCPA.

It is also interesting to note that the CAISO has included Paragraph 12 in countless NDAs over the years and has *never once* had occasion to invoke that provision and seek injunctive relief. The CAISO does not use either Paragraph 1

or Paragraph 12 to challenge or suppress opinions or modeling results different than its own. NCPA's concerns are unfounded. In fact, NCPA itself has in the past signed the CAISO's NDA containing Paragraph 12 without experiencing the repercussions NCPA postulates in its motion. Commission reformation of the terms of the current NDA is not appropriate in this proceeding, nor is it justified to address NCPA's concerns.

In summary, the current distribution process for the CRR FNM and NDA provide a fair and equitable means for Market Participants and their consultants to obtain the model to review and analyze the CRR Dry Run and the CRR markets, while at the same time safeguarding the security interest of the transmission owners in Critical Energy Infrastructure Information pertaining to their facilities. Admittedly, the development and revision of the process in response to the Participating TOs, and to Market Participants seeking off-site access for their consultants, has been a bumpy road. Nonetheless, the distribution process that resulted from this effort and that is currently in use is reasonable and does not discriminate for or against any class of Market Participants. Should the Commission take up this matter as part of its review of the CAISO's compliance filing, however, the CAISO would welcome direction from the Commission as to how the process should be changed or could be improved.

B. Day-Ahead Market Issues

In its comments, SCE contends that the language in MRTU Tariff Section 34.10.2 permitting operators to supercede Real-Time Market ("RTM") dispatch

priorities is overly broad, because it permits operators to take action “for any reason.”¹⁵ In response, the CAISO agrees to amend this section in any further required compliance filing to add the phrase “as necessary to ensure reliable operations.” Thus, the sentence in Section 34.10.2 at issue would read: “These dispatch priorities as defined in the RTM optimization may be superseded by operator actions and procedures as necessary to ensure reliable operations.”

SCE also takes issue with the CAISO’s proposed amendment to Section 30.5.3, which states that Scheduling Coordinators (“SC”) submitting Self-Schedules at Scheduling Points for export in the Integrated Forward Market (“IFM”) shall indicate whether or not the export is served from RA Capacity, and if submitting Self-Schedules at Scheduling Points for export in the Hour-Ahead Scheduling Process (“HASP”), shall indicate whether or not the export is served by RA Capacity or RUC Capacity. SCE contends that SCs will not always have the ability to tell the CAISO whether power is sourced from RA Capacity or RUC Capacity.

The CAISO clarifies that the intent of the amendment to Section 30.5.3 was to provide a mechanism for parties that want to avail themselves to the priority for export Self-Schedules as described in Sections 31.4 and 34.10.1 to identify the non-RA (in the Day-Ahead and HASP/Real-Time Market) and non-RUC capacity (in the HASP/RTM) that supports the such export Self-Schedules. To the extent the SC does not make this showing, the CAISO will not be capable of providing the scheduling priority for exports served by non-RA capacity in the

¹⁵ SCE at 2.

Day-Ahead Market, or non-RA/non-RUC capacity in HASP.¹⁶ The CAISO proposes that the following changes to the language in Section 30.5.3 would better represent the intent and agrees to make the clarification in any further required compliance filing.

30.5.3 Demand Bids.

Each Scheduling Coordinator representing Demand shall submit Bids indicating the hourly quantity of Energy in MWh that it intends to purchase in the IFM for each Trading Hour of the Trading Day. Scheduling Coordinators must submit Demand Bids, including Self Schedules, for CAISO Demand at Load Aggregation Points except as provided in Section 30.5.3.2. Scheduling Coordinators must submit a zero RUC Availability Bid for the portion of their qualified RA Capacity. Scheduling Coordinators submitting Self-Schedules at Scheduling Points for export in the IFM for which the Scheduling Coordinator intends to receive the scheduling priority specified in Section 31.4 (d), the Scheduling Coordinator shall indicate the whether or not the export is served from non-Generation from Resource Adequacy Capacity that is supplying an Energy Bid to support that Self-Schedule. Similarly, Scheduling Coordinators, and if submitting Self-Schedules at Scheduling Points for export in HASP for which the Scheduling Coordinator intends to receive the scheduling priority specified in Section 34.10.1 (b) shall indicate whether or not the export is served from Generation from non-Resource Adequacy Capacity or non-RUC Capacity that is supplying an Energy Bid to support that Self-Schedule.

SCE also notes that the CAISO has proposed for stakeholder review potential methods for tracking schedules tied to non-RA purchases. SCE requests that the CAISO include the details of any such feature in its BPMs, and suggests a revision to Section 30.5.3 to make clear that additional details are found in the applicable BPMs. The CAISO agrees through any further required compliance filings to include the following sentence Section 30.5.3: “The procedure for identifying the non-Resource or non-RUC Capacity is specified in the Business Practice Manuals.”

¹⁶ See September 21 Order at P 217 (agreeing with the CAISO’s proposed modification to treat export demand the same as CAISO demand if the export demand is not served by capacity reserved for RA or RUC use).

C. Residual Unit Commitment Issues

SWP notes that, pursuant to Paragraph 171 of the September 21 Order, which directs the CAISO not to allocate Residual Unit Commitment (“RUC”) costs to Export schedules, the CAISO amended the MRTU Tariff so as to specify that RUC uplift costs will be allocated to metered CAISO Demand (which does not include exports), instead of CAISO Measured Demand (which does include exports). SWP contends that the CAISO, however, did not go far enough, and should instead allocate RUC costs to “Gross Demand,” which would be defined as an SC’s metered Demand plus any Unaccounted For Energy (“UFE”) attributed to that SC. SWP states that this change is necessary to “ensure that loads with inadequate metering would not be permitted to pass off costs to those with compliant meters.”¹⁷

SWP’s argument should be rejected, as it goes beyond the scope of the compliance filing. As SWP notes, the CAISO appropriately implemented the Commission’s decision to remove the allocation of RUC costs to Export schedules. The Commission did not require the CAISO to make any changes with respect to how the CAISO allocates RUC costs to loads internal to the CAISO Control Area. The Commission should not allow parties, including SWP, to introduce at this stage issues unrelated to the CAISO’s proposed implementation of the Commission’s directives in the September 21 Order.

Williams expresses concern that the procedure described in proposed Section 31.5.3.5 to address the potential for over-procurement of RUC may allow an LSE that also controls supply resources to under-bid Load into the Day-Ahead

¹⁷ SWP at 23-34.

Market in order to suppress Day-Ahead prices without consequence. Williams requests that the CAISO not be permitted to adjust its RUC procurement for estimated Supply Self-Schedules expected to be submitted in the HASP. The Commission should decline to rule on Williams' request at this time. In the September 21 Order, the Commission directed the CAISO to develop and file no later than 180 days prior to MRTU Release 1 interim measures to address the potential economic incentive of Load-Serving Entities ("LSEs") to under-schedule in the Day-Ahead Market until convergence bidding is implemented.¹⁸ The CAISO will be commencing in the near future a stakeholder process to address under-scheduling incentives, and Williams is welcome to raise this concern at that time. However, it would be premature for the Commission to rule on Williams' request prior to the completion of the stakeholder process and the CAISO's filing of its proposed measures to address under-scheduling incentives.

D. Hour-Ahead Scheduling Process and Real-Time Market Issues

In its protest, Powerex contends that the CAISO's revision of Section 34.10.1 detailing scheduling priorities may create ambiguities, and requests that the phrase "Self-Schedules for exports at Scheduling Points in HASP not served by Generation from non-Resource Adequacy Capacity or not served by Generation from non-RUC Capacity" be modified to refer to "Self- Schedules for exports at Scheduling Points in the HASP that are served by Resource Adequacy or RUC capacity."¹⁹ Powerex's proposed revision should be rejected. The double-negative in Section 34.10.1 is appropriate because, as further clarified

¹⁸ September 21 Order at P 452.

¹⁹ Powerex Protest at 5-7.

above, the availability of the scheduling priority for exports is contingent upon whether a Scheduling Coordinator demonstrates that an export is served by non-RA or non-RUC capacity. Thus, Sections 34.10.1(a) and 34.10.1(b) both consistently and appropriately use the term “non-RA or non-RUC capacity.” The CAISO believes, however, that one minor revision might be helpful in further clarifying this requirement in Section 34.10.1(b) consistent with the changes proposed above for Section 30.5.3, by replacing the word “served” with “offered” so that it is clear that the showing is made through the submission of the Self-Schedule, which ensures that such capacity is available.

SCE contends that the CAISO’s definition of “Real-Time Interchange Schedule” should be revised as follows:

An final agreed-uponment schedule of energy to be transferred
~~energy~~ from the CAISO control Area to an interconnected control area at a Scheduling Point based on agreed-on size (megawatts), start and end time, beginning and ending ramp times and rate, and type required for delivery and receipt of power and Energy between the source and sink control areas involved in the transaction.²⁰

The CAISO agrees to this change, and will make it in any further required compliance filing.

Six Cities contends that the CAISO should remove the phrase “including but not limited to” from Section 33.3.²¹ The CAISO had included that phrase as it believed it necessary in light of the changes to allow submission of Self-Schedules for exports at Scheduling Points to ensure that it was clear that Transmission Ownership Right (“TOR”) and Existing Transmission Contract

²⁰ SCE Comments at 8-9.

²¹ Six Cities’ Comments at

("ETC") Self-Schedules could also be submitted for exports at Scheduling Points. The CAISO believes, however, that because Self-Schedules are defined to include TOR and ETC Self-Schedules, it is best to modify the entire sentence as follows: "Scheduling Coordinators may submit Self-Schedules for exports at Scheduling Points. ~~including but not limited to exports that utilize TORs and ETC rights that have post-Day-Ahead Scheduling Rights, and including Self-Schedules for wheel-throughs.~~" Six Cities also requests that the ISO state that Scheduling Coordinators may submit Self-Schedules for exports "that do not rely on RA or RUC Capacity."²² The CAISO clarifies that Self-Schedules for exports in HASP are not restricted to Self-Schedules supported by non-RA or non-RUC capacity. As discussed above, Scheduling Coordinators may submit Self-Schedules for exports and not indicate that they are served by non-RA or non-RUC capacity, but if they do, they will simply not receive the scheduling priority specified in Section 34.10.1 (b).

SWP requests that additional consideration be given to the CAISO's definitions of Demand as well as Supply, in order to capture the service of incrementing Demand.²³ In the transmittal letter accompanying the November 20 Compliance Filing, the CAISO committed to conduct a comprehensive review of the term Supply and to make requisite changes in a clean up filing prior to MRTU start-up. At this time, however, the CAISO does not understand what changes should be to the definition of Demand to capture the service of incrementing demand. The CAISO agrees to discuss the points raised by SWP regarding the

²²

Id.

²³

SWP Comments at 6-8.

definitions of Supply and Demand further with SWP and agrees to make any necessary changes as part of the CAISO's comprehensive review of the tariff to ensure proper use of terms.

SWP also contends that the CAISO should ensure Participating Load's ability to respond to price signals by permitting demand response adjustments in the post-Day-Ahead timeframe.²⁴ SWP states that the preferred solution to this issue would be to amend Section 33.3 to remove the prohibition on the submission of Self-Schedules of CAISO Demand in HASP. Such modification is not necessary, however, because the MRTU Tariff already provides the functionality requested by SWP. SWP and other Scheduling Coordinators can increase their demand in response to price signals by simply deviating in Real-Time, and paying the Real-Time price for Energy. SWP also argues that it should be permitted to adjust its demand in HASP/Real-Time without being exposed to costs allocated based on deviations from Day-Ahead Schedules. However, even if the CAISO was to adopt SWP's proposed solution of allowing submission of Self-Schedules of Demand in HASP, SWP's demand adjustments would still be treated as deviations from the Day-Ahead and therefore subject to RUC uplift costs. SWP's proposed modification should be rejected.

SWP supports the CAISO's clarification that all Participating Load will be settled nodally, but states that the CAISO should further clarify portions of Section 11 to ensure that this is consistently applied in the MRTU Tariff.²⁵ The CAISO agrees with SWP's proposed amendments to Sections 11.5.2 and

²⁴ *Id.* at 8-11.

²⁵ SWP Comments at 12-14.

11.5.2.2 and commits to make these changes in an upcoming MRTU Tariff filing intended to capture a group of changes to Section 11 as proposed in its Motion for Extension of Time to Submit Compliance Filings as filed on January 11, 2006 in this docket.

SWP also expresses support for the requirement that the CAISO dispatch Participating Load in accordance with bids or in accordance with applicable tariff provisions for exceptional dispatch, but nevertheless argues that the Commission should order the CAISO to ensure that it dispatches Participating Load to increase consumption “only when SWP voluntarily agrees to such an increase” in order to avoid damage to water-management equipment.²⁶ No such additional clarification is necessary. As SWP itself notes, the MRTU Tariff already includes a provision making clear that “[n]othing in this CAISO Tariff is intended to permit or require the violation of Federal or California law concerning hydro-generation and Dispatch, including but not limited to fish release requirements, minimum and maximum dam reservoir levels for flood control purposes, and in-stream flow levels.”²⁷ There is no need to add additional language to the MRTU Tariff on this point.

Williams contends that Section 34.9.3 is confusing, as Williams does not understand why transmission maintenance cannot be reflected in the FNM, thus causing the CAISO to engage in Exceptional Dispatch. Williams argues that, instead of defaulting to Exceptional Dispatch, the CAISO should be required under its tariff to update the FNM to take account of any configuration, including

²⁶ *Id.* at 14-15.

²⁷ MRTU Tariff, Section 22.13.

new configurations that arise from transmission maintenance, which the CAISO is aware of.²⁸ The CAISO commits to updating the FNM as quickly as possible to reflect transmission maintenance if it has the necessary information available, and a configuration change can be implemented by changing an existing switch position. However, the CAISO still needs Exceptional Dispatch authority to remedy situations caused by transmission maintenance in those cases where the CAISO lacks the necessary information to make changes to the FNM, or where a configuration change cannot be implemented by changing an existing switch position.

With respect to Section 34.9.3, SCE contends that the definition of “Transmission-related modeling limitation,” as defined therein, should be revised, as it does not define a “modeling limitation,” and is too broad, as it includes voltage support, which is the CAISO’s responsibility, and “incomplete or incorrect information about the transmission network,” which may or may not concern information provided by Participating TOs.²⁹ The CAISO recognizes that under Section 8.2.3.3 of the MRTU Tariff the CAISO is required to determine the hourly quantity and location of Voltage Support required to maintain voltage levels and will issue voltage support schedules pursuant to such determinations. That section further provides that if the CAISO requires additional Voltage Support, it shall procure more through its RMR Contracts if no other economic resources are available. But this section does not cover all possible sources for the need to obtain additional Voltage Support.

²⁸ Williams Comments at 5-6.

²⁹ SCE Comments at 7.

There are a variety of ways to maintain voltage support, some of which are dispatchable by the CAISO (committing certain generation in critical areas) but some of which are under the Participating TO's control, such as installing various types of devices to produce or absorb reactive power, including synchronous condensers, and shunt capacitors and reactors. Therefore, there are even today situations in which the CAISO will not be able to fully cover all Voltage Support requirements as specified in Section 8.2.3.3, and the CAISO believes that the Participating TO should be held responsible for such shortcomings that may require the CAISO to dispatch generation out-of-sequence (*i.e.*, Exceptional Dispatch) in order to do ensure there is adequate Voltage Support. At the start of MRTU, the software will be incapable of enforcing reactive power constraints, including voltage constraints. Further, the CAISO believes this software limitation is not uncommon and it is not aware of other ISOs enforcing reactive constraints via their market dispatch software. For these reasons, the Commission must allow the CAISO to continue to have the ability to issue exceptional dispatches to ensure adequate voltage support is maintained and not remove the reference to voltage support in the description of what constitutes transmission related modeling limitations. The CAISO proposes to specify in Section 34.9.3 that the the lack of voltage support only applies to those circumstances not covered specifically by Section 8.2.3.3 and not settled pursuant to Section 11.10.7, and offers the following revisions to Section 34.9.3.

