

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

California Independent System) Docket No. ER06-615-002
Operator Corporation)

**REPLY COMMENTS ON SEAMS ISSUES OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

On September 21, 2006, the Commission issued an order in this proceeding conditionally approving the tariff to implement the Market Redesign and Technology Upgrade (“MRTU”) program of the California Independent System Operator Corporation (“CAISO”).¹ The CAISO files this reply in response to comments filed in the above-captioned proceeding on January 16, 2007 addressing the seams technical conference held on December 14-15, 2006.²

I. EXECUTIVE SUMMARY

As the Commission has recognized, MRTU does not introduce seams into Western electricity markets, since certain seams issues already exist between organized and bilateral markets in the West while other seams issues exist across the Western Interconnection. The Commission has also recognized that

¹ *California Independent System Operator Corp.*, 116 FERC ¶ 61,274 (2006) (“September 21 Order”).

² Although the December 21, 2006 Commission notice seeking comments in the above-captioned docket made no specific provision for Reply Comments, there is no prohibition on Reply Comments in the Commission’s regulations. In the unlikely event that the Commission views these Reply Comments as an Answer not generally permitted under the Commission’s regulations, the CAISO requests that the Commission accept these Reply Comments because they 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), and assist the Commission, *El Paso Electric Co.*, 72 FERC ¶ 61,292 at 62,256 (1995).

customers across the Western United States will benefit from the timely implementation of the MRTU market design, which corrects market flaws that contributed to the 2000-2001 Energy Crisis. The discussions at the December 14-15 technical conference and in the post-technical conference comments in this proceeding support the following conclusions, which will allow existing West-wide seams issues to be addressed in a manner that does not deny customers the benefits of timely MRTU implementation:

- Despite the Commission’s direction to parties to “identify specific alleged operational seams issues (particularly quantitative examples) and possible solutions,” no party has demonstrated the existence of any seams issue attributable to the implementation of MRTU or that justifies a delay of the benefits to customers of the timely implementation of the MRTU market design.
- The Commission should not abandon the existing foundations for addressing seams issues in the West by mandating multi-lateral seams operating agreements or procedures other than the committee process of the Western Electricity Coordinating Council (“WECC”). The CAISO believes that the Commission should continue to support a bifurcated approach which allows the CAISO and its neighboring control areas to continue to proceed on a control area-by-control area basis to identify and resolve any seams issues that exist between them as well as for all parties to engage in a West-wide seams process under the auspices of existing committees and subcommittees of the WECC.
- Proposed, one-sided “hold harmless” provisions are neither justified nor appropriate. The Commission should reject calls for “hold harmless” provisions as a condition to MRTU implementation. Parties requesting the Commission to require hold harmless provisions analogous to ones adopted in other regions fundamentally misunderstand that those provisions were developed to address changes in control area configuration, circumstances which simply do not exist in this case. Moreover, since 1998, numerous changes in control area configurations have occurred that have been adequately addressed through the WECC procedures. The same parties now calling for “hold harmless” provisions with respect to the MRTU implementation did not call for similar hold harmless requirements in those instances.

- The seams process should not be used to re-litigate issues already decided by the Commission or that are being considered in generally applicable rulemakings. The Commission should recognize that some issues raised in the post-technical conference comments are not truly seams issues but are rather simply a “third bite at the apple” seeking to overturn the Commission’s prior decisions on MRTU design issues, or to reassert broad allegations that were not substantiated at the technical conference. Other issues raised in the post-technical conference comments are general policy issues that are not specific to the Western Interconnection and are more properly addressed in the Commission’s rulemaking to develop new regulations governing Open Access Transmission Tariffs.

II. BACKGROUND

In the September 21 Order, the Commission directed the “Commission staff to convene a technical conference to assist the CAISO and parties outside the CAISO Control Area to identify seams issues that require resolution.”³ On October 24, 2006, the Commission issued a notice (the “October 24 Notice”) scheduling this technical conference for December 14 and 15, 2006. In the October 24 Notice, the Commission indicated that parties should submit comments in advance of the technical conference “that identify specific alleged operational seams issues (particularly quantitative examples) and possible solutions for discussion at the conference.” On December 21, 2006, the Commission issued a notice inviting all interested persons to file written comments, no later than January 16, 2007, on the issues that were the subject of the technical conference. On January 16, the CAISO submitted its Post-Technical Conference Comments on Seams Issues (“January 16 CAISO Seams Comments”). A number of other parties submitted comments pursuant to the

³ *Id.* at P 490.

December 21, 2006 Commission notice.⁴ The CAISO believes that certain of these comments raise issues that warrant a response and, therefore, respectfully submits the following Reply Comments for consideration by the Commission.⁵

III. REPLY COMMENTS

A. Parties Have Identified No Seams Issues That Justify a Delay in MRTU or Conditioning MRTU Implementation

Any comments on seams issues must be considered in the context of the Commission's findings that "the major seam issue facing the West is having a well-functioning California market that does not repeat the problems of 2000-2001" and that "the MRTU design accomplishes this goal." September 21 Order at P 485.

Some parties opposing the MRTU Tariff filed in this proceeding in February 2006 argued that MRTU should be delayed due to concerns about seams issues related to MRTU implementation. These parties had the opportunity through multiple rounds of comments on the MRTU Tariff to provide details on these concerns. As the Commission recognized, these parties failed to provide any specific detail supporting their concerns:

⁴ The following parties (in addition to the CAISO) submitted comments: Arizona Corporation Commission ("ACC"); Arizona Public Service Company ("APS"); California Municipal Utilities Association ("CMUA"); California Public Utilities Commission ("CPUC"); Control Area Coalition ("Coalition"); Imperial Irrigation District ("IID"); Nevada Power Company and Sierra Pacific Power Company (together, the "Nevada Companies"); Northern California Power Agency ("NCPA"); Pacific Gas and Electric Company and San Diego Gas & Electric Company (together, "PG&E and SDG&E"); Public Power Council ("PPC"); Sacramento Municipal Utility District ("SMUD"); Salt River Project Agricultural Improvement and Power District ("SRP"); Southern California Edison Company ("SCE"); Transmission Agency of Northern California ("TANC"); WestConnect Parties ("WestConnect"); Western Area Power Administration ("WAPA"); Western Electricity Coordinating Council ("WECC"); Xcel Energy Services Inc. ("XES"), on behalf of Public Service Company of Colorado ("PSCo"). In addition, the Midwest Independent Transmission System Operator, Inc. ("Midwest ISO") submitted a motion to intervene and comments out of time.

⁵ See fn. 2 above.

Many commenters raise general fears that their costs will be increased, or that differing market rules may be burdensome. We recognize that the costs borne by parties under MRTU may be different than the ones they bear today. Unfortunately, we are not able to address commenters concerns because they have not enumerated the costs at issue. We note, however, that possible changes in costs are an unavoidable result of implementing any market redesign. Commenters also do not provide specifics regarding the possible burden that may result from differing market rules; therefore, we are also unable to evaluate these arguments.

September 21 Order at P 486. The Commission therefore found that these unsubstantiated concerns did not overcome the core finding that the West, as a whole, will benefit from MRTU implementation.⁶

In the interest of continued vigilance on seams issues, the Commission provided parties with another opportunity to provide appropriate detail on any seams concerns prior to the December 14-15 technical conference. The Commission specifically urged parties to submit comments prior to the conference “that identify specific alleged operational seams issues (particularly quantitative examples) and possible solutions for discussion at the conference.” October 24 Notice. This invitation produced another round of general seams concerns associated with MRTU from a few commenters without supporting detail or concrete proposed solutions.