The CAISO may also manually Dispatch resources in addition to or instead of resources dispatched by the RTM optimization software

to address transmission-related modeling limitations in the Full Network Model. Transmission-related modeling limitations for the purposes of Exceptional Dispatch, including for settlement of such Exceptional Dispatch as described in Section 11.5.6, shall consist of any FNM modeling limitations that arise from factors for which the PTOs have primary responsibility, including: 1) transmission maintenance, 2) lack of voltage support at proper levels due to circumstances not covered in Section 8.2.3.3 and not settled pursuant to Section 11.10.7; and 3) as well as incomplete or incorrect information about the transmission network for which PTOs have primary responsibility.

The CAISO submits that it should not be required to provide a definition of what constitutes a modeling limitation as proposed by SCE given that Section 34.9.3 specifically describes what constitutes “transmission related modeling limitations.” SCE’s proposal simply confuses the intended meaning of what the CAISO will consider a transmission related modeling limitation. Finally, the CAISO believes that there is no need to make any specific changes to Section 34.9.3 to clarify the nature of “incomplete or incorrect information about the transmission network,” because there is already a qualifier in that sentence that specifies that such information is limited to that “for which the PTOs have primary responsibility.”

E. Cost Recovery and Allocation Issues

BPA argues that, although the CAISO’s proposed MRTU Tariff language regarding the settlement of emergency Energy provides for payment of a negotiated or supplier-dictated price, the default settlement payment does not guarantee the supplier can recover its costs. BPA asserts that the supplying system runs the risk that it will not be made whole, because it is obliged to pay its

own system costs for emergency energy benefiting the receiving system. BPA's proposed solution is that the language of Section 11.5.8 of the MRTU Tariff should provide for the receiving system to pay all of the costs of the transaction by incorporating a blanket provision requiring the CAISO to pay for emergency assistance based on the terms of any tariff of any supplying utility.

All the Commission required in Paragraph 219 of the September 21 Order was that the CAISO incorporate a provision of some kind regarding settlement of emergency Energy into the MRTU Tariff. Going beyond that simple requirement in preparing the November 20 Compliance Filing, the CAISO not only consulted directly with BPA (which was the only intervenor that even commented on this subject – and is one of only two neighboring Control Areas that has declined to enter into an Interconnected Control Area Operating Agreement with the CAISO),³⁰ but it provided BPA a draft of proposed Section 11.5.8 and incorporated virtually all of BPA's proposed revisions except for the additional revision described above. The CAISO submits that it has fully complied with the Commission's directive in the September 21 Order and that BPA's proposal to have the CAISO Tariff incorporate a blanket provision requiring the CAISO to pay for emergency assistance based on the terms of any tariff of any supplying utility is far too open-ended to be reasonable.

The proposed default provisions of Section 11.5.8 will only apply if the supplying utility: (1) has failed to enter into an agreement with the CAISO in advance regarding the price for its supply of emergency assistance to the

³⁰ The *pro forma* version of the CAISO's Interconnected Control Area Operating Agreement as accepted by the Commission contains similar provisions.

CAISO; and (2) has failed to agree with the CAISO on a price for its supply of emergency assistance at the time of the supply. The supplying utility has full control and discretion regarding the price at which it offers any emergency assistance to the CAISO. Moreover, even if the supplier has foregone both of those opportunities to establish a price for its service, BPA's concern only arises if the supplier is dissatisfied with the market price paid by the CAISO for all Energy procured from the CAISO Markets at this same time. If the Commission should require the CAISO to incorporate the additional revision proposed by BPA, it would effectively remove any last incentive for a supplying utility to specify or negotiate a price for emergency assistance and leave the CAISO without any way of knowing in advance or at the time of purchase what price it will have to pay for such emergency assistance. The CAISO submits that this would be unreasonable.

In addition, it appears from BPA's filing that it may not just wish to recover its "cost" of supplying the emergency assistance but also the "value" of that emergency assistance if that "value" is purportedly higher. While the CAISO was willing to incorporate into Section 11.5.8 BPA's proposal to make provision for a supplier of emergency assistance to provide documentation to the CAISO justifying a cost-based charge for that emergency assistance, the CAISO considers it unreasonable to include in the CAISO Tariff a provision that could require the CAISO to pay a "market-based" or value-based rate established by the supplier through provisions of its own tariff based on the conditions in some other market other than the CAISO Markets. If the supplier finds it uneconomical

to offer emergency assistance to the CAISO, it always has the option to deliver its Energy to another market with a higher price; the provision of emergency assistance is at the supplier's discretion. Moreover, the supplier always has the option of specifying to the CAISO the price from another market as the price for emergency assistance to the CAISO at the time of making its offer to provide the emergency assistance. However, the CAISO considers it unreasonable to incorporate into the CAISO Tariff a provision that would compel the CAISO to pay – as a “default” no less – whatever price the supplier may be able to justify through provisions of its own tariff by after-the-fact reference to some other lost “opportunity cost” it may be able to identify after scouring the reported prices throughout the Western Interconnection at the time of its delivery of the emergency assistance.

SCE contends that Section 11.5.6.2.5.1 should be modified as follows:

~~“These allocations~~ Costs allocated to Participating TO's under this section
~~Transmission Revenue Requirement~~ shall constitute Reliability Services Costs.”³¹

The CAISO agrees with SCE's proposal and commits to make this change in any required further compliance filing.

SMUD contends that the CAISO violated Paragraph 279 of the September 21 Order by defining Real-Time Interchange Export Schedules to include both exports and wheel-throughs.³² SMUD argues that the Commission agreed with SMUD that the CAISO's proposal inappropriately allocates UFE costs to real-time interchange export schedules, and ordered the CAISO to so clarify its tariff.

³¹ SCE Comments at 7-8.

³² SMUD Comments at 7-9.

Although the Commission did order the CAISO to clarify its tariff regarding the term “export schedules,” SMUD’s assertion that the Commission required the CAISO to state that UFE costs would not be allocated to wheel-throughs is incorrect. In Paragraph 279 of the September 21 Order, the Commission stated that it agreed that the CAISO has not defined or clarified “export schedules” in Section 11.5.3 and therefore “direct[ed] the CAISO to make a compliance filing . . . to clarify export schedules in this context.” The Commission said nothing about prohibiting the allocation of UFE costs to wheel-throughs. SMUD’s argument relies on a faulty premise, and should therefore be rejected.

In its comments on the November 20 Compliance Filing, SWP contends that there is a viable methodology for allocating Real-Time Bid Cost Recovery (“BCR”) costs on a two-tiered basis, and sets forth what it believes to be such a methodology.³³ The CAISO submitted as Request for Clarification and Rehearing of the September 21 Order specifically requesting rehearing of the Commission’s requirement that it apply a two-tiered methodology to allocating costs associated with Real-Time Bid Cost Recovery, under the rationale that there is no logical methodology for doing so consistent with principles of cost causation.³⁴ SWP’s proposal, as a response to the CAISO’s compliance filing, is inappropriate and should have been provided as a response to the CAISO’s Request for Clarification and Rehearing. Further, based on its preliminary review of the proposed methodology, the CAISO is unable to determine whether the proposal is implementable or just and reasonable. Because the proposed

³³ SWP Comments at 21-23, Attachment A.

³⁴ CAISO Request for Clarification and Rehearing at 5-8.

methodology has not been subjected to full internal review by the CAISO or presented for any stakeholder review, the Commission should not require the CAISO to adopt this proposal at this time. Such lack of process could result in the adoption of a methodology that may have unknown and unintended consequences that could be avoided with further review. Instead, the CAISO proposes to continue to explore the validity and applicability of SWP's proposal in its ongoing discussions with SWP. Should the proposal prove to be fruitful, the CAISO will provide an opportunity for stakeholder review and make any necessary filings with the Commission for further consideration of SWP's proposal.

F. LAP Load Settlement Issues

Bay Area contends that the six rules proposed by the CAISO in Section 31.3.1.2 regarding the relaxation of transmission constraints are incomplete for several reasons. First, Bay Area contends that the financial impact of the rules are not clear.³⁵ However, Bay Area does not explain in what manner the rules in Section 31.3.1.2 are unclear with respect to financial settlement. Lacking more specific information as to precisely what Bay Area's concerns are, the CAISO can only note that Scheduling Coordinators are settled based on the settlement rules set forth in the MRTU Tariff³⁶ based on their final Day-Ahead Schedules. Bay Area also contends that the rules regarding relaxation of transmission constraints do not provide details regarding who will be responsible for paying

³⁵ Bay Area Comments at 11.

³⁶ See *generally* MRTU Tariff, Section 11.

the constraint violation penalty, if it is applied.³⁷ This concern is based on a misunderstanding of the nature of the constraint violation “penalty” set forth in Section 31.3.1.2. The constraint violation “penalty” is not a financial penalty in the traditional sense that one party is charged and another party or parties receives a discrete financial benefit. Rather, it is a mathematical device used in conjunction with an optimization program to ensure that the optimization resolves correctly.³⁸ There is no risk that a Scheduling Coordinator will be charged a “penalty.”

CPUC alleges that the CAISO’s proposal to assign a constraint violation penalty equal to three times the prevailing Energy Bid cap may be excessive in certain situations and thus give rise to an unjust and unreasonable rate structure.³⁹ The CAISO believes that at this time it is premature to make any changes to the level of the penalty price used in the optimization. The CAISO will be conducting further market simulations and LMP studies that will provide further information on the effectiveness of the penalty price and proposes to make any necessary tariff changes after that time should it determine that the proposed penalty price is excessive.

Williams contends that the changes to Section 31.3.1.2 are not discussed in the transmittal letter for the November 20 compliance filing, other than a mere recitation of the changes appearing in Attachment A to the transmittal letter, and asserts that such significant changes should be accompanied by a full

³⁷ Bay Area Comments at 11.

³⁸ See Exh. ISO-1 (Kristov Testimony) at 37-39; Exh. ISO-2 (Rahimi Testimony) at 24-28.

³⁹ CPUC Comments at 15.

explanation in the transmittal letter.⁴⁰ Williams requests that the Commission direct the CAISO to fully define “effective” as used in that section, including the thresholds the CAISO utilizes when determining effectiveness.⁴¹ Williams also asserts that the proposed rules reflected in the filed Section 31.3.1.2(2)(b)(3) are unclear. Williams proposes that the CAISO may be improperly relying on authority in the Participating Generator Agreement to compel a unit that has not been designated as needed to maintain reliability, and therefore not under contract, to operate to resolve the constraint that could not be resolved in the Day-Ahead time-frame. Finally, Williams argues that Section 31.3.1.2 is fundamentally opposed to the purported principle behind MRTU, *i.e.*, to be able to model and resolve constraints across all markets and send accurate price signals regarding the costs of those constraints, arguing that if the CAISO cannot resolve a constraint with the resources available to it, it necessarily follows that (1) the CAISO failed to identify all the needed resources; or (2) those resources do not exist, in which case scarcity pricing should send the signal that new entry is needed and should be applied to all resources effective in resolving the constraint.⁴²

The changes proposed to Section 31.3.1.2 in the November 20 Compliance Filing consist of the process the CAISO would follow in relaxing the constraints under Step 2 of the LAP reduction process already filed and conditionally approved by the Commission. The CAISO believes that it correctly and precisely followed the Commission’s directive in Paragraph 618 in providing

⁴⁰ Williams Comments at 12, fn. 36.

⁴¹ *Id.* at 11-13.

⁴² *Id.* at 14-15.

the “parameters that would govern its use of MRTU Tariff Section 31.3.1.2.” The CAISO takes this opportunity to answer Williams’ specific concerns.

With respect to William’s request that the CAISO define what constitutes “effective” Economic Bids, the CAISO believes no additional tariff language is needed. Section 31.31.2 begins by specifying that the CAISO will take the actions specified further in that section if the CAISO finds that it cannot resolve a non-competitive transmission constraint utilizing effective Economic Bids such that the LAP level Load in the All Constraints Run would otherwise have to be adjusted to relieve the constraint. That is the first threshold established by this section and provides in and of itself what constitutes “effective Economic Bids.” Specifically, the “effective Economic Bids” are the Bids submitted to the CAISO that it is unable to use to relieve the constraint without reducing the LAP level load. This presumes that all the Economic Bids that were indeed effective before having to move LAP load were already utilized. The second threshold that determines the process for relaxing the constraints is the threshold set forth in the new sub-sections added under Step 2. The effective resources will be those resources where the shadow price will be less or equal to the penalty price, because that result is what determines which constraints will be relaxed.

The CAISO believes that Williams has perhaps misunderstood how the procedures in Section 31.3.1.2 work. These procedures do not enable the CAISO to actually dispatch any resources in the Day-Ahead. Rather, they provide a mechanism for relieving constraints in the optimization, such that LAP Load is not excessively curtailed in the IFM. This requires certain assumptions

that certain conditions are in place for Real-Time so that the CAISO does not inappropriately relieve a constraint and overly burden the Real-Time Market in its ability to meet load. Therefore, in relying on the criterion that “there are non-RA Resources and non-RMR Units within the constrained Load pocket that did not participate in the Day-Ahead Market but can be called upon under their Participating Generator Agreement before CAISO curtails firm Load” the CAISO is simply verifying that there are resources still available that if needed, can be called on in Real-Time. This procedure does not purport to allow that the CAISO to commit these resources in the Day-Ahead as suggested by Williams. Rather, the CAISO is fully within its rights under the Section 4.2 of the Participating Generator Agreement to assume that, in Real-Time, if there are system emergencies, the CAISO can call upon Participating Generators to alleviate such conditions.

Finally, the CAISO believes it is inappropriate for Williams to attempt to compel the CAISO to move to develop scarcity pricing at this time through this compliance filing given that the Commission has already found that the CAISO’s current scarcity pricing proposal is reasonable for the start of MRTU and has required that further measures are developed only twelve months after MRTU start-up.⁴³ Williams’ opposition to the overall mechanism proposed in Section 31.3.1.2 is also misplaced in light of the fact that the Commission has already conditionally approved the mechanism that the CAISO will use to relax the constraints, on the one condition that the CAISO provide further details on this process, which the CAISO did in its November 20 compliance filing. Williams

⁴³ See September 21 Order at P 1078.

should have raised its oppositions to the Commission's overall approval of this section in its request for rehearing of the Commission's September 21 Order.

G. Metered Subsystems Issues

Bay Area raises an issue with respect to the CAISO's proposed amendments to Section 27.2.1. Specifically, Bay Area states that the last sentence of Section 27.2.1 is misleading and should be modified to make clear that gross-settling Metered Subsystem ("MSS") Load will be settled at the default Load Aggregation Point ("LAP").⁴⁴ The CAISO agrees with Bay Area that gross-settling MSS Load will be settled at the Default LAP, and will propose appropriate edits to clarify this in an upcoming MRTU Tariff filing.

H. Demand Response and Participating Load Issues

SWP notes that it supports the CAISO's addition of Section 31.5.3.2, which provides that the "CAISO shall account for demand response that is communicated to the CAISO as certain to be curtailed." Nevertheless, SWP contends that the CAISO should be ordered to clarify this provision to provide the same adjustment for Participating Load "to ensure that (1) the CAISO shall comparably account for SWP Participating Loads in its determination of RUC needs and (2) such load is not allocated RUC costs." However, as SWP notes, the CAISO uses SWP schedules as the basis for its Demand forecasts, and therefore does not explicitly procure RUC for SWP Load. Thus, the CAISO already accounts for SWP's Participating Loads in its RUC determination. Moreover, the CAISO can only curtail SWP Participating Load based on their submitted Energy bids. For these reasons, no further changes to account for

⁴⁴ Bay Area Comments at 12.

SWP's Participating Load in determining RUC needs and allocating RUC costs are necessary or appropriate.

I. Congestion Revenue Rights Issues

In response to comments on the transmission maintenance outage provisions of the MRTU Tariff, the CAISO proposed:

to modify its transmission maintenance outage scheduling requirements to address commenter concerns and to make a compliance filing to revise MRTU Tariff section 9.3.6.3.2 to: (1) specify that advance scheduling is only required for those transmission outages that have a "significant" impact on CRR revenue adequacy and (2) modify the advance notice requirements from 45 days to 30 days in advance of the first day of the month when the outage is scheduled. For transmission outages that would *not* have a significant impact on CRR revenue adequacy, the current 72-hour advance notice would be maintained. The CAISO states that the criteria for determining what constitutes a "significant" impact on CRR revenue adequacy will be developed with stakeholders and incorporated into a Business Practice Manual.