Nor did the type of detailed description and quantification of seams issues related to MRTU requested by the Commission emerge at the technical conference itself. In his opening comments at the conference, Chairman Kelliher

⁶ “While MRTU presents a different way of using the electric grid, we find that the economic and reliability gains associated with the implementation of the CAISO’s MRTU proposal are necessary and will benefit the western grid as a whole, even though other western entities conduct operations in a different manner. Therefore, we deny the requests to reject or defer action on this filing. We also find that there are no issues of material fact that necessitate an evidentiary hearing.” September 21 Order at P 486.

again emphasized the need for specific details on alleged seams issues resulting from MRTU:

The primary purpose of this conference is to identify and attempt to resolve any seams issues that may result from the MRTU proposal. For that reason, I encourage panelists to be very specific in their comments. I ask panelists to specifically identify seams issue and the nexus between the seams issue and the MRTU proposal. The more specific you are, the more readily we will be able to assess whether MRTU adversely affects existing seams, whether it creates new seams that will have an impact on the rest of the West, and what further changes, if any, are needed to the MRTU proposal.⁷

The technical conference resulted in an extensive and productive discussion of how to address existing seams issues in the West. During the conference, however, no party identified any seams issues associated with the MRTU initiative which must be resolved prior to MRTU implementation. Several Commissioners commented on this fact. At the December 21 Commission meeting after the technical conference, Commissioner Kelly observed:

The panelists addressed the commercial, financial and operational aspects of the market, and *I was pleased, but not surprised, to discover that no panelist clearly identified any specific seams issues that must be resolved before MRTU implementation.* That is not to say there aren't some seams issues that do need to be addressed, but the overwhelming majority of panelists believe that any seams issues identified can be resolved through collaborative work among the parties.⁸

Similarly, Commissioner Moeller stated:

I think we have some accountability from parties that proposed to work together to resolve the seams issues, which were not created by the MRTU order, but still need to be addressed. As my colleagues mentioned, I think it is necessary to note that no parties

⁷ Statement of Chairman Joseph T. Kelliher at the MRTU Seams Technical Conference, Docket No. ER06-615-002 (December 14, 2006).

⁸ Talking Points of Commissioner Suedeek Kelly at the Open Commission Meeting (December 21, 2006) (emphasis added).

claimed that there were operational issues that needed to be addressed prior to the start up of MRTU.⁹

The post-technical conference seams comments provided still another opportunity to satisfy the Commission's directives to identify specific seams issues associated with MRTU, describe these issues in detail, and propose specific solutions. Instead, those parties who continue to allege that MRTU will create seams issues once again identify only nebulous concerns that are not detailed or quantified.¹⁰ For example, PPC provides a list of generic questions that it claims should be answered, in some cases before MRTU is implemented.¹¹ Even though these parties have failed to provide the specificity and quantitative examples the Commission has repeatedly asked for, they nonetheless argue that these generic concerns and questions justify the imposition of new procedures and requirements – such as the requirement to negotiate an “umbrella” Seams Operating Agreement and multi-lateral seams discussions separate from existing WECC committees.

The continued reliance on vague allegations of seams issues and the ongoing disregard of the Commission's requests for detail to support these allegations is difficult to understand. Unfortunately, this pattern of behavior

⁹ Statement of Commissioner Philip D. Moeller at the Open Commission Meeting (December 21, 2006).

¹⁰ The one attempt to provide any detail on the alleged seams issues arising from MRTU is deeply flawed. On November 30, 2006, the Control Area Coalition submitted a whitepaper prepared by the ZGlobal Inc. which relates to alleged effects of MRTU implementation on the Western Interconnection. On January 16, the Coalition attached a supplemental report prepared by ZGlobal. The CAISO has already responded to the flawed ZGlobal analysis in its own January 16 Post-Technical Comments. The CAISO has concluded that the supplemental report simply reiterates arguments to which the CAISO has already responded and which the Commission has already considered in its determination that there are no specific seams issues that must be resolved before MRTU implementation.