September 21 Order at P 1333. The Commission found "that the proposed changes adequately address protestors' concerns regarding the advance notice transmission maintenance outage requirements and direct[ed] the CAISO to include these changes in a compliance filing." The CAISO included these changes to Section 9.3.6.3.2 of the MRTU Tariff in its November 20 Compliance Filing.⁴⁵

The CPUC notes that the "CAISO is in the unique position to explain to market participants how it will determine whether its CRR portfolio will result in revenue inadequacy given [a] particular transmission outage."⁴⁶ The CPUC recommends that the CAISO should work with stakeholders to develop these

⁴⁵ See Attachment A to the November 20 Compliance Filing at 43-44.

⁴⁶ CPUC Comments at 16.

criteria and to file these criteria in the CAISO's "Spring Tariff Compliance Filing." The CAISO agrees that the criteria for determining whether a transmission outage would have a "significant" impact on CRR revenue adequacy should be developed with stakeholder input. The CAISO clarifies that these criteria will need to consider the impact on CRR revenue adequacy in the aggregate rather than the impact on any individual market participant or CRR holder. This is because of the way revenue inadequacy is allocated pro rata to all CRR holders in any given hour in the IFM, rather than differentiating among CRR holders based on which CRRs they hold.

The CPUC is incorrect, however, in suggesting that these criteria should be included in a subsequent tariff filing. In the September 21 Order, the Commission expressly approved the CAISO's proposals "that the criteria for determining what constitutes a "significant" impact on CRR revenue adequacy will be developed with stakeholders and incorporated into a Business Practice Manual" rather than incorporated into the Tariff.⁴⁷ Moreover, the level of detail in Section 9.3.6.3.2 of the MRTU Tariff is consistent with the level of detail in other ISO and RTO tariffs and rate schedules. For example, in PJM, transmission owners are required to submit notices of all Transmission Planned Outages to the RTO by the first day of the month preceeding the month the outage will commence "if such outage is determined by PJM to have the potential to cause Transmission System congestion."⁴⁸

⁴⁷ September 21 Order at PP 1333, 1335.

⁴⁸ Section 1.9.2 of the PJM Operating Agreement; Section 4.8 of Consolidated TO Agreement, provides, "If notice of a Transmission Planned Outage is not provided by the first day of the month preceding the month the outage will commence, and if such outage is determined by

In its comments, SCE raises several issues concerning CRRs. First, SCE contends that the modifications to Section 36.8.5.1.1 do not address SCE's concerns regarding the use of the word "holdings," and states that the term "CRR allocations" would be more appropriate.⁴⁹ The CAISO agrees with SCE's suggestion, and agrees to make this change in a future MRTU Tariff filing. SCE also states that it is willing to work with the CAISO regarding necessary changes to Section 11.29 if the Commission approves the CAISO's request for a 120-day extension regarding this section. The Commission did not grant the CAISO an additional 120 days to comply, but did approve a 90-day extension. On January 11, 2007, the CAISO filed a motion seeking a further extension of this compliance obligation. Sepecifically the CAISO requested leave to comply with this requirement on or before May 2, 2007 so that the CAISO could include other changes to Section 11 in a single filing in the interest of administrative efficiency.

SCE also asserts that the MRTU Tariff must address tracking, collecting, and distributing recovered funds. With respect to this issue, the CAISO notes that the current provisions of the CAISO Tariff already provide rules regarding how the CAISO accounts for, collects, and distributes outstanding financial liabilities, and these provisions are retained in the MRTU Tariff.⁵⁰

Finally, SCE asserts that the CAISO failed to comply with the Commission's directive in Paragraph 1357 of the September 21 Order that it

PJM to have the potential to cause Transmission System congestion, then PJM may require the Party to implement an alternative outage schedule to reduce or avoid the congestion. PJM shall perform this analysis and notify the affected Party in a timely manner if it will require rescheduling of the outage."

⁴⁹ SCE Comments at 10-11.

⁵⁰ See MRTU Tariff Section 11.29, which describes the CAISO's billing and payment process.

provide additional detail on its proposal for allocation of CRRs to merchant transmission. Although SCE is correct that the CAISO did not include this detail in its compliance filing, the CAISO did not do so because it requested clarification from the Commission that it could provide this information on a schedule consistent with the timing requirements set forth in the Commission's Final Order on long-term firm transmission rights.⁵¹ Bay Area similarly states that it does not object to the CAISO's request for an extension of time, but also incorrectly asserts that the CAISO failed to address this issue in its November 20 Compliance Filing.⁵² The CAISO specifically mentioned the issue, and its request for an extension of time, in footnote 3 to the transmittal letter accompanying the November 20 Compliance Filing.

SWP states that the CAISO's revised tariff language regarding SWP's participation in the CRR allocation process correctly addresses pump load settled at Custom Load Aggregation Points, but fails to address Participating Load in the Priority Nomination Process.⁵³ The CAISO has had discussions with SWP regarding this issue, and agrees to make changes to address Participating Load in the Priority Nomination Process either in any further compliance filing required by the Commission pursuant to this Answer, or in the CAISO's proposed changes to Section 36 following the CAISO's filing for informational purpose of its CRR Dry Run report later in the first quarter of 2007.

⁵¹ CAISO Request for Clarification and Rehearing at 19-20.

⁵² Bay Area at 12-13.

⁵³ SWP Comments at 24-26.

J. Existing Transmission Contracts Issues

Bay Area, Six Cities, and SWP all complain that the CAISO did not fully comply with Paragraph 920 of the September 21 Order, when the CAISO specified in Section 16.6.4 that it would notify Scheduling Coordinators of invalid ETC Self-Schedules “to the extent practicable” rather than incorporating wording based on the Commission’s requirement to “timely notify” Scheduling Coordinators of the invalidity.⁵⁴ They state that the CAISO must provide a reasonable opportunity to correct identified errors prior to the close of the DAM in Section 16.6.4, as required by the September 21 Order. Six Cities proposes that the Commission remedy this concern by directing the CAISO to revise Sections 16.6.4 and 17.3.4 to provide that the CAISO will provide notification that a schedule is submitted to the CAISO no later than thirty minutes prior to the relevant scheduling deadline.⁵⁵

As the CAISO described in the transmittal letter for the November 20 Compliance Filing, the CAISO’s scheduling system will provide prompt automated notice to Scheduling Coordinators submitting ETC Self-Schedules whether the ETC Self-Schedule is valid, which automated notice should be provided to the Scheduling Coordinator immediately after the submittal of the ETC Self-Schedule. This prompt automated response will provide Scheduling Coordinators immediate feedback as to whether their ETC Self-Schedules are valid and fully balanced. If a single Scheduling Coordinator is submitting the entire chain of fully balanced sources and sinks associated with a particular ETC,

⁵⁴ Bay Area Comments at 7-8; Six Cities Comments at 3; SWP Comments at 15-18.

⁵⁵ Six Cities Comments at 3.

then the automated notice provided by the CAISO's scheduling system will provide that Scheduling Coordinator as much time as reasonably possible to correct any errors in its submittal – with the opportunity to make such corrections limited primarily by the amount of time prior to the close of the Day-Ahead Market the Scheduling Coordinator submitted the invalid ETC Self-Schedule.

On the other hand, if a single Scheduling Coordinator is not submitting an ETC Self-Schedule for the entire chain of fully balanced sources and sinks associated with a particular ETC, then all Scheduling Coordinators registered as associated with that ETC will receive an automated response that the ETC Self-Schedule is not fully balanced for the Trading Hour for which the first Scheduling Coordinator submits an ETC Self-Schedule in the chain of ETC Self-Schedules. It is not until the Scheduling Coordinator submitting the last ETC Self-Schedule in the chain of sources and sinks associated with the particular ETC has submitted its ETC Self-Schedule for a particular Trading Hour that the CAISO's scheduling system will be able to provide the automated notice confirming whether the full chain of ETC Self-Schedules associated with a particular ETC is valid and fully balanced. This notice will be issued automatically and promptly to all Scheduling Coordinators registered as associated with the particular ETC. However, the CAISO's scheduling system is only configured to make this final validation notice available for viewing by other Scheduling Coordinators that submitted their ETC Self-Schedules earlier when they are monitoring their interfaces with the CAISO's scheduling system. The CAISO's scheduling system is currently configured only to provide an "active" notification to these earlier Scheduling Coordinators if they

are actively monitoring their interfaces with the CAISO's scheduling system. Consequently, Scheduling Coordinators that have submitted ETC Self-Schedules in a chain of ETC Self-Schedules prior to the submittal of the last ETC Self-Schedule in the chain must take the initiative to monitor their interfaces with the CAISO's scheduling system in order to become aware immediately of the final validation notice for the entire chain of ETC Self-Schedules.

As the CAISO cannot require that all Scheduling Coordinators actively monitor their interfaces with the CAISO's scheduling system at all times, it is incumbent on all Scheduling Coordinators submitting inter-dependent ETC Self-Schedules to notify the other associated Scheduling Coordinators in the event one of them receives an automated notice that the chain of ETC Self-Schedules is invalid or not fully balanced and for all of the affected Scheduling Coordinators to work together to make any necessary corrections in the chain of ETC Self-Schedules. It is this last circumstance that particularly compels the CAISO to qualify any commitment it may be able to make in the MRTU Tariff regarding its ability to "notify" all affected Scheduling Coordinators regarding an ETC Self-Schedule that is dependent on other ETC Self-Schedules and to provide all Scheduling Coordinators associated with that inter-dependent chain of ETC Self-Schedules an opportunity to correct any invalidity.

There are two basic aspects of the ETC Self-Schedule validation process that the CAISO cannot control – and thus for which the CAISO cannot guarantee an opportunity for a Scheduling Coordinator to correct errors in an ETC Self-Schedule: (1) the timing of the ETC Self-Schedule submittal and (2) the

response time to a notice of invalidity. First, the CAISO cannot be held accountable for the timing of the submittal of either an initial ETC Self-Schedule by a single Scheduling Coordinator or of the submittal by the last Scheduling Coordinator of the final ETC Self-Schedule of a chain of inter-dependent ETC Self-Schedules. If a Scheduling Coordinator submits its ETC Self-Schedule with too little time prior to the Market Close of the Day-Ahead Market, then even the CAISO scheduling system's prompt automated validation response cannot provide the Scheduling Coordinator an opportunity to correct its ETC Self-Schedule.

Second, the CAISO cannot be held accountable for the time it may take for any particular Scheduling Coordinator to: (1) check its automated validation message, (2) determine the source of the error in its ETC Self-Schedule or any chain of inter-dependent ETC Self-Schedules, (3) notify any associated Scheduling Coordinators of the error in a chain of inter-dependent ETC Self-Schedules, and (4) submit the corrected ETC Self-Schedule. The CAISO can only be held accountable for the time required by its systems to produce the automated validation message. It is up to the Scheduling Coordinator to assess and act in response to a validation message in the time it has left itself available to submit a corrected ETC Self-Schedule.

On reflection regarding the issues raised in the comments regarding the provisions of the CAISO's proposed new Section 16.6.4, the CAISO would be willing to clarify in a further compliance filing that the CAISO's scheduling system will notify a Scheduling Coordinator whether its ETC Self-Schedule is valid or

invalid promptly through automated notices provided through the scheduling system interface after the validation, thereby leaving the Scheduling Coordinator the opportunity to correct any errors to the extent time permits. The CAISO is willing to remove the phrase “to the extent practicable” to which the commenters particularly object as part of this compliance filing. The CAISO would propose that the revised Section 16.6.4 read as follows (with deletions shown in strike-through text and additions underlined):

~~To the extent practicable, a~~After performing validation of the ETC Self-Schedule, and prior to taking any action pursuant to Section 16.6.2, the CAISO ~~will notify~~will make an automated validation notice available to the Scheduling Coordinator indicating whether the ETC Self-Schedule is valid or invalid. If an ETC Self-Schedule involves more than one Scheduling Coordinator, the complete validation of the chain of ETC Self-Schedules will occur when the last Scheduling Coordinator submits its ETC Self-Schedule. At that time, the CAISO will make an automated validation notice available to each Scheduling Coordinator registered as associated with the chain of ETC Self-Schedules. The CAISO can accommodate corrections submitted by a Scheduling Coordinator to an ETC Self-Schedule up to Market Close of the Day-Ahead Market.

The CAISO would also propose to revise the provisions of Section 17.3.4 regarding TORs to make these same changes.

Also with regard to the accommodation of ETC rights, SWP asserts that additional revisions need to be made to the MRTU Tariff to accommodate rights to make post-Day-Ahead changes to ETC Self-Schedules. However, the MRTU Tariff already fully accommodates post-Day-Ahead changes to ETC Self-Schedules through the “perfect hedge” mechanism previously accepted by the Commission. SWP itself acknowledges in its comments that Section 11.5.7 (the provision implementing the “perfect hedge” protection for ETCs and TORs) provides that the HASP and RTM Congestion Credit that the CAISO will apply to

reverse any Congestion charges applied to a post-Day-Ahead change in an ETC Self-Schedule will be based on the actual metered CAISO Demand of the ETC or TOR holder so long as it is less than the maximum amount specified in the TRTC and any ETC or TOR Self-Schedule entered in the HASP. Thus, there is no need for the ETC or TOR holder to submit a revised ETC Self-Schedule for Demand, as the HASP and RTM Congestion Credit will reverse all Congestion charges for the amount actually delivered to Demand regardless of the amount of the ETC Self-Schedule. As SWP's concern is already addressed, no further revisions are needed to the MRTU Tariff in this regard.

K. Transmission Ownership Rights Issues

Several parties filed comments regarding the provisions the CAISO has proposed to add to Section 17 of the MRTU Tariff regarding the treatment of TORs. In the September 21 Order, the Commission found that the parameters set forth in Section 17 were generally reasonable, but that they were incomplete and did not fully assure parties that their bilateral contracts will be honored.⁵⁶ Therefore, the Commission directed the CAISO to clarify Section 17 in several respects, particularly including the need to specify the "generic" treatment of TORs under MRTU, for instance, that TORs will continue to be exempt from UFE, minimum load compensation, and neutrality charges.⁵⁷

The CAISO submits that its expansion of Section 17 to clarify and specify in more detail the "generic" treatment of TORs under MRTU is, with a very few modifications discussed below, in full compliance with the September 21 Order.

⁵⁶ *Id.* at P 987.

⁵⁷ *Id.* at P 988.

Most significantly, the CAISO added language emphasizing that the provisions of Section 17 serve only as a “default” in circumstances where the TOR holder has not entered into a bilateral agreement with the CAISO with superseding provisions regarding its TORs. Consequently, all TOR holders have the opportunity to avoid the application of these “default” provisions of Section 17 through negotiations with the CAISO, and, in fact, the CAISO has successfully negotiated several agreements of this sort over the past few years, which have been filed with and accepted by the Commission.

Moreover, given certain basic similarities in the need to make special provisions to accommodate both TORs and ETC rights in the application of the CAISO’s systems and requirements, the CAISO relied heavily in its drafting of the expanded version of Section 17 on the provisions of Section 16 regarding ETCs that the Commission has already accepted in the September 21 Order. Contrary to the claims made by some parties that this was inappropriate,⁵⁸ the CAISO submits that this was clearly the most appropriate model and that the provisions of Section 17 contain the proper additional accommodations for TORs in recognition of their status as superior rights to those of ETCs in certain respects. Although several parties object to these similarities, the CAISO submits that its incorporation of similar requirements for the provision and implementation of Transmission Rights and Transmission Curtailment Instructions (“TRTC”) (Section 17.1), the validation of TOR Self-Schedules against these TRTC (Section 17.3), exceptions for System Emergencies (Section 17.2.1), and dispute resolution (Sections 17.1.6 and 17.8.3) is entirely

⁵⁸ See, e.g., Bay Area Comments at 9; CCSF Comments at 2-8; IID Comments at 3-5.

reasonable and appropriate in recognition of the similarities between TORs and ETC rights with regard to these matters. Also, as appropriate, the CAISO has incorporated provisions into Section 17 that differ significantly from the provisions of Section 16 in recognition of the essential differences between ETCs and TORs regarding scheduling priority (Section 17.2) and application of charges (Section 17.3.3).