¹¹ PPC Comments at 2-10.

appears suspiciously like an attempt to derail the progress made in the past year and to create impediments to the timely implementation of MRTU. The Commission should continue to focus on the real evidence that MRTU will be beneficial to the West and disregard attempts to derail the progress being made on both MRTU implementation and the examination of the existing seams issues in the West that are unrelated to MRTU implementation.

B. The Existing Foundations for Addressing Seams Issues Should Not Be Abandoned

In its January 16 Seams Comments, the CAISO outlined an approach for addressing any seams concerns which builds on the existing foundations for seams resolution in the West. Issues involving the CAISO and neighboring (embedded and adjacent) control areas would be addressed through bilateral control-area-to-control area discussions while West-wide issues would be addressed under the auspices of the WECC. Commissioners have previously noted that this is a reasonable approach,¹² and this approach is supported by many parties submitting post-technical conference comments. For example, this general approach is supported by the WECC, which “recognizes that there may be unique seams issues between individual control areas and the CAISO that should be dealt with one-on-one and there may be issues which should be

¹² “In fact, a number of panelists encouraged one-on-one meetings between CAISO and its neighbors to resolve seams issues. We also heard from many that seams issues could be resolved via interconnecting control area agreements. We also heard from an overwhelming number of panelists that most seams issues are west-wide seams issues, and are more appropriately addressed by WECC, not CAISO. I believe that these are appropriate avenues for resolving any seams issues, and look forward to continued progress from the parties.” Talking Points of Commissioner Suede Kelly at the Open Commission Meeting (December 21, 2006).

handled at a regional level.”¹³ For the reasons discussed below, the Commission should disregard the comments from a few parties proposing to abandon the existing foundations for seams discussions in the West.

1. There Is No Justification for Requiring a Multi-lateral Seams Operating Agreement

The CAISO recognizes that a consequence of operating interconnected transmission grids is that certain coordination issues at the boundaries may result over time. The CAISO has embarked on an extensive effort to meet with its neighboring control areas to identify and resolve any specific issues. As the CAISO has previously explained, because each of the control areas interconnected with the CAISO Control Area has unique features, these issues are not amenable to a “one size fits all” approach. Instead, the most effective way to address such issues is through bilateral discussions between neighboring Control Area operators. The CAISO believes that, in the event that specific issues are identified with individual neighboring control areas, such issues should be resolved by the parties, and any such resolution can be reflected in modifications to existing bilateral Interconnected Control Area Operating Agreements between the CAISO and its neighboring control area operators. This approach also is consistent with the Commission’s recognition, in the September 21 Order, that the CAISO has demonstrated that it is taking regional reliability into consideration by entering into Interconnected Control Area Operating Agreements with its neighboring control area operators.¹⁴

¹³ WECC Comments at 4.
¹⁴ September 21 Order at P 488.

Nonetheless, some parties argue that the broad and non-specific lists of alleged seams issues cannot be addressed through bilateral agreements and must be addressed through a multi-lateral “Seams Operating Agreement” involving many, perhaps all control areas in the Western Interconnection.¹⁵ Such an umbrella Seams Operating Agreement is neither justified nor appropriate for a number of reasons.

First, the Commission properly rejected arguments that the MRTU Tariff should be conditioned on the resolution of alleged seams issues and that entering into ICAOAs and participating in the WECC committee process was an insufficient commitment on the part of the CAISO to address seams concerns.¹⁶ There is no reason for the Commission to reverse these findings, especially when the parties proposing new seams-related requirements have failed to follow the Commission's instructions to identify specific seams issues, describe the issues in detail, and propose specific solutions.

Second, arguments that such a requirement is supported by Commission precedent are incorrect. PPC points to the Midwest ISO/MAPP Seams Operating Agreement as justifying its proposal.¹⁷ In the Midwest ISO/MAPP process, however, although several commenters requested that a uniform seams agreement be coordinated with multiple parties, the Commission instead held that separate agreements could be negotiated with different market

¹⁵ See PPC Comments at 11-12, 16-17, and 22-23; TANC at 3-5; IID at 7.

¹⁶ See September 21 Order at PP 481, 485-90.

¹⁷ PPC Comments at 19-21.

participants.¹⁸ MAPP, for example, argued that the Midwest ISO’s “interface-by-interface” approach to resolving seams was inconsistent with recent Commission orders, and that the approach limited efforts to promote efficient regional coordination.¹⁹ The Commission rejected this argument, allowing the Midwest ISO to negotiate separate arrangements with each neighbor and suggesting that “market participants . . . use the PJM-Midwest ISO [Joint Operating Agreement] as a model or starting point for [such] seams agreements.”²⁰

Third, to the extent that the objective is to address seams issues related to MRTU prior to MRTU implementation in one year, a multi-lateral Seams Operating Agreement involving multiple Western Control Areas is likely to be counter-productive because such an agreement would have to address existing seams issues between other Control Areas that are wholly unrelated to the CAISO’s market design.

Fourth, neighboring control areas are likely to raise different coordination issues depending on whether they are adjacent, embedded, or otherwise connected with the CAISO Control Area. These differences are best treated in the existing Interconnected Control Area Operating Agreements, which are individual agreements already on file with the Commission tailored to address specific circumstances of each different interconnection with the CAISO Control Area. While these agreements are geared to address specific interconnection needs, they are based on a *pro forma* ICAOA and each individual agreement is

¹⁸ See *Midwest Independent Transmission Operator, Inc.*, 108 FERC ¶ 61,163 at P 639 (August 6, 2004).

¹⁹ *Id.* at P 632.

²⁰ *Id.* at P 639. See, e.g., *Midwest Independent Transmission Operator, Inc.*, 117 FERC ¶ 61,230 (Nov. 24, 2006) (seams agreement with Manitoba Hydro).

filed with the Commission to ensure that all similarly situated entities receiving service on the transmission grid are afforded the same access to the grid. The CAISO and its neighbors have been operating successfully under these agreements for years and the CAISO believes there is no productive reason to abandon these existing ICAOAs and start from scratch in an attempt to develop a single West-wide agreement.

The fact that two of the twelve operators of neighboring Control Areas directly interconnected with the CAISO Control Area (BPA and IID) do not currently have an ICAOA with the CAISO is no reason to discard the foundation created by the existing ICAOAs. Instead, it would be far more efficient to negotiate new bilateral ICAOAs with these two remaining Control Areas based on the CAISO's *pro forma* ICAOA. The CAISO has in the past provided both BPA and IID with drafts of proposed ICAOAs based on the *pro forma* version of the ICAOA previously accepted by the Commission. Those prior drafts can be easily adapted to address any coordination issues involving MRTU.

The CAISO is already engaged in bilateral discussions with operators of neighboring control areas that will allow the parties to identify needed changes to the ten existing ICAOAs, potentially including uniform changes to the *pro forma* provisions of each ICAOA. The Commission should allow parties to continue these discussions and should not require the CAISO to replace these agreements with a multi-lateral Seams Operating Agreement.

2. Regional Seams Discussion Should Be Conducted Through Existing WECC Committees and Subcommittees

Some commenters suggest that seams issues should be divided into categories, with some issues discussed at the regional and sub-regional level and others discussed on a control area-to-control area basis.²¹ The CAISO generally agrees with such an approach. Indeed, in the January 16 CAISO Seams Comments, the CAISO explained that, for those seams issues that affect the Western region generically, efforts are already underway through the WECC, and specifically the WECC's Seams Issues Subcommittee ("SIS"), to consider these issues. As reflected in the Quarterly Seams Report for the Fourth Quarter of 2006 filed on January 30, 2007, the CAISO is actively involved in all of such efforts. The CAISO strongly believes that the SIS is the appropriate forum to consider West-wide seams issues.