In addition, contrary to the claims in some comments that Section 17 does not accommodate “new” TORs,⁵⁹ the CAISO drafted the provisions of Section 17 in a manner that clearly accommodates both existing and “new” TORs. A substantial portion of the provisions added to Section 17 describe the need for the TOR holder to submit TRTC to the CAISO in order for the CAISO to have sufficient information to program its systems to accommodate those TORs, which TRTC are very similar to the same form of TRTC required to accommodate ETCs but which can be prepared for “new” as well as existing TORs. The CAISO did adapt some of the provisions of Section 16 regarding ETCs to apply directly to TORs in Section 17, but it did so only to recognize the possibility that certain TORs may be held in joint ownership with or be directly affected by ETCs of the CAISO’s Participating TOs, in which case the CAISO has attempted to make clear that it is obligated to honor the terms of the ETCs to the extent they constrain the manner in which it would otherwise accommodate the affected TORs.

As many of the specific comments submitted simply restate positions rejected by the Commission in the September 21 Order, the CAISO does not

⁵⁹ See, e.g., Bay Area Comments at 9.

consider it necessary to respond to each individual comment submitted regarding Section 17 and related provisions of the MRTU Tariff regarding TORs. However, the CAISO believes that the record in this proceeding would benefit from clarification of the following selected matters raised in the comments.

First, the CAISO wishes to clarify an omission from Section 17 pointed out in the comments of CCSF and MWD, that the provisions do not expressly state that TOR holders assessed Marginal Losses will share in the distribution of any over-collection of the Marginal Cost of Losses in the IFM Marginal Losses Surplus Credit in accordance with the provisions of Section 11.2.1.6.⁶⁰ To remedy this omission, the CAISO offers to revise Section 17.3.3(4) to read:

(4) The holders of TORs will not be entitled to an allocation of revenues from the CAISO, including Access Charge revenues; provided that the Scheduling Coordinator for the TOR holder shall be allocated the applicable amount of IFM Marginal Losses Surplus Credit in accordance with the provisions of Section 11.2.1.6.

Other than the foregoing correction, the CAISO submits that no other changes to the provisions of Section 17.3.3 regarding applicable charges are necessary or appropriate.⁶¹ The CAISO's incorporation of a "default" requirement that a TOR holder be assessed charges applicable to Ancillary Services, Imbalance Energy, Transmission Losses, and Grid Management Charges is both appropriate for a "default" provision of this sort and consistent with provisions of other agreements the CAISO has filed with and had accepted by the Commission. While some of the agreements the CAISO has negotiated and which have been accepted by the Commission have incorporated alternative

⁶⁰ MWD Comments at 9; CCSF Comments at 15.

⁶¹ See, e.g., MID Comments at 2-6; CCSF Comments at 14, 16.

means by which the TOR holder was able to meet its obligations regarding these charges, the CAISO submits that the terms in Section 17.3.3 (with the modification described above) comply with the September 21 Order and are the reasonable and proper basis for the initiation of any negotiations between the CAISO and a TOR holder regarding the ultimate responsibility for these costs of operating in the CAISO Control Area.

The CAISO also wishes to address the proposal by IID that the CAISO be required to compensate the TOR holder if the CAISO's redispatch of non-TOR resources in Real-Time to accommodate valid changes to TOR Self-Schedules in Real-Time somehow is determined to make use of "excess" TOR capacity to do so. It appears that IID wants to have its cake and eat it too. Even if the CAISO's special efforts to accommodate Real-Time changes to TOR Self-Schedules actually were to use the TOR capacity to accommodate those TOR rights, it is hard to fathom how the TOR holder could make the claim that it should be paid extra for the use of its own rights in order for the CAISO to undertake the extra work to make the special accommodation. Second, the treatment of unscheduled parallel flows in Real-Time is the subject of standard procedures of WECC, which do not provide for compensation. It would be a logistical nightmare for the the CAISO and other transmission operators in the Western Interconnection to attempt to calculate unscheduled flows on each other's systems in Real-Time and to calculate compensation. The CAISO submits that this would be unreasonable – and that it seems unlikely that IID would be willing to provide reciprocal compensation to the CAISO whenever IID power should

flow over the CAISO Controlled Grid. The CAISO submits that the foregoing explanation should also address the questions raised by MWD regarding this matter in its comments.⁶²

IID also expresses a similar concern to that posed by SWP regarding its ETC rights that the provisions of Section 17 may not permit IID to receive the “perfect hedge” for its TORs. As discussed in Section II.J above, IID’s concern is misplaced, as the provisions of Section 11.5.7 provide a TOR holder the full protection of the “perfect hedge” in the same manner as they apply to SWP as an ETC holder.

Finally, the CAISO acknowledges that SCE’s comments are correct regarding the need to rectify typographical errors in Section 17.1.4 and in the definition of TRTC and in the need to expand the definition of TRTC to apply expressly to TORs.⁶³ In addition, the CAISO would be willing to make the minor clarifications to Section 17.1.1 proposed in SCE’s comments.⁶⁴

L. Market Power Mitigation

Paragraph 1021 of the September 21 Order required the CAISO to modify Section 36.9.1.4 to provide that bids below $-\$30/\text{MWh}$ are subject to cost verification. Powerex contends, however, that the CAISO’s proposed changes to Section 36.9.1.4 are overly broad and unduly burdensome in two respects. First, Powerex contends that there may be circumstances under which a Scheduling Coordinator might submit a bid less than $-\$30/\text{MWh}$ that should not trigger the

⁶² MWD Comments at 5-7.

⁶³ SCE Comments at 12-13.

⁶⁴ SCE Comments at 11-12.

need for cost justification. This argument is beyond the scope of the November 20 Compliance Filing. The Commission's directive in the September 21 Order did not provide the CAISO with any discretion to exempt any bids below - \$30/MWh from cost justification. Powerex's argument is more appropriately raised in a request for rehearing of the September 21 Order.

Powerex also contends that Scheduling Coordinators who must verify their costs should initially have to submit their data only to the CAISO, and not to the Commission. Powerex argues that only in cases where there is evidence of improper conduct should a Scheduling Coordinator have to justify its bid to the Commission, and doing so imposes on a Scheduling Coordinator an "unjustified administrative burden."⁶⁵ Powerex's argument is flawed for three reasons. First, the administrative burden associated with sending to the Commission the exact same information that a party will have to send to the CAISO in any instance will be, at most, minimal. Second, requiring that Scheduling Coordinators provide cost justification information to the Commission, and making payment of bids below -\$30/MWh contingent upon Commission acceptance of this information does not suggest any improper conduct on the part of the Scheduling Coordinator, but rather, simply places the discretion to determine the sufficiency of the Scheduling Coordinator's information in the hands of the Commission. The CAISO does not understand, and Powerex does not explain, how giving the Commission the authority to make such decisions would negatively affect Scheduling Coordinators. Lastly, the requirement that bids above or below certain bid levels be subject to a reporting requirement and Commission cost

⁶⁵ *Id.*

verification have been part of the CAISO Tariff for many years, and Powerex does not explain how these accepted requirements have suddenly be rendered unjust and unreasonable. Specifically, negative decremental Energy bids below - \$30/MWh are subject to cost verification by the Commission today pursuant to Section 39.3 of the current CAISO Tariff.

M. Resource Adequacy Issues

1. Issues Related to Determination of Reserve Requirements and Local Capacity Requirements

a. The CAISO Properly Followed the Commission’s Directive to Institute a Default Reserve Margin and Did Not Impose a “Floor” on the Reserve Margin Applicable to CPUC Jurisdictional LSEs

PG&E and the CPUC assert that Section 40.2.2.1 establishes “a floor applicable to CPUC-jurisdictional entities, regardless of the CPUC’s asserted jurisdiction and imposition of resource adequacy requirements.”⁶⁶ PG&E and the CPUC are mistaken. The CPUC may freely adopt any level of Reserve Margin consistent with its state law obligations and the adopted Reserve Margin will be binding on CPUC-jurisdictional LSEs. The only requirement under the CAISO Tariff is that the Scheduling Coordinator for a CPUC Load Serving Entity *communicate* the applicable Reserve Margin to the CAISO. This threshold is so minimal as to represent no cognizable or practical limitation on the CPUC’s authority. Indeed, given the directive in Public Utilities Code § 380 requiring the CPUC to “consult” with the CAISO, the basic requirement that Scheduling Coordinators for the CPUC Load Serving Entities provide the CAISO with the applicable CPUC-established Reserve Margin does not reflect any encroachment

⁶⁶ PG&E Comments at 7; CPUC Comments at 11.

upon state jurisdiction over resource adequacy. Moreover, such information is necessary for the CAISO to have adequate data as to the level of resources it can reasonably expect to have available to maintain grid reliability.

In accordance with the Commission's directive, Section 40.2.2.1(b) applies the default 15 percent reserve margin only to "a CPUC Load Serving Entity subject to 40.2.1.1(b)." That section refers to the circumstance, "[w]here the information or data provided to the CAISO under 40.2.1.1(a) does not include Reserve Margin(s)." Thus, the CAISO's default Reserve Margin applies to CPUC Load Serving entities only if the CPUC fails to require its jurisdictional entities to *communicate* Reserve Margin information to the CAISO. There is no "floor" imposed by the CAISO; the CPUC remains free to establish whatever Reserve Margin it determines to be appropriate to ensure the adequacy of customer service.

Only in the absurd situation whereby the CPUC elects to keep its adopted Reserve Margin secret from the CAISO would the CAISO's default Reserve Margin apply to a CPUC jurisdictional Load Serving Entity. This circumstance is inconceivable given the express mandate in California Public Utilities Code § 380 for the CPUC to develop resource adequacy requirements in "consultation" with the CAISO. Accordingly, this remote circumstance, which would violate the intent of the California legislature, does not warrant further modification to the CAISO's proposed compliance filing.

b. Application of the Resource Adequacy Provisions to Golden State Water Company is Appropriate

Golden State Water Company (“GSW”) challenges not only the determination of the Commission’s jurisdiction over resource adequacy matters, but also the CAISO’s authority under the September 21 Order to impose the default Reserve Margin and other resource adequacy elements to CPUC jurisdictional entities in the event the CPUC fails to establish a resource adequacy program.⁶⁷ GWS’s protest is without merit. As explained in the Transmittal Letter for the November 20 Compliance Filing, the September 21 Order expressly stated that the “the default MRTU Tariff *system* requirements are triggered only when state and Local Regulatory Authorities have failed to act in order to ensure resource adequacy.”⁶⁸ Under the MRTU Tariff, a Local Regulatory Authority is “[t]he state or local governmental authority responsible for regulation or oversight of a utility.”⁶⁹ This definition encompasses the CPUC. Accordingly, the CAISO reasonably interpreted the September 21 Order as authorizing the CAISO to apply default provisions on a uniform basis to all Scheduling Coordinators, including, as here, where the CPUC fails to provide the CAISO with Reserve Margin requirements for GSW and similarly situated CPUC-jurisdictional LSEs.

Most importantly, GSW’s concerns can and will be addressed by CPUC action. Once the CPUC has adopted resource adequacy requirements for its

⁶⁷ GSW Comments at 12-20.

⁶⁸ September 21 Order at P 1118. See also, P 1153 (“we believe that if a Local Regulatory Authority fails to implement a reserve margin, then the CAISO should continue to implement the 15 percent default reserve margin included in the IRRP in order to ensure the reliable supply of energy at reasonable prices”).

⁶⁹ MRTU Tariff, Appendix A.

smaller jurisdictional utilities that include provisions to communicate with the CAISO, Section 40.2.1.1(a) of the CAISO Tariff would *automatically* recognize those provisions as governing the reporting and substantive requirements applicable to GSW and similarly situated entities for purposes of compliance with the CAISO Tariff. On December 22, 2006, the CPUC issued its “Assigned Commissioner’s Ruling and Scoping Memo for Phase 2” establishing a procedural schedule that calls for determining the resource adequacy program for small LSEs by January 17, 2008.⁷⁰ Should the CPUC maintain this decisional schedule, it will adopt a resource adequacy program for GSW prior to the recently-revised projected implementation date for MRTU. This would obviate the concerns raised by GSW.

c. The Commission Has Granted the CAISO an Extension of Time to Describe the Criteria to be Applied in Determining Local Capacity Requirements

NCPA, Bay Area, and SCE assert that the CAISO failed to comply with Paragraph 1167 of the September 21 Order⁷¹ by failing to describe the reliability criteria the CAISO will apply to determine local capacity requirements and how that reliability criteria differs from the existing criteria employed in the Reliability Must-Run technical studies.⁷² This complaint ignores the fact that contemporaneously with its compliance filing, the CAISO moved for, and the Commission subsequently granted, a ninety (90) day extension of time to comply

⁷⁰ Assigned Commissioner’s Ruling and Scoping Memo for Phase 2, CPUC Docket No. R.05-12-013 (Dec. 22, 2006) at p. 22.

⁷¹ September 21 Order at P 1167.

⁷² NCPA Comments at 3; Bay Area Comments at 8; SCE Comments at 13.

with the requirements of Paragraph 1167.⁷³ Accordingly, the CAISO intends to fully comply with the Commission's directive in a compliance filing made on or before February 20, 2007.⁷⁴ NCPA, Bay Area, SCE, and other Market Participants will have the opportunity to comment on this issue at that time.

2. Issues Related To the Availability Requirements

a. Powerex's Request to Specify in the Resource Adequacy Sections of the Tariff the Ability of Resource Adequacy System Resources Not Selected in the Day-Ahead Market to Revise Energy Bids in the HASP Is Unnecessary and Should Be Rejected

Powerex argues that Section 40.6.5 "should specify that Scheduling Coordinators who submit bids for Resource Adequacy Capacity of System Resources, and whose bids are not selected in the Day-Ahead Market, may submit a revised bid in the HASP and Real-Time Market."⁷⁵ Powerex creates some confusion regarding the scope of its concern by recommending Section 40.6.5 specify that "[i]f selected in the RUC, the System Resource may revise its Bid in the HASP"⁷⁶ However, regardless of Powerex's intent, further revision to Section 40.6.5 is unnecessary. The CAISO explained in its Transmittal Letter for the November 20 Compliance Filing that the explicit provisions of Section

⁷³ "Motion of the California Independent System Operator Corporation for Extension of Time to Submit Compliance Filings," Docket Nos. ER06-615-000, et seq. (Nov. 20, 2006) at p. 5; *Notice of Extension of Time*, Docket Nos. ER06-615-000, et seq. (Nov. 27, 2006).

⁷⁴ SCE also argues that the CAISO failed to comply with Paragraph 1166 of the September 21 Order, which directed the CAISO to clarify that the detailed criteria and results from the technical study on local capacity requirements will be provided to market participants. The CAISO attempted to comply with this requirement by including that the technical study will be published on the CAISO's website and that the parameters, assumptions, and other criteria must be described and therefore published in the technical study. (See Section 40.3.)

⁷⁵ Powerex Protest at p. 2.

⁷⁶ Powerex Protest at p.3. Since the Day-Ahead Market encompasses RUC, it is unclear whether Powerex intended to focus solely on the situation where the System Resource is selected in RUC or where the System Resource was passed over completely by the Day-Ahead Market processes.

30.5.1 already comply with the Commission's directive to provide the right requested by Powerex.⁷⁷ Thus, there is no dispute on substance. Rather, Powerex simply remains dissatisfied with the CAISO's Tariff structure and the CAISO's preference to locate rights, duties, and obligations in a single tariff section whenever possible.

Section 30.5.1(d) provides, "Bids for Energy or capacity that are submitted to one CAISO Market, but are not accepted in that market are no longer a binding commitment and Scheduling Coordinators may submit Bids in a subsequent CAISO Market at a different price." The Day-Ahead Market, which includes the Integrated Forward Market and RUC, and the HASP/RTM constitute separate and distinct CAISO Markets.⁷⁸ Accordingly, this provision resolves Powerex's concern where a Resource Adequacy System Resource is not selected in the Day-Ahead Market, including RUC.