This belief is supported by the WECC itself, which explains that the WECC, and in particular its Market Issues Committee and Seams Issues Subcommittee, "is an appropriate and effective forum for discussion, evaluation, and development of possible solutions for regional seams issues in the West, including MRTU seams issues."²²

Some parties have suggested that an additional multi-lateral body is needed to address regional and sub-regional seams issues. For example, the Coalition proposes the creation of not one but three new multi-lateral committees which would identify "deliverables" which must be satisfied prior to MRTU

²¹ See APS Comments at 8.

²² WECC Comments at 3.

implementation.²³ The Coalition suggests that these hypothetical committees would somehow act *more quickly* on MRTU seams issues than the existing and well-organized WECC committees. Such a claim is contrary to common sense. PPC similarly proposes multi-lateral negotiations separate from the WECC process.²⁴ There is simply no reason to abandon the foundation of the existing WECC seams process. These proposals can only result in needless delay and uncertainty as new structures and procedures are developed from scratch. Such proposals should be rejected as contrary to the primary objective of timely implementation of the MRTU design which benefits Western customers by solving existing market flaws.

C. Hold Harmless Provisions Are Not Appropriate

Some commenters suggest that the CAISO should be required, as a condition to MRTU implementation, to adopt a “hold harmless” mechanism which ensures not only that the reliability of neighboring control areas will not be affected by MRTU but also that neighboring control areas will face no economic impact as a result of the new market rules.²⁵ As an initial matter, there is simply no evidence that MRTU will have any adverse impact on the reliability of neighboring control areas. Indeed, by dispatching resources based on a more accurate model of the California transmission system, MRTU can be expected to improve reliability. As such, claiming that a hold harmless requirement is required to address reliability concerns is a red herring.

²³ Coalition Comments at 5-7, 23-25.

²⁴ See Attachment B to the PPC Comments.

²⁵ See Coalition Comments at 13-16; PPC Comments at 17-10; TANC Comments at 5.

In essence, advocates for a “hold harmless” mechanism are asking to be shielded from the economic consequences of Commission-approved market rules. The Commission has already rejected similar claims. As the Commission correctly noted in the September 21 Order, the MRTU reforms “do not create additional congestion costs, but rather remedy a flawed system that masks the causes of congestion costs and does not provide any mechanism to protect customers against such costs.”²⁶ Under the current market design “some customers [are] subsidizing the cost to serve other customers.”²⁷ A hold harmless provision is not appropriate because the parties who benefit today from a lack of transparency are not entitled to retain the subsidies they receive under the status quo.

It is possible that changes to one control area’s dispatch of resources to serve its load can affect flows in other control areas, but such impacts are related to the configuration of the interconnected transmission system and to control area boundaries and other factors, not to the algorithms for dispatching and pricing energy from supply resources.

Parties arguing for hold harmless provisions allege that MRTU will harm other control areas by exacerbating unscheduled loop flows in the west. Not only is this allegation unsubstantiated, the logic behind it is perverse. Under the “contract path” regime, which is the regime that critics of MRTU want to preserve, it is fundamentally not feasible to account for all loop flow on the system. The “contract path” approach ignores the physical laws that dictate how electricity

²⁶ September 21 Order at P 9.

²⁷ *Id.*

flows on the transmission network, and in so doing creates substantial discrepancies between flows that are scheduled and those that will occur in real time, the difference between these being the “unscheduled” loop flows.

Therefore the ultimate resolution to reducing unscheduled loop flow is either to: (1) install devices such as Flexible Alternating Current Transmission System (“FACTS”) devices throughout the transmission network that can control the flow of electricity similar to how valves control flow of water; or (2) recognize the flow effects of schedules between control areas such that the schedules and their flow effects are no longer unscheduled and such that the schedules are feasible relative to the entire interconnected Western network. In fact, MRTU, through the use of the Full Network Model within the CAISO, is actually implementing the latter to ensure flow effects of schedules and the dispatch of resources to meet demand are feasible within the CAISO network.