Similarly, Section 30.5.1(b) states, in pertinent part, that "Incremental Bid prices for Energy associated with Day-Ahead AS or RUC Awards in Bids submitted to the HASP may be revised." This sentence expressly addresses Powerex's concern by providing that the Energy Bid associated with RUC capacity may be revised in the HASP. Contrary to the contentions of Powerex, there is nothing ambiguous or contradictory in applying these "General Bidding Rules" to System Resources generally and Resource Adequacy System

⁷⁷ Transmittal Letter at 31; September 21 Order at P 1286.

⁷⁸ See, MRTU Tariff, Appendix A, Master Definitions Supplement at 533 and 540.

Resources in particular.⁷⁹ Nor does Powerex point to any specific tariff provision that contradicts this specific authorization.

Based on its experience with administering its pre-MRTU Tariff, the CAISO strongly seeks to avoid redundant provisions in its MRTU Tariff. Such redundancies over time generally lead to greater confusion and ambiguity as future modifications are adopted and the possibility of inconsistencies increase. Therefore, absent the need to create the right in the first instance, the CAISO opposes inserting superfluous language simply to increase one party's comfort level in the purported clarity of the existence of that right. Only in the event the Commission determines that Section 30.5.1 is unclear, should the CAISO be directed to make modifications to that section.

b. The CAISO Has Properly Clarified the Consequences of a Modified Reserve Sharing LSEs Failure to Replace a Resource Adequacy Resource Subject to a Forced Outage

The September 21 Order recognized the CAISO's agreement that Section 40.5.5 should be clarified in a compliance filing to address the situation where a Modified Reserve Sharing LSE replaces a Resource Adequacy Resource bid in the Day-Ahead Market that suffers a forced outage up to the next HASP bidding opportunity, plus one hour.⁸⁰ Accordingly, the Commission directed the CAISO to include such clarification in its compliance filing.⁸¹ Section 40.5.5 has been renumbered Section 40.5.4 as a result of changes made by the CAISO in the

⁷⁹ Powerex cites the fact that Section 33 provides that System Resources are settled in the HASP as the basis for requiring an explicit change to Section 40.5.6. There is no merit to this contention. Section 33 simply provides that the HASP will issue hourly pre-dispatch instructions to System Resources that submit Energy Bids to the RTM. It does not contradict the authorization contained in section 30.5.1.

⁸⁰ September 21 Order at P 1251.

⁸¹ *Id.* at P 1255.

compliance filing. Bay Area asserts that the CAISO has failed to make the necessary clarifications.⁸² Bay Area is incorrect, but the CAISO acknowledges that its Transmittal Letter should have been more explicit in referring to this issue.

Section 40.5.4 addresses the consequences the failure of a Modified Reserve Sharing LSE to meet its availability obligations. Those availability obligations, including the substantive obligation to replace a Resource Adequacy Resource subject to a forced outage, are set forth in what is now section 40.5.1. Section 40.5.1(3) clearly provides,

In the event of a forced outage on a Resource Adequacy Resource committed in the Day-Ahead Market to provide Energy, the Scheduling Coordinator for the Modified Reserve Sharing LSE will have up to the next HASP bidding opportunity, plus one hour, to replace the lesser of: (i) the committed resource suffering the forced outage, (ii) the quantity of Energy committed in the Day-Ahead Market, or (iii) 107% of the hourly forecast load.

Once the CAISO corrected Section 40.5.4(2) to properly cross-reference the substantive obligation, *i.e.*, Section 40.5.1(3), the required clarification was performed.⁸³ Thus, the CAISO believes it has satisfied the requirements of the September 21 Order.

c. The CAISO Agrees With SMUD that Section 40.6.11 Should Be Clarified to Limit Recall Rights to Resource Adequacy Capacity

SMUD notes that the CAISO has committed to automate its software to allow Scheduling Coordinators to identify non-Resource Adequacy Capacity used to support exports so that these exports would receive the same priority as

⁸² Bay Area Comments at 12.

⁸³ The Six Cities properly point out in their comments that the CAISO's November 20 Compliance Filing continued to contain an error in section 40.5.4(2) with respect to its cross-references. Six Cities Comments at 6. Specifically, the reference to section 40.5.2(1) in the last line of section 40.5.4(2) should be to section 40.5.1(1).

CAISO Demand bid into the IFM and forecasted CAISO Demand in HASP and requests that Section 40.6.11 of the CAISO Tariff be modified to remove any ambiguity regarding the treatment of exports from non-Resource Adequacy Capacity.⁸⁴ The CAISO agrees that clarification is warranted.

The recall provision in Section 40.6.11 should only apply to the Resource Adequacy Capacity of a Generating Unit. In other words, if not all of the output of a particular facility is committed to the CAISO as Resource Adequacy Capacity, the CAISO could not recall the remaining, non-committed portion of the output under Section 40.6.11. The CAISO proposes that the provision be modified as follows:

40.6.11 Curtailment of exports in Emergency Situations

At its sole discretion, the CAISO may curtail exports from a Resource Adequacy ~~Resource~~ Capacity to prevent or alleviate a System Emergency.

The proposed revision should address the issue raised by SMUD and properly limits the CAISO's recall rights to capacity committed to it under the resource adequacy requirements.

d. The CAISO Agrees that System Resources Counting as Resource Adequacy Resources Should Not Be Able to Submit Interruptible Imports

Powerex states that the Commission should not permit System Resources to provide Interruptible Imports for capacity that is Resource Adequacy Capacity.⁸⁵ In this regard, Powerex also notes that the CAISO's compliance filing added detail to the bidding requirements for System Resources in Section

⁸⁴ SMUD Comments at 5. See also, NCPA Comments at 2-3.

⁸⁵ Powerex comments at 8.

30.5.2.4. Powerex, however, does not claim that those added details somehow authorize System Resources sold as Resource Adequacy Capacity to provide Interruptible Imports. The CAISO agrees that allowing deliveries of power from Resource Adequacy Resources to be interrupted would undermine the purposes of those requirements to provide an assured level of supply. The CAISO also believes that its tariff as submitted is consistent with this position. The CAISO further notes that Section 40.6.5 of the MRTU Tariff provides availability requirements that must be satisfied by System Resources. If the unit is subject to interruption and is not available to the CAISO when dispatched, the Scheduling Coordinator can be in violation of its responsibilities under the CAISO Tariff.

3. Issues Related To the CAISO's Backstop Procurement Authority

a. The CAISO's Proposed Tariff Provisions Adequately Safeguard Against Excessive and Overly Expensive Backstop Procurement

PG&E, AReM, and the CPUC each raise similar concerns that the CAISO's proposed safeguards do not sufficiently protect against excessive and costly CAISO procurement. The complaints generally target: (1) the absence of any requirement that CAISO backstop procurement be limited to the portion of a resource's capacity needed to resolve a reliability deficiency, rather than allowing the CAISO to procure the resource's entire capacity and (2) the specificity in describing the criteria to be used by the CAISO to select which resources to procure.⁸⁶ While the CAISO concurs that its backstop procurement practices

⁸⁶ PG&E Comments at 8-9, AReM Comments at 5, and CPUC Comments at 12-13.

should avoid inefficient and overly expensive procurement, the CAISO disagrees with the claim that the proposed provisions do not ensure that this goal will be realized.

Section 40.3.4.1 provides,

The CAISO shall procure Local Capacity Area Resources under Section 40.3.4 considering the effectiveness of the capacity at meeting Applicable Reliability Criteria in the Local Capacity Area and the costs associated with the capacity. The CAISO is permitted to procure a Generating Unit or Participating Load resource even where only a portion of [the] capacity of the Generating Unit or Participating Load resource is needed to meet Applicable Reliability Criteria in the Local Capacity Area.

PG&E argues for greater detail by asserting “the tariff should explicitly require that the CAISO procure those resources that, taking effectiveness factors and the minimum operating cost information available to the CAISO into account, will resolve its concerns regarding Applicability Reliability Criteria.”⁸⁷ However, that is expressly what Section 40.3.4.1 requires – the combined consideration of effectiveness in resolving the reliability concerns and costs. The focus on costs and effectiveness factors provides the CAISO the flexibility necessary to pursue procurement options. Thus, contrary to PG&E’s claim, the proposed tariff provision allows the CAISO to transact with “remaining capacity available from resources that have already been partially procured” or seek an “agreement by an entity to sell sufficient capacity to cover minimum overhead and reasonable profit without a full buy-out.”⁸⁸

In this latter regard, Section 40.3.4.1 simply permits, but does not require, the CAISO to procure whole units. This permissive authority simply recognizes

⁸⁷ PG&E Comments at 8-9, AReM Comments at 5, and CPUC Comments at 12-13.

⁸⁸ PG&E Comments at 8-9.

that a unit needed for reliability must, at a minimum, recover its fixed costs to remain available. Commercial realities and operating characteristics may, at times, dictate a need to secure the entire unit to satisfy this objective. However, as noted above, nothing in Section 40.3.4.1 compels this outcome. The CPUC, therefore, misinterprets Section 40.3.4.1 by concluding that “the proposed tariff language *fails* to reflect that the purchase of only part of a generator’s available capacity may more economically satisfy the grid’s reliability and RA requirements than the proposed tariff’s *requirement* that the CAISO procure the entirety of a unit’s capacity....”⁸⁹

As always, the CAISO is obligated to perform in accordance with Good Utility Practice.⁹⁰ This standard applies to how the CAISO would implement any backstop procurement under Section 40.3.4.1. If Scheduling Coordinators fail to meet their procurement responsibilities and the CAISO needs to acquire additional resources to meet reliability standards, and if the CAISO can reasonably acquire the needed capacity without procuring amounts above what is required, it would do so.

b. The CAISO Agrees to Develop Additional Provisions that Allow LSEs to Cure Procurement Deficiencies

Several parties, including Six Cities, PG&E, and the CPUC, challenge the CAISO’s decision not to include an explicit tariff provision allowing LSEs the opportunity to “cure” a deficiency in procured Local Area Capacity Resources.⁹¹ The CAISO is amenable to reexamining with stakeholders the propriety of and, if

⁸⁹ CPUC Comments at 13.

⁹⁰ CAISO Tariff section 4.4.1.

⁹¹ See Six Cities Comments at 4-6; PG&E Comments at 5; CPUC Comments at 8-11.

desirable, specific language for a cure provision. In order to facilitate this process, the CAISO offers the following proposed modifications to Sections 40.3.4 and 40.3.4.2. The CAISO anticipates seeking further stakeholder comment on these proposed changes and incorporating the outcome of this process into its forthcoming compliance filing on local reliability criteria. In a motion for extension, the CAISO requested an additional extension of time until no later than August 3, 2007 (180 days prior to MRTU implementation) to submit the compliance filing concerning local reliability criteria required by Paragraph 1167 of the September 21 Order. Accordingly, the CAISO requests that the Commission defer any final determination on this issue until it acts in response to the CAISO's compliance filing on local reliability criteria.

40.3.4 Procurement of Local Capacity Area Resources by the CAISO

(ii) the Local Capacity Area Resources specified in the annual Resource Adequacy Plans of all Scheduling Coordinators fail to permit or ensure compliance with Applicable Reliability Criteria in one or more Local Capacity Areas, regardless of whether such resources satisfy, for the deficient Local Capacity Area, the minimum amount of Local Capacity Area Resources identified in the technical study performed under Section 40.3.1. Under the foregoing circumstances, the CAISO may procure Local Capacity Area Resources in an amount and location sufficient to permit or ensure compliance with such Applicable Reliability Criteria in the applicable Local Capacity Area and after taking into account Generating Units under Reliability Must-Run Contracts, if any, and all Resource Adequacy Resources reflected in all submitted annual Resource Adequacy Plans and any supplements thereto, as may be permitted by the CPUC or Local Regulatory Authority, provided to the CAISO within 30 days of the date the CAISO issues its report pursuant to 40.3.4.2(a), whether or not such Resource Adequacy Resources are located in the applicable Local Capacity Area. ~~in which case the CAISO will procure Local Capacity Area Resources in an amount and location sufficient to permit or ensure compliance with such Applicable Reliability Criteria in the Local Capacity Area.~~ The CAISO will procure any Local Capacity Resources required by this Section 40.3.4(ii) pursuant to Section 41 to the extent the

failure to satisfy Applicable Reliability ~~Criteria~~Criteria constitutes a violation of the technical evaluations performed pursuant to Section 41.3. The CAISO will procure any Local Capacity Area Resources required by this Section 40.3.4(ii) pursuant to Section 42.1 and will allocate the costs of such procurement pursuant to 42.1.8(b) to the extent the failure to satisfy Applicable Reliability ~~Criteria~~Criteria constitutes a violation of the technical evaluations performed pursuant to Section 40.3.1, but not the technical evaluations performed pursuant to 41.3.

40.3.4.2 Local Capacity Area Procurement Reports

- (a) Where the CAISO determines the Local Capacity Area Resources specified in the annual Resource Adequacy Plans of all Scheduling Coordinators fail to permit or ensure compliance with Applicable Reliability Criteria in one or more Local Capacity Areas, regardless of whether such resources satisfy, for the deficient Local Capacity Area, the minimum amount of Local Capacity Area Resources identified in the technical study performed under Section 40.3.1, after taking into account Generating Units under Reliability Must-Run Contracts, if any, and all Resource Adequacy Resources reflected in all submitted annual Resource Adequacy Plans, whether or not such Resource Adequacy Resources are located in the applicable Local Capacity Area, the CAISO shall publish a report on the CAISO Website that identifies the deficient Local Capacity Area(s), the basis of the deficiency, and one or more resources that are known to resolve the deficiency.
- (b) The CAISO shall publish a report on the CAISO Website which shall show the Local Capacity Area Resources procured under Section 40.3.4, the megawatts of capacity procured, the duration procurement, the reason(s) for the procurement, and all payments in dollars, itemized for each Local Capacity Area. The CAISO will provide a market notice of the availability of the report.

Although the CAISO welcomes further refinement of any cure provision, the CAISO notes that the proposed modifications, which are limited to “collective” procurement deficiencies, are wholly consistent with existing CPUC policy. The CPUC in Decision 06-06-064 provided:

If the CAISO determines that a local area is deficient due to failure of a Commission-jurisdictional LSE to meet its Local RAR, the CAISO will engage in backstop procurement, the cost of which will be assigned to the deficient LSE's Scheduling Coordinator pursuant to CAISO tariffs. If the CAISO determines that a local area is adequately resourced, but notes that a Commission-jurisdictional LSE did not meet its local RAR, the CAISO would take no action with respect to that LSE.

If the CAISO determines that a local area is deficient due to "collective error" (for example, a deficiency results from the interplay of effectiveness factors) and not the failure of a Commission-jurisdictional LSE to meet its Local RAR, the CAISO will work with the Commission to provide the LSEs with an opportunity to procure the deficiency before the CAISO engages in backstop procurement. The cost of this backstop procurement would be assigned to the LSEs' Scheduling Coordinators pursuant to CAISO tariffs, provided, however, that any LSE that took advantage of the opportunity to procure local capacity in lieu of relying on CAISO backstop procurement would be credited for such voluntary procurement.⁹²

Thus, the CPUC itself has recognized the poor incentives inherent in allowing LSEs to cure for a deficiency in Local Area Capacity Resources due to a particular LSE's failure to satisfy its individual obligation.⁹³ The CAISO strongly agrees with this position.⁹⁴

In addition, under circumstances where an LSE would be allowed to cure for a "collective" deficiency, *i.e.*, each LSE meets its own proportionate obligation, but the collective portfolio does not permit compliance with the local reliability criteria, serious cost allocation and recovery issues exist. Unless these issues

⁹² *Opinion on Local Resource Adequacy Requirements*, D.06-06-064 (June 29, 2006) at p.

61.

⁹³ Certain of the CPUC's arguments in response to the CAISO's compliance filing appear to conflict with its own prior pronouncements restricting the scope of the opportunity to cure.