Attempting to address unscheduled loop flow over large distances in the Western Interconnection (e.g., outside the CAISO Control Area) creates problems because loop flow varies in a random, unpredictable manner as a result of having many schedules that are scheduled on contract paths instead of at physical locations. The CAISO has presented an illustrative analysis to the January 15-16 meeting of the WECC Seams Issues Subcommittee which shows that: (1) loop flow over the “big loop” in the Western Interconnection is more variable and random – in direction as well as magnitude – than it is predictable; and (2) if the CAISO tried to predict loop flow from the CAISO’s own scheduling data, without coordinating knowledge of West-wide schedules, the CAISO could

only develop a poor estimate of loop flow effects outside the CAISO Control Area that would sometimes create bigger problems than what such an estimate would be designed to solve. The CAISO will continue to discuss these issues through the WECC committee process, the proper forum for developing West-wide approaches to address this West-wide problem.

Nonetheless, proponents of a hold harmless mechanism contend that the CAISO should be required to conduct a massive number of additional loop flow studies to prove that MRTU does not affect loop flows outside of the CAISO Control Area. They argue that such a requirement is consistent with the procedures undertaken pursuant to the Midwest ISO/MAPP seams process.²⁸ This reasoning is faulty as it is based on a fundamental lack of understanding of the reason for the Congestion Management Process adopted by the Midwest ISO. The Midwest ISO/MAPP provisions upon which their arguments are based derive from the PJM/Midwest ISO Congestion Management Process provisions. These provisions were adopted in order to address changes in PJM's and the Midwest ISO's control area boundaries.²⁹ Further, when the Midwest ISO moved to centralized dispatch, intra-Midwest ISO schedules were no longer tagged.³⁰ This also created a need for a congestion management process that replaced what the Transmission Loading Relief ("TLR") process would do to relieve

²⁸ PPC Comments at 17-19.

²⁹ See Market Monitors' Assessment of RTO Seams Issues in the Midwest, Docket No. EL03-35-02 (July 29, 2003), Attachment 2 ("Managing Congestion To Address Seams: A Proposal for Congestion Management Coordination") at p. 10.

³⁰ *Midwest Independent Transmission System Operator, Inc.*, 108 FERC P 61,163 at P 597 (Aug. 6, 2004) ("Section 40.7.1 of the TEMT states that the Midwest ISO will calculate Inadvertent Energy for each control area, but with centralized dispatch the intra-Midwest ISO schedules will not be tagged; therefore, there should not be net scheduled interchange between control areas in the Midwest ISO.")

congestion by adjusting tagged transactions between control areas with a process that would rely on the market re-dispatch within an RTO boundary to assist in relieving congestion in a control area external to the RTO.³¹

The situation faced by the Midwest is simply not analogous to what parties in the West face with the inception of MRTU. MRTU does not result in a change in control area boundaries or a modification to the CAISO's tagging procedures. Schedules that require tags today will require tags under MRTU and remain subject to the WECC Un-Scheduled Flow Mitigation ("USF") procedure.

It is also important to recognize that numerous events have occurred in the Western Interconnection that impacted the configuration of control areas, which were appropriately addressed through existing WECC procedures and for which certain proponents of the hold harmless mechanism took no actions to consider hold harmless requirements. Essentially, such parties are trying to inappropriately establish a double standard. Since 1998, there have been both contraction and expansions of control areas in the west, and WECC procedures have adequately addressed any impact of such changes. The CAISO believes that these procedures were the right measures to address such changes. The establishment of the CAISO itself was an aggregation of control areas that was addressed through WECC procedures, and no one asked for hold harmless requirements at that time. When SMUD formed its own control area out of the previous boundaries of the CAISO Control Area, an additional control area was created out of a single CAISO control area. This was also appropriately

³¹ See Market Monitors' Assessment Of RTO Seams Issues In the Midwest, Docket No. EL03-35-02 (July 29, 2003), Attachment 2 ("Managing Congestion To Address Seams: A Proposal for Congestion Management Coordination") at p. 10.

addressed through existing WECC procedures and no mechanism was put in place or even considered that would have required SMUD to “hold harmless” the CAISO Control Area or other neighboring control areas. Nor was such a mechanism implemented when WAPA joined SMUD’s control area, which constituted a reconfiguration of a control area.

These actions of creating new control areas and/or the merging of existing control areas represents a more significant impact to historic power flows than would be expected for the case where a given control area simply enhances its unit commitment and dispatch tools and procedures. That being said, Coalition members SMUD and WAPA have clearly demonstrated in actual practice, that changes to historic power flows in the West brought about through control area expansion and contraction do not warrant the introduction of "hold harmless" agreements and furthermore any changes in historic power flows or loop flows created through such actions are well within the capability of existing WECC procedures in regard to maintaining system reliability. Therefore, the Commission should conclude that any changes in historic flow patterns introduced by the enhanced commitment and dispatch procedures to be employed by MRTU would be modest in comparison and thus would neither warrant the application of any "hold harmless" arrangements nor present significant challenges to control area operators enabled with operating practices consistent with WECC standards and procedures for maintaining system reliability.

D. The Seams Process Should Not Be Used to Re-litigate Issues Already Decided by the Commission

A number of parties raise issues in their post-technical conference comments that have previously been decided by the Commission. For example, the Coalition and NCPA argue that the CAISO should modify the manner in which Congestion Revenue Rights are allocated to load serving entities outside of the CAISO Control Area.³² The Commission has already rejected these arguments in the September 21 Order conditionally approving the MRTU Tariff.³³ Similarly, WAPA argues that the Commission should reverse its approval of the transmission outage scheduling provisions of the MRTU Tariff,³⁴ notwithstanding the Commission's prior findings that WAPA's concerns about the MRTU transmission outage scheduling requirements were misplaced.³⁵

The MRTU Tariff was developed through a lengthy stakeholder process, was the subject of extensive administrative litigation throughout 2006, and was ultimately approved by the Commission. To the extent parties sought to reverse the Commission's findings, they were required by statute to seek rehearing of the September 21 Order. Parties should not now be permitted to get a "third bite at the apple" by seeking to re-litigate these issues under the guise of "seams comments." The Commission should reject such comments as untimely requests for rehearing of the September 21 Order.

³² Coalition Comments at 21-22; NCPA Comments at 4.

³³ See September 21 Order at PP 766-69 (accepting "the proposed MRTU Tariff provisions requiring entities serving external load to pre-pay transmission service charges in order to receive allocation of CRRs concerning treatment of external load as just and reasonable and not unduly discriminatory.").

³⁴ WAPA Comments at 2-6.

³⁵ September 21 Order at P 1335 (accepting the CAISO's modified outage scheduling proposal and finding that "the modified outage scheduling requirement will not adversely impact the rest of the Western Interconnection.")

E. Certain Issues Raised in the Seams Comments Should Be Addressed in the Commission's Open Access Transmission Tariff Rulemaking

Some commenters raise high level issues related to redispatch, the general treatment of loop flows, curtailment protocols, and the calculation of Available Transfer Capability ("ATC"). These high level concerns are not unique to either the CAISO or the Western Interconnection. Such concerns are best dealt with through the Commission's ongoing rulemaking considering modifications to its Open Access Transmission Tariff regulations in Docket Nos. RM05-25 and RM05-17.

These issues should not be addressed in the context of MRTU or Western Interconnection seams issues. The Commission should not be swayed by parties to address these issues in the instant proceeding and create the potential for disparate requirements in different parts of the country.

IV. CONCLUSION

Wherefore, for the reasons discussed above, the CAISO respectfully requests that the Commission consider the foregoing reply comments on the issues discussed in the comments submitted to the Commission pursuant to its December 21, 2006 notice, and that the Commission accept the CAISO's recommendations for resolving seams issues in the Western Interconnection in a manner that will not delay the benefits to customers of the timely implementation of the MRTU market design.

Respectfully submitted,

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Dated: January 31, 2007

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 31st day of January, 2007 at Folsom in the State of California.

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