⁹⁴ As noted in the CAISO's Transmittal Letter, because the CAISO will not engage in backstop procurement absent an aggregate deficiency, a strong incentive would exist for smaller LSEs to wait to procure local capacity in the hopes of relying on the "lumpiness" of procurement by larger LSEs.

are resolved, there is little practical likelihood of a willingness by an LSE to cure the collective deficiency. For instance, the costs of such procurement would likely have to be recovered through some “reliability services tariff” with the Commission to the extent the LSE sought to spread the costs to other LSEs that benefit from the transaction. Since the procuring LSE has unilaterally acted as the de facto agent for other LSEs, the bilateral contract should be subject to close Commission scrutiny similar to an RMR contract. Southern California Edison’s experience with seeking to recover analogous costs pursuant to its compliance with M-438 has been contentious. These issues along with how to avoid inefficient procurement when one or more resources will solve the collective deficiency should be considered by the stakeholders as the CAISO develops potential alternative language.

c. The CAISO Agrees to Provide Regulatory Entities With Information Necessary to Credit LSEs for CAISO Backstop Procurement

The September 21 Order required the CAISO to clarify that those LSEs that pay for capacity procured by the CAISO pursuant to its backstop authority will receive credit towards meeting their particular resource adequacy requirements.⁹⁵ The CAISO responded by recognizing a distinction in its ability to provide credit for satisfying the local capacity obligation and the general system or reserve margin obligation. The basis for this distinction lies in the fact that Section 40.3 establishes local capacity requirements and imposes on LSEs a potential financial consequence to failing to meet their CAISO-allocated portion of the aggregate obligation. However, the CAISO has no similar authority with

⁹⁵ September 21 Order at P 1196.

respect to meeting overall resource adequacy requirements reflected in an LSE's Reserve Margin and, therefore, AReM correctly summarizes the CAISO's position in its statement that "it is up to the LRAs to specify the amount of credit due," if any.⁹⁶

PG&E, the CPUC and AReM concur with the CAISO's crediting approach that recognizes the authority of the CPUC and other Local Regulatory Authorities to determine what "counts" toward compliance with Reserve Margin requirements (unless the LSE's Reserve Margin is determined by the CAISO's default provisions).⁹⁷ Nevertheless, PG&E, the CPUC, and AReM assert that the CAISO's MRTU Tariff should specify that the CAISO will provide the CPUC and Local Regulatory Authorities information: (1) regarding "the scope of backstop procurement attributable to an LSE's failure to procure RA capacity" and (2) sufficient to allow those authorities to issue any appropriate credit.⁹⁸ The CAISO agrees and offers the following proposed language as the start of stakeholder consideration of this issue:

40.3.4 Procurement of Local Capacity Area Resources by the CAISO

... Whether or not the share of the Local Capacity Area Resource procured by the CAISO under this Section may count towards satisfaction of a Load Serving Entity's Reserve Margin shall be determined by the CPUC, Local Regulatory Authority, or federal agency with jurisdiction of the Load Serving Entity, unless the CPUC, Local Regulatory Authority, or federal agency has failed to establish a Reserve Margin, in which case the CAISO will assign

⁹⁶ AReM Comments at 3. Because of the CAISO's respect for the jurisdictional boundaries established by the Commission in the September 21 Order, the CAISO does not state that an LSE "will" receive credit for system resource adequacy or its overall Reserve Margin. AReM's suggestion that the CAISO tariff should be so affirmative conflicts with its accurate comment that the "it is up to the LRAs to specify the amount of the credit due to the LSEs," which necessarily can be none. AReM Comments at 3 and 4.

⁹⁷ CPUC Comments at 11-12, PG&E Comments at 6; AReM Comments at 3.

⁹⁸ *Id.*

the Load Serving Entity's share of the Local Capacity Area Resource towards satisfaction of its Reserve Margin pursuant to Sections 40.2.1.1(b), 40.2.2.1(b), and 40.2.3.1(b). The CAISO shall cooperate with the CPUC, Local Regulatory Authorities, and federal agencies to provide sufficient information to permit Load Serving Entities under their respective jurisdiction to receive credit or allocation in MW of the capacity procured by the CAISO pursuant to this section.

42.1.8

Whether or not the share of the Resource Adequacy Capacity procured by the CAISO under this Section may count towards satisfaction of a Load Serving Entity's Reserve Margin shall be determined by the CPUC, Local Regulatory Authority, or federal agency with jurisdiction of the Load Serving Entity, unless the CPUC, Local Regulatory Authority, or federal agency has failed to establish a Reserve Margin, in which case the CAISO will assign the Load Serving Entity's share of the Resource Adequacy Capacity towards satisfaction of its Reserve Margin. The CAISO shall cooperate with the CPUC, Local Regulatory Authorities, and federal agencies to provide sufficient information to permit Load Serving Entities under their respective jurisdiction to receive credit or allocation in MW of the capacity procured by the CAISO pursuant to this section.

Following further consideration by stakeholders, the CAISO anticipates including an amendment addressing this issue in its forthcoming local reliability compliance filing. The CAISO, therefore, again requests that the Commission defer any final determination on this issue until it acts in response to the CAISO's local reliability compliance filing.

d. The CPUC Misunderstands the CAISO's Crediting LSEs Toward Their Local Capacity Obligations for Capacity Procured by the CAISO Through its Backstop Authority

The CPUC contends that the language in Section 40.3.4 improperly directs the "counting" of credit within the CPUC's resource adequacy program and therefore must be "modified to defer to the CPUC authority to determine

whether and when credit for procurement of RA capacity will accrue to a CPUC jurisdictional LSE.”⁹⁹ The CAISO disagrees that the change is warranted.

Section 40.3.4 provides, in pertinent part,

To the extent the cost of CAISO procurement under this Section is allocated to a Scheduling Coordinator, on behalf of a Load Serving Entity, that Scheduling Coordinator will receive credit toward its Local Capacity Area Resource obligation for the Load Serving Entity's pro rata share of the procured Local Capacity Area Resource. (Underlined text new in the Compliance Filing.)

The crediting provision of Section 40.3.4 is not “new” to the November 20 Compliance Filing. Instead, it was included in the CAISO’s original February 2006 MRTU Tariff Filing. For purposes of this answer, therefore, the CAISO assumes that the CPUC’s generalized objection in its request for rehearing of the September 21 Order¹⁰⁰ to the jurisdictional demarcation articulated by the Commission in that order sufficiently preserves its current right to seek the requested modification. Even assuming no procedural barrier exists, the CPUC’s argument fails on the basis of the authority granted to the CAISO by the September 21 Order over local reliability. In other words, only a fundamental change in the Commission’s determination of federal-state jurisdictional boundary justifies the relief sought by the CPUC.

The September 21 Order concluded that “the CAISO must play a greater role in setting *local* RA requirements because it is uniquely situated to assess

⁹⁹ CPUC Comments at 14.

¹⁰⁰ “Request of the California Public Utilities Commission for Clarification or in the Alternative Rehearing of the Commission’s September 21, 2006 Order Conditionally Accepting the California Independent System Operator’s Electric Tariff Filing to Reflect Market Redesign and Technology Upgrade,” Docket No. ER06-615-000 (Oct. 23, 2006), at 4-13.

capacity needs in constrained areas and load pockets.”¹⁰¹ The Commission generally approved the provisions relating to local reliability. Section 40.3 provides that the CAISO, in collaboration with the CPUC, Local Regulatory Authorities, and stakeholders, will determine the minimum amount of Local Capacity Area Resources that must be available in each Local Capacity Area. While the MRTU Tariff does not compel any particular LSE to procure the necessary capacity (Section 40.3.3), the CAISO does allocate the Local Capacity Area Resource obligation to each LSE for purposes of assigning costs associated with CAISO backstop procurement (Sections 40.3.2 and 40.3.4). Accordingly, the CAISO’s “crediting” solely pertains to the CAISO’s function of properly accounting for backstop costs. There is no crediting for crediting for purposes of determining an LSE’s compliance with its resource adequacy capacity procurement obligations unless the CPUC or Local Regulatory Authority allows such crediting for CAISO backstop procurement.

No further change to the provision is warranted. The CAISO must have the ability to properly allocate the costs of any required backstop procurement. Moreover, as discussed above, the CPUC and other Local Regulatory Authorities will retain authority to determine how to credit any backstop capacity purchase by the CAISO towards LSEs within their respective jurisdictions. Stated differently, the Local Regulatory Authorities will retain jurisdiction to determine if LSEs are meeting their Reserve Margins, including any credit for backstop procurement by the CAISO.

¹⁰¹ September 21 Order at P 1119 (emphasis in original).

e. AReM's Confusion Arises From a Typographical Error in Section 42.1.8

AReM supports the CAISO charging deficient LSEs with the costs of any backstop procurement required to meet reliability needs up to the amount of the deficiency.¹⁰² However, AReM notes confusion regarding how costs for Local Capacity Area Resources are assigned to LSEs other than the deficient LSE under Sections 42.1.8(c) and 42.1.8(d). AReM's confusion is well founded and arises from the inadvertent reference to Local Capacity Area Resources in Section 42.1.8(d). That section is intended only to apply to capacity procured to resolve system deficiencies, not Local Capacity Area reliability deficiencies.

Section 42.1.8(c) allocates costs in two circumstances: (1) where capacity is procured to resolve a "collective" Local Capacity Area deficiency under section 40.3.4(ii) or (2) where capacity is procured under Section 40.3.4(i) to resolve a Local Capacity Area deficiency arising from the failure of an individual LSE to procure its specified allocation and the amount procured exceeds the amount of the particular LSE's deficiency, *i.e.*, because of resource "lumpiness." In both of these circumstances, the costs of such capacity are allocated pro-rata to LSEs with load in the TAC Area based on each LSEs' proportionate coincident share of the previous annual peak Demand in the TAC Area.¹⁰³

Section 42.1.8(d) is intended to apply where the CAISO procures capacity to account for the failure of a particular LSE to secure sufficient resources to

¹⁰² AReM Comments at 4.

¹⁰³ PG&E's statement that this allocation is "inconsistent with Commission policies" (PG&E Comments at 9) is unfounded. To the contrary, this two-tier allocation is contained in Section 8.123A of the current tariff specifying the allocation of costs for deviation replacement reserve. See *also*, Sections 40.3.1.8 and 40.3.1.9, which address the allocation of costs for contracts entered into by the CAISO.

satisfy its Demand Forecast and Reserve Margin requirements. Simply put, the section applies to system resource adequacy requirements, not Local Capacity Area requirements. The manner in which Local Capacity Area Resources are referenced is incorrect. Section 42.1.8(d) should read, in pertinent part:

Except where and to the extent that such costs are recovered from Scheduling Coordinators pursuant to Section 8, all costs incurred by the CAISO pursuant to any contract entered into pursuant to Section 42.1 for Resource Adequacy Capacity, other than Local Capacity Area Resources, shall be charged on a pro rata basis to each Scheduling Coordinator based on each Scheduling Coordinator's relative amount of deficiency to satisfy the Scheduling Coordinator's applicable Demand Forecast and Reserve Margin pursuant to Section 40 up to the quantity of the Scheduling Coordinator's deficiency as determined as the difference between the Scheduling Coordinator's applicable Demand Forecast and Reserve Margin and Resource Adequacy Resources included in the annual or monthly Resource Adequacy Plan. ~~Second, t~~ To the extent capacity, other than Local Capacity Area Resource capacity, procured by the CAISO exceeds the amount of total Resource Adequacy Resource deficiency, the costs of such capacity will be allocated on a pro rata basis to each Scheduling Coordinator upon the same proportion as the Scheduling Coordinator's metered hourly Demand (including exports) bears to the total metered hourly Demand (including exports) served in that hour in the CAISO Control Area.

The CAISO believes that the proposed corrections should address the concern raised by AReM.

N. Other Tariff Changes

Bay Area argues that the Commission should reject several proposed changes that were included in the CAISO's November 20 Compliance Filing on the grounds that they were not approved in the September 21 Order and that parties have not been given an opportunity to comment on the proposed

changes.¹⁰⁴ Bay Area’s arguments are without merit. The CAISO stated in the transmittal letter for its compliance filing that it was including proposed changes to the MRTU Tariff it had committed to make in its May 16, 2006, Reply Comments in this proceeding (“May 16 Reply Comments”), but which the Commission either did not address or noted but did not expressly rule on in the September 21 Order, including all of the changes noted by Bay Area.¹⁰⁵ As explained in the Transmittal Letter for the November 20 Compliance Filing, the CAISO filed a request for clarification and rehearing of the September 21 Order in which it asked the Commission to clarify that the CAISO should make these changes.¹⁰⁶ The Commission can – and should – grant the CAISO’s request for clarification, either prior to or at the same time that it issues an order on the compliance filing, in order to approve the changes the CAISO had committed to make but that the Commission inadvertently did not rule on in the September 21 Order. The Commission’s approval of these changes would mean that the same changes in the compliance filing are also approved.

There is no validity to Bay Area’s assertion that parties have not been given an opportunity to comment on the changes. The November 20 Compliance Filing, which included the changes, was served on all of the parties and was noticed in the Federal Register. The inclusion of the changes in the compliance filing permitted parties to comment on them – in fact, parties were given more than the usual amount of time to comment on the changes due to the

¹⁰⁴ Bay Area Comments at 2-5.

¹⁰⁵ Transmittal Letter for Compliance Filing at 5.

¹⁰⁶ Transmittal Letter for Compliance Filing at 5; CAISO Request for Clarification and Rehearing at 26-28.

extension of time the Commission granted in this proceeding. Further, as explained above, the Transmittal Letter for the compliance filing highlighted the fact that the CAISO was proposing the changes, thus making it easier for parties to focus on them.

Bay Area also requests that the CAISO state with specificity whether it has made modifications to the MRTU Tariff to implement three CAISO commitments (listed below) that the CAISO made in its reply comments and that were approved in Paragraph 1331 of the September 20 Order.¹⁰⁷

First, Bay Area notes the CAISO's commitment to clarify that the procedure in which a resource-specific import informs, or the CAISO assesses, the operational status of a resource-specific import will be done through the CAISO's Scheduling and Logging in California ("SLIC") software. The CAISO agrees with Bay Area that this was not included in the November 20 Compliance Filing and commits to make this clarification in an upcoming MRTU Tariff compliance filing.

Second, Bay Area refers to the CAISO's commitment to allow resource-specific imports to provide bid data and resource constraints. This commitment was incorporated into the November 20 Compliance Filing through the following proposed addition to Section 30.5.2.4: "Dynamic and Non-Dynamic Resource-Specific System Resources must register resource-specific information in the Master File in a similar manner as Generating Units" The resource-specific information that Resource-Specific System Resources are to register in the

¹⁰⁷ Bay Area Comments at 5-6.

Master File pursuant to this Tariff language includes bid data and resource constraints.

Third, Bay Area notes the CAISO's commitment to clarify the availability of Resource Adequacy resources and Resource-Specific System resources in the RTM and RUC. This commitment was incorporated into the compliance filing through the following proposed addition to Section 30.5.2.4: "Dynamic and Non-Resource-Specific System Resources . . . are not obligated to participate in RUC or the RTM if the resource did not receive a Day-Ahead Schedule unless the resource is a Resource Adequacy Resource. If the Resource-Specific System Resource is a Resource Adequacy Resource, the resource is obligated to make itself available to the CAISO market as prescribed by Section 40.6."

Finally, Bay Area requests that the CAISO explain why it removed both the original and duplicate sentence from Section 31.3.3, when the September 21 Order only required that the duplicate be removed.¹⁰⁸ This was an error, and the CAISO will therefore restore the original sentence in an upcoming MRTU Tariff filing.

SCE and Six Cities recommend several small clean-up changes to the MRTU Tariff introduced as part of the November 20 Compliance Filing. Specifically, SCE suggests that that the reference to "IEE" in Section 11.5.4.2 should instead read "IIE"¹⁰⁹ and Six Cities states that the reference to Section 40.5.2(1) in the last line of Section 40.5.4(2) should instead be a reference to

¹⁰⁸ Bay Area Comments at 6-7.

¹⁰⁹ SCE Comments at 9.

Section 40.5.1(1), as there is no Section 40.5.2(1).¹¹⁰ The CAISO agrees with these proposals and commits to make these changes in a further require compliance filing.

Williams takes issue with the CAISO's characterization of all of the changes appearing in Appendix A to its May 16 Reply Comments as mere "clean-up changes," arguing that some of these changes are substantive and material. Williams also disagrees with the CAISO's assertion that the Commission has already approved each of these changes.¹¹¹ Williams asserts that the Commission did not approve anything in Paragraph 1331 of the September 21 Order other than the CAISO's commitment to include these items in its compliance filing, and that because there is nothing in the September 21 Order that actually addresses the merits of the proposed changes, parties have the right to comment on the substance of these issues in response to the November 20 Compliance Filing.¹¹² The CAISO disagrees. The Commission specifically directed the CAISO to make a compliance filing incorporating its commitments as set forth in Appendix A of its May 16 Reply Comments. Moreover, Williams had full and fair opportunity to address in its own reply comments the merits of any of the modifications proposed by parties that the CAISO ultimately agreed to.

Williams also opposes the revision to Section 6.5.5.2.4, which the CAISO made at the suggestion of SCE.¹¹³ As Williams notes, the Commission did not

¹¹⁰ Six Cities Comments at 6.

¹¹¹ Williams Comments at 15.

¹¹² *Id.* at 16.

¹¹³ Williams Comments at 19-20.

address this revision in the September 21 Order, even though the CAISO noted that it agreed to make this change in its May 16 Reply Comments on the February 2006 MRTU Filing. Williams contends that the CAISO has not justified this change. Williams' argument is beyond the scope of the November 20 Compliance Filing. The CAISO, in its Request for Clarification and Rehearing of the September 21 Order, asked that the Commission clarify that the CAISO should make the revision to Section 6.5.5.2.4 suggested by SCE. Although the CAISO included these changes in the November 20 Compliance Filing for the sake of completeness, the CAISO recognizes that the Commission's ruling on its Request for Clarification and Rehearing will determine whether or not these changes will ultimately be included in the MRTU Tariff. Therefore, the appropriate forum to raise issues concerning these changes was in response to the CAISO's Request for Clarification and Rehearing.

SCE asserts that the CAISO failed to comply with a purported directive in Paragraph 406 of the September 21 Order to revise Section 8.3.1 to change the word "shall" to "may."¹¹⁴ The Commission issued no such directive. In the September 21 Order, the Commission rejected a request by SCE that the CAISO be required to change the word "shall" to "may" in Section 8.3.5.¹¹⁵ The only change to Section 8.3.1 the Commission required was the deletion of the last sentence of the second paragraph of that section.¹¹⁶ In the November 20 Compliance Filing, the CAISO complied with this directive.¹¹⁷ SCE also asserts

¹¹⁴ SCE Comments at 14.

¹¹⁵ See September 21 Order at PP 403, 407.

¹¹⁶ September 21 Order at PP 402, 406.

¹¹⁷ See Attachment A to Compliance Filing at 10-11.

that the CAISO failed to comply with the directive in Paragraph 697 of the September 21 Order to modify the definition of “Supply” in Section 33.3 to include Participating Load.¹¹⁸ Section 33.3 does not, in fact, contain a definition of Supply, but the CAISO has modified the definition of that term in Appendix A to the MRTU Tariff to comply with the Commission’s directive.¹¹⁹ Therefore, the CAISO has complied with the Commission’s intention with regard to the changing the definition of Supply.

U. Miscellaneous Issues

Williams contends that the CAISO’s proposal to modify Sections 11.5.6.1.1 and 11.5.6.2.3 to provide that “A Resource must be operating within its Tolerance Band for the relevant Settlement Interval in order to be eligible for Excess Cost Payment” should be rejected because it is inconsistent with the directives and outside the scope of the modifications mandated in the September 21 Order, and is inconsistent with Commission orders regarding the payment of analogous costs.¹²⁰

The CAISO had included the provision that a resource be required to be operating within its Tolerance Band to be eligible for Excess Cost Payments in an effort to comply with the requirement in Paragraph 269 of the September 21 Order to more “clearly define excess costs throughout the body of the MRTU Tariff.” Since filing the November 20 Compliance Filing and the submission of Williams’ comments, the CAISO has been working towards developing charge types for implementing the Commission’s requirements in Paragraph 516 of the

¹¹⁸ SCE Comments at 14.

¹¹⁹ See Attachment A to Compliance Filing at 5.

¹²⁰ Williams Comments at 7-9.

September 21 Order. In so doing, it has become apparent that the ISO will be required to settle the Energy Bid Cost Recovery amounts based on actual delivered energy, limited by what was instructed, as opposed to deemed delivered Energy.¹²¹ Accordingly, the CAISO believes that the same logic should apply to Exceptional Dispatches under MRTU and intends to also have Excess Cost Payments be settled based on actual energy delivered, limited by what was instructed, and not deemed delivered energy. Therefore, the CAISO proposes to eliminate the references to the application of the Tolerance Band to such settlements in Sections 11.5.6.1.1 and 11.5.6.2.3. This does not mean, however, that the CAISO will be incorporating the Excess Cost Payment recovery into the Bid Cost Recovery netting mechanism. Rather the CAISO believes it is appropriate to apply the same logic for using the delivered energy approach to the Excess Cost Payments settlement.

¹²¹ Consistent with this directive the CAISO has determined that if, for example, a resource receives a Day-Ahead Schedule for 100 MW and in the Real-Time receives a Dispatch Instruction for 60 MWs (decrease of 40 MW from Day-Ahead Schedule) instead of the full 100 MW scheduled in the Day-Ahead, the resource will receive the Energy bid cost recovery for the 60 MW for the Day-Ahead bid cost recovery amounts as that is the amount that was actually delivered and would also receive the Energy bid cost recovery amounts for the decrease in 40 MW resulting from the real-time Dispatch Instruction through the Real-Time energy bid cost recovery. This is consistent with the requirements in P 516 that “[r]esources that fall short of day-ahead dispatch instructions should only be guaranteed the recovery of costs associated with the energy actually provided, and should not receive payments for deviations from dispatch instructions.”

III. CONCLUSION

Wherefore, for all the reasons stated above, the CAISO respectfully requests that the Commission accept the November 20 Compliance Filing with the clarifications and revisions that the CAISO agrees to make the instant filing.

Respectfully submitted,

/s/ Sidney M. Davies
Sidney M. Davies
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Anna McKenna
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Dated: January 16, 2007

ATTACHMENT A

From: CRCommunications

Sent: Tuesday, August 15, 2006 12:38 PM

Subject: CAISO: Market Rules and Market Design / Congestion Revenue Rights Full Network Model Available with NDA

CAISO MARKET NOTICE

Requested Client Action: Information Only

Date of Distribution: August 15, 2006

Categories: Market Rules and Market Design

Subject/ Title: Congestion Revenue Rights Full Network Model Available with NDA

Summary: On August 18, 2006, the Congestion Revenue Rights Full Network Model (CRR FNM) will be available to Stakeholders subject to a Non-Disclosure Agreement. The due date for any objections to the production of the CRR FNM is 5:00 p.m. Pacific, Thursday, August 17, 2006.

Main Text: In response to requests from Stakeholders, the California ISO (CAISO) has prepared a CRR FNM for use in reviewing and analyzing the CAISO's CRR Dry Run simulation and the CRR markets. The CRR Full Network Model and related data will be ready and available to stakeholders in the MRTU process on August 18, 2006, subject to the attached CAISO Non-Disclosure and Use of Information Agreement and a license agreement from the Western Electricity Coordinating Council (WECC).

Any Market Participant that objects to the CAISO producing the CRR FNM must submit its objections in writing to Beth Ann Burns at the CAISO by 5:00 p.m. Pacific, on Thursday, August 17, 2006. Unless the CAISO receives objections by that date, the CAISO will make the CRR FNM available to Stakeholders beginning August 18, 2006.

CRR Dry Run Full Network Model & Supporting Files Contain the following information:

- 1) CRR Base PSSE Network Model (Bus Branch) based on the 2007 Local Capacity Requirements study.
- 2) Network operating constraint definitions and operating limits.
- 3) Aggregate Pricing Nodes and Bus mapping.
- 4) Trading Hub weighting factors.

* Outages and Limit derates used for the Dry Run monthly auction and allocation to be provided in a later release.

Instructions for Obtaining Access to CRR Full Network Model:

If you would like to be granted access to the CRR Full Network Model, please provide to the CAISO the following documents:

1. **A signed original hard copy of the CAISO Non-Disclosure and Use of Information Agreement.** A PDF version of this agreement is posted on the CAISO web site at:
<http://www.caiso.com/docs/2002/08/23/200208231357355753.html>
2. **A license agreement from WECC.**
 - If you are a member of WECC, please provide a copy of the WECC license Agreement signed by you and WECC.
 - If you are not a member of WECC, please provide a copy of the WECC Nonmember Confidentiality

Agreement For WECC Data signed by you and WECC. A PDF version of the WECC Nonmember Confidentiality Agreement For WECC Data is posted on the CAISO web site at:
<http://www.caiso.com/docs/2002/08/23/200208231357355753.html>

It is important that the CAISO receive fully completed and signed hard copies of both of these agreements.

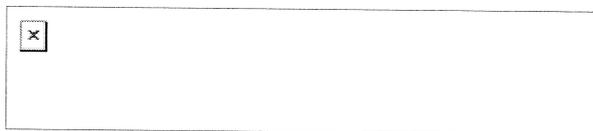
Please provide both agreements, at the same time, to:

**Chris Kirsten
California ISO
151 Blue Ravine Rd.
Folsom CA 95630**

Following receipt of the agreements, the CAISO will send you a CD and provide instructions for accessing the information. Distribution of the CRR Full Network Model will begin on August 18, 2006.

For Legal Questions Contact: Beth Ann Burns at bburns@caiso.com or 916-608-7146 regarding the agreements or access to the CRR Full Network Model

For Technical Questions Contact: Jim Price at jprice@caiso.com or 916-608-5725 or MRTUImplementation@caiso.com regarding the CRR Full Network Model or data



The California ISO strives to be a world-class electric transmission organization built around a globally recognized and inspired team providing cost-effective and reliable service, well-balanced energy market mechanisms, and high-quality information for the benefit of our customers.

EA/ComPR/IPS/cy

From: CRCommunications

Sent: Monday, September 18, 2006 1:12 PM

Subject: CAISO: Legal/ Regulatory, Market Operations, Grid Operations / Ancillary Services – Spinning Reserve Requirements

CALIFORNIA ISO MARKET NOTICE

Requested Client Action: Information Only

Date of Distribution: September 18, 2006

Categories: Legal/ Regulatory, Market Operations, Grid Operations

Subject: Ancillary Services – Spinning Reserve Requirements

Summary: This Market Notice serves to remind all Participating Generators certified to provide Spinning Reserve that operating reserves must be feasible and able to perform consistent with the requirements and definitions in the California ISO (CAISO) Tariff and the applicable Western Electricity Coordinating Council (WECC) Minimum Operating Reliability Criteria (MORC). The CAISO is resuming the certification testing of new and existing Generating Units and aggregated Generating Units for participation in the CAISO Spinning Reserve Markets.

Main Text:

The CAISO conforms to the WECC MORC for procurement of Operating Reserves, including Spinning Reserves and Non-Spinning Reserves, to ensure that adequate generating capacity is available at all times to maintain scheduled frequency and to prevent the loss of firm load during contingency events. If the Spinning Reserves procured or self-provided in the forward Ancillary Services markets fail to perform to real-time dispatch and frequency response requirements, the CAISO's ability to respond to system needs may be compromised and could lead to system reliability and stability problems.

Recently there have been a few incidents where Generating Units that sold Spinning Reserves to the CAISO were not able to perform fully on the dispatch instruction. The CAISO undertook a preliminary review of these incidents and found that, in some cases, a portion of the awarded spin capacity from aggregated Generating Units had not been synchronized to the grid. In other cases, the Generating Units responded but were not able to dispatch all of the capacity as energy within the required ten-minute timeframe.

The purpose of this Market Notice is to emphasize the CAISO's bidding and dispatch requirements for all Spinning Reserve capacity from Generating Units, inclusive of aggregated Generating Units.

Market Participant Reminder - Spinning Reserve Requirements

"Market Participants must bid and schedule Energy and Ancillary Services from resources that are reasonably expected to be available and capable of performing at the levels specified in the bid and/or schedule, and to remain available and capable of so performing based on all information that is known to the Market Participant or should have been known to the Market Participant at the time of bidding or scheduling" (CAISO Tariff, Section 37.3.1.1).

Spinning Reserve is defined by the CAISO Tariff as, the "portion of unloaded synchronized generating capacity that is immediately responsive to system frequency and that is capable of being loaded in ten-minutes, and that is capable of running for at least two hours."

In order to comply with the requirements of the CAISO Tariff and to meet the WECC MORC for Spinning Reserve, the CAISO reminds all Generators awarded Spinning Reserves of the following requirements:

- Governors must be properly tuned and in-service in order to be frequency responsive;
- Telemetry between the Generating Units and the CAISO's Energy Management System must be maintained and functional;
- The aggregated Generating Units' unloaded capacity must be equal to or greater than the awarded Spin

capacity;

- The entire awarded Spin capacity must be synchronized to the Grid; and
- The awarded Spin capacity must be converted to energy within ten-minutes of notification.

Aggregated Generating Unit Example

The following example illustrates the performance required by aggregated Generating Units to meet the requirements for Spinning Reserve:

	PMin (MW)	PMax (MW)
Aggregated Unit (1&2)	10	100
Unit 1	5	50
Unit 2	5	50

Spinning Reserve Capacity: 46 MW

In the above example, the Spinning Reserve Capacity on the aggregated Generating Units is 46 MW, therefore Unit 1 and Unit 2 must be synchronized to the Grid for the duration of the awarded bid trade hour since the "Minimum Load of Unit 1 + Spinning Reserve Capacity" exceeds the PMax of Unit 1.

CAISO Ancillary Services Certification, Monitoring and Compliance Actions

The CAISO, in its Market Notice dated August 31, 2006 titled "Ancillary Services – Spinning Reserve, Testing and Certification," announced that it was suspending certification of aggregated Generating Units pending a review of its Spinning Reserve procurement procedures to ensure that they meet WECC MORC and CAISO Tariff requirements. Accordingly, the CAISO has reviewed its requirements for procuring Spinning Reserves from all types of Generating Units and found them to be consistent with the CAISO Tariff and the WECC MORC.

At this time, the CAISO will resume the certification testing of new and existing Generating Units and aggregated Generating Units for participation in the CAISO Spinning Reserve Markets.

Pursuant to CAISO Tariff Section 8, the CAISO will continue to closely monitor the performance of all Generating Units that are awarded Spinning Reserve and will initiate appropriate actions for non-performance of Spinning Reserve dispatch instructions, and for non-compliance with Spinning Reserve requirements. Actions may include:

1. Compliance monitoring of unit connectivity status during the awarded bid trade hour;
2. Warning notices (CAISO Tariff Sections 8.10N and P);
3. Penalties for failure to pass tests and rescission of Ancillary Service payments (CAISO Tariff Sections 8.10.2 and 37.3.1.2);
4. Revocation of Ancillary Service certification (CAISO Tariff Sections 8.4 and 8.10); and
5. Referrals to the Federal Energy Regulatory Commission ("FERC") for potential violations of CAISO Tariff and FERC market rules, pursuant to 111 FERC ¶ 61,267.[1]

For More Information Contact: Clyde Loutan: cloutan@caiso.com, (916) 608-5917 or Gary DeShazo: gdeshazo@caiso.com, (916) 608-5880.



The California ISO strives to be a world-class electric transmission organization built around a globally recognized and inspired team providing cost-effective and reliable service, well-balanced energy market mechanisms, and high-quality information for the benefit of our customers.

EA/ComPR/IPS/cy

[1] Policy Statement on Market Monitoring Units, May 27, 2005, Docket No. PL5-1-000.

From: CRCommunications
Sent: Thursday, September 28, 2006 1:48 PM
Subject: CAISO: Market Rules and Market Design / Update on the Release of Congestion Revenue Rights Full Network Model

Attachments: Picture (Metafile)

CALIFORNIA ISO MARKET NOTICE

Requested Client Action: Information Only

Date of Distribution: September 28, 2006

Categories: Market Rules and Market Design

Subject: Update on the Release of Congestion Revenue Rights Full Network Model

Summary: This notice provides an update to the [August 15, 2006 notice](http://www.caiso.com/1853/1853b1dd59382.html) <http://www.caiso.com/1853/1853b1dd59382.html> regarding Congestion Revenue Rights Full Network Model (CRR FNM) release.

Main Text: The California ISO (CAISO) wants to update the market regarding distribution of the CRR FNM, which was the subject of a Market Notice on August 15, 2006. As the CAISO began to process stakeholder requests for access to the CRR FNM, the Participating Transmission Owners (PTOs) raised security concerns about the content of the model. In response, the CAISO temporarily suspended distribution of the CRR FNM and has been working with the PTOs to resolve their concerns.

In the interim, the Federal Energy Regulatory Commission (FERC) issued two orders on September 21, 2006 pertinent to Critical Energy Infrastructure Information (CEII) that inform this discussion. Also on the same day FERC issued its order on the Market Redesign and Technology Upgrade (MRTU), which favorably references the CAISO's release of the CRR FNM as noted in the August 15 notice.

We believe we are near a resolution with the PTOs, and note that the resolution may slightly modify the documentation requirements that were noted in the August 15 notice for stakeholders to access the CRR FNM. The release of the CRR FNM remains a very high priority at the CAISO and we look forward to resuming distribution as soon as possible. We will provide an update notice regarding status of this matter on or before October 6, 2006.

For More Information Contact:

For general questions contact: Ken Kasparian at kkasparian@caiso.com <mailto:kkasparian@caiso.com> or (916) 608-1292 or [MRTUImplementation@caiso.com](http://www.caiso.com/MRTUImplementation)

<mailto:MRTUImplementation@caiso.com> regarding the CRR FNM.

For legal questions contact: Beth Ann Burns at bburns@caiso.com <mailto:bburns@caiso.com> or 916-608-7146.



The California ISO strives to be a world-class electric transmission organization built around a globally recognized and inspired team providing cost-effective and reliable service, well-balanced energy market mechanisms, and high-quality information for the benefit of our customers.

EA/ComPR/IPS/ds

From: CRCommunications
Sent: Monday, October 30, 2006 2:17 PM
Subject: CAISO: Market Rules and Market Design / Congestion Revenue Rights Full Network Model Available with NDA

Attachments: Picture (Metafile)

CAISO MARKET NOTICE

Requested Client Action: Information Only

Date of Distribution: October 30, 2006

Categories: Market Rules and Market Design

Subject: Congestion Revenue Rights Full Network Model Available with NDA

Summary: The California ISO (CAISO) is prepared to re-initiate issuance of the Congestion Revenue Rights Full Network Model (CRR FNM) subject to the guidelines below.

Main Text: On August 15, 2006 the CAISO issued a market notice outlining provisions that would govern distribution of the Congestion Revenue Rights Full Network Model (CRR FNM) beginning on August 18, 2006. Actual distribution of the CRR FNM was suspended pending resolution of security concerns raised by Participating Transmission Owners (PTOs). In this interim period, FERC issued the MRTU Order on September 21, 2006 that provides direction to the CAISO on distribution of the CRR FNM. The guidelines for issuance of the CRR FNM have been revised to resolve security concerns and to be consistent with the FERC MRTU Order. In addition, the CAISO and WECC have streamlined the process for obtaining a WECC confidentiality agreement. The guidelines for distribution of the CRR FNM have been revised to reflect these changes:

- For Market Participants who are WECC members: The Market Participant must execute the CAISO's Non-Disclosure Agreement (NDA) and each employee who will have access to the model must sign the non-disclosure statement attached as an exhibit to the NDA.
- For Market Participants who are *not* WECC members: The Market Participant and employees who will have access to the model must execute the CAISO's NDA, as just described, and must submit a fully executed Non-member Confidentiality Agreement with the WECC.
- For consultants retained by a Market Participant: A consultant for a Market Participant may access the model, but only through the Market Participant who retains the consultant's services. Each employee of the consultant who will have access to the model must sign the non-disclosure statement that is an exhibit to the CAISO's NDA as executed by the Market Participant. The consultant will be permitted access to the model only on the premises of the Market Participant. The model cannot be copied and provided to the consultant.
- The CAISO shall require that recipients of the CRR FNM immediately report to the CAISO any breach or unauthorized access.

The CAISO Non-Disclosure Agreement has been revised to include these new provisions. It can be accessed as noted below.

Contents of the CRR Dry Run Full Network Model & Supporting Files:

- 1) CRR Base PSSE Network Model (Bus Branch) based on the 2007 Local Capacity Requirements study.
 - 2) Network operating constraint definitions and operating limits.
 - 3) Aggregate Pricing Nodes and Bus mapping.
 - 4) Trading Hub weighting factors.
- * Outages and Limit derates used for the Dry Run monthly auction and allocation to be provided in a later release.
-

Instructions for Obtaining Access to CRR Full Network Model:

If you would like to be granted access to the CRR Full Network Model, please provide to the CAISO the following documents:

1. **A signed original hard copy of the revised CAISO Non-Disclosure and Use of Information Agreement.** Please note that the prior version of the CAISO's Non-Disclosure and Use of Information Agreement is no longer valid. You must submit an executed copy of the revised agreement in order to receive the CRR FNM. A PDF version of this revised agreement is posted on the CAISO web site at:
[≤http://www.caiso.com/1853/1853a03a19c90.pdf≥](http://www.caiso.com/1853/1853a03a19c90.pdf).
2. **A license agreement from WECC.**
 - If you are a member of WECC, it is not necessary to submit a separate WECC license agreement.
 - If you are not a member of WECC, please provide a copy of the WECC Nonmember Confidentiality Agreement For WECC Data signed by you and WECC. A PDF version of the WECC Nonmember Confidentiality Agreement For WECC Data is posted on the CAISO web site at:
[≤http://www.caiso.com/docs/2002/08/23/200208231357355753.html≥](http://www.caiso.com/docs/2002/08/23/200208231357355753.html).

It is important that the CAISO receive fully completed and signed hard copies of these agreements.

Please provide both agreements, at the same time, if applicable, to:

**Chris Kirsten
California ISO
151 Blue Ravine Rd.
Folsom CA 95630**

Following receipt of the agreements, the CAISO will send you a CD and provide instructions for accessing the information.

For Legal Questions Contact: Beth Ann Burns at bburns@caiso.com <mailto:bburns@caiso.com> or 916-608-7146 regarding the agreements or access to the CRR FNM.

For Technical Questions Contact: Jim Price at jprice@caiso.com <mailto:jprice@caiso.com> or 916-608-5725 or MRTUImplementation@caiso.com <mailto:MRTUImplementation@caiso.com> regarding the CRR FNM.



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EA/ComPR/IPS/ds

From: CRCommunications
Sent: Friday, November 17, 2006 10:36 AM
Subject: CAISO: Market Rules and Market Design / Congestion Revenue Rights Full Network Model Available with NDA

Attachments: Picture (Metafile)

CALIFORNIA ISO MARKET NOTICE

Requested Client Action: Information Only

Date of Distribution: November 17, 2006

Categories: Market Rules and Market Design

Subject: Congestion Revenue Rights Full Network Model Available with NDA

Summary: The California ISO (CAISO) is issuing the Congestion Revenue Rights Full Network Model (CRR FNM) subject to the guidelines below. Newer provisions have been added regarding consultant access.

Main Text: The CAISO's October 30, 2006 Market Notice outlined the revised process for Market Participants to follow in order to receive a copy of the CAISO's Congestion Revenue Rights Full Network Model (CRR FNM). The guidelines outlined on October 30, 2006 are still operable and the CAISO is happy to announce that shipments of the Full Network Model have begun. This notice provides further discussion regarding an additional option that will expand the flexibility for consultants.

The guidelines in the October 30 Market Notice allow a Market Participant to disclose the CRR FNM to its retained consultant, provided that the consultant signs the required non-disclosure statement and the consultant's access to the CRR FNM is limited to the premises of the Market Participant.

Several Market Participants have contacted the CAISO to advise us that limiting consultant access to the CRR FNM to only the Market Participant's offices would be impractical and unduly expensive. The CAISO has followed up on those comments and has determined the conditions under which the Investor Owned Utilities (IOUs) are willing to allow off-site consultant access to the model. Under these conditions, a Market Participant who would like to obtain a copy of the CRR FNM for its consultant's off-site use may contact the IOUs to request a security check for its consultant and approval for the consultant to receive the model. The IOUs will forward documentation of each approval to the CAISO and we will provide a copy of the CRR FNM to the consultant.

The CAISO has expended significant time and effort to develop a reasonable process for distributing the CRR FNM that promotes transparency of the CRR market, facilitates access to the model by Market Participants and their consultants, and abides by the conditions the IOUs have set due to system security concerns over distribution of a power flow model that includes their transmission facilities. Any further objections to this process or disputes pertaining to the performance or outcome of the security checks should be pursued at the Federal Energy

Regulatory Commission, as appropriate.

With the inclusion of this alternative for consultant off-site access, the process now in place for a Market Participant to obtain the CRR FNM is as follows:

- For Market Participants who are WECC members: The Market Participant must execute the CAISO's Non-Disclosure Agreement (NDA) and each employee who will have access to the model must sign the non-disclosure statement attached as an exhibit to the NDA.
- For Market Participants who are not WECC members: The Market Participant and employees who will have access to the model must execute the CAISO's NDA, as just described, and must submit a fully executed Non-member Confidentiality Agreement with the WECC.
- For consultants retained by a Market Participant: A consultant for a Market Participant may access the model, but only through the Market Participant who retains the consultant's services. Each employee of the consultant who will have access to the model must sign the non-disclosure statement that is an exhibit to the CAISO's NDA as executed by the Market Participant. The consultant will be permitted access to the model only on the premises of the Market Participant. The model cannot be copied and provided to the consultant.

In the alternative, a Market Participant who would like to obtain a copy of the CRR FNM for its consultant's off-site use may contact the IOUs to request a security check for its consultant and approval for the consultant to receive the model. The IOUs will forward documentation of each approval to the CAISO and the CAISO will provide a copy of the CRR FNM to the consultant.

We expect the IOU security process to be in place beginning November 27, 2006 and will provide further details about that process and a contact at that time.

For Legal Questions Contact: Beth Ann Burns at bburns@caiso.com or 916-608-7146 regarding the agreements or access to the CRR FNM.

For Technical Questions Contact: Jim Price at jprice@caiso.com or 916-608-5725 or MRTUImplementation@caiso.com regarding the CRR FNM.



The California ISO strives to be a world-class electric transmission organization built around a globally recognized and inspired team providing cost-effective and reliable service, well-balanced energy market mechanisms, and high-quality information for the benefit of our customers.

EA/ComPR/IPS/ds

From: CRCommunications
Sent: Thursday, December 21, 2006 1:41 PM
Subject: CAISO: Market Rules and Market Design / Full Network Model - Process for Consultant Off-site Access

Attachments: Picture (Metafile)

CALIFORNIA ISO MARKET NOTICE

Requested Client Action: Information Only

Date of Distribution: December 21, 2006

Categories: Market Rules and Market Design

Subject: Full Network Model - Process for Consultant Off-site Access

Summary: The California ISO (CAISO) is posting the security review process for Market Participants who seek off-site access to the Full Network Model by their consultants.

Main Text: The CAISO's October 30, 2006 Market Notice outlined the revised process for Market Participants to follow in order to receive a copy of the CAISO's Congestion Revenue Rights Full Network Model (CRR FNM). The CAISO's November 17, 2006 Market Notice provided additional provisions to allow consultants off-site access to the model, subject to a security review, if requested by the Market Participant. This Notice provides the security review process developed by the Investor Owned Utilities (IOUs) for that offsite access.

The CAISO has posted a Security Check Process for Consultants and a Consultant Security Check Request Form, for use by consultants requesting access through a Market Participant, on its website at: <http://www.caiso.com/docs/2002/08/23/200208231357355753.html>:

It is important to note that each consultant and employee of the consultant organization who will have access to the model must sign the non-disclosure statement that is an exhibit to the CAISO's Non-Disclosure Agreement executed by the Market Participant.

For More Information Contact: For legal questions regarding the agreements or access to the CRR FNM, contact: Beth Ann Burns at bburns@caiso.com or 916-608-7146.

For technical questions regarding the CRR FNM, contact: Jim Price at jprice@caiso.com or 916-608-5725 or MRTUImplementation@caiso.com.



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EA/ComPR/IPS/ds

Security Check Process
For Consultants Retained by Market Participants

- I. The California Independent System Operator Corporation (CAISO) issued a November 17, 2006 Market Notice notifying Market Participants that consultants retained by them who have a business justification for off site access to the Congestion Revenue Rights Full Network Model (CRR FNM) must undergo a security check before being given access to the CRR FNM. The CAISO notified the Market Participants that the California's three investor owned utilities (IOUs), Southern California Edison (SCE), San Diego Gas & Electric (SDG&E), and Pacific Gas and Electric (PG&E) would perform the security checks. This document summarizes the security check process. A security check form to be completed by the Market Participant or consultant has been prepared to facilitate the process.
- II. Each of the IOUs have identified a security representative to coordinate the security checks. Other IOU business units will not be involved in the security check process.
 - a. Robert Sypult, Director of Corporate Security, will be the security representative for SCE. Mr. Sypult can be contacted at robert.sypult@sce.com or 626-302-7910.
 - b. Jack Kelly, Manager of Corporate Security, will be the security representative for SDG&E. Mr. Kelly can be contacted at jjkelly@sempira.com or 619-696-2231.
 - c. Michael Peterson, Manager of Security Operations and Investigations, will be the security representative for PG&E. Mr. Peterson can be contacted at MRP0@pge.com or 415-973-5601.
- III. Security checks will be conducted in a prompt manner and using appropriate investigative techniques and may include the use of a consumer reporting agency such as LocatePlus or Carco.
- IV. Security checks should be requested through any one of the above security representatives.
- V. Security representatives will promptly advise requestors and CAISO representatives Beth Ann Burns and Chris Kirsten of the results of security checks. The requestors should not be given access to the CRR FNM without a successful security check by one of the IOUs.

Consultant Request for a Security Check

Please read each section carefully and provide all information requested.

- Please use BLACK ink
- Type or print all answers
- All sections must be completed
- Print N/A for any questions not applicable

Name of Organization

Name of Organization			
Address of Organization	Number	Street	Suite
Website Address for Organization			

List any other organizations affiliated with above organization and reason for affiliation (parent company, subsidiary, etc.)

Name of Organization			How Affiliated
Address of Organization	Number	Street	Suite
Website Address for Organization			

Name of Organization			How Affiliated
Address of Organization	Number	Street	Suite
Website Address for Organization			

Name of Organization			How Affiliated
Address of Organization	Number	Street	Suite
Website Address for Organization			

Key Management

Name and address of owners or key management of organization and titles.

Name of Individual		Title	
Address of Individual	Number	Street	Suite
Social Security #	Date of Birth	Drivers License #	State

Name of Individual		Title	
Address of Individual	Number	Street	Suite
Social Security #	Date of Birth	Drivers License #	State

Name of Individual		Title	
Address of Individual	Number	Street	Suite
Social Security #	Date of Birth	Drivers License #	State

Requestor Contact Information

Name			
Address	Number	Street	Suite
E-Mail			
Phone Number			

CERTIFICATION

I certify that the above information is correct and complete to the best of my knowledge and belief. **I make this statement with knowledge that any false or misleading statement or omission of material fact may result in denial of access.** Further, I authorize Pacific Gas and Electric Company, San Diego Gas and Electric Company and Southern California Edison Company to verify any of the information I have submitted herein.

For Security Use Only

Security Rep.	IOU:
Successful	ISO Use:
Unsuccessful	

Form 100-1
Revision 0
12/2006

Certificate of Service

I hereby certify that I have this day served a copy of this document upon all parties listed on the official service list compiled by the Secretary in the above-captioned 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 this 16th day of January, 2007 at Folsom in the State of California.

/s/ Sidney M. Davies

Sidney M. Davies
(916) 608-7144