

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

California Independent System Operator  
Corporation

Docket Nos. ER04-835-007  
ER04-835-009

Pacific Gas and Electric Company

EL04-103-002  
EL04-103-004  
(consolidated)

**ANSWER TO PROTEST AND COMMENTS  
OF SOUTHERN CALIFORNIA EDISON COMPANY**

The California Independent System Operator Corporation (“ISO”) respectfully submits this answer to the pleading filed in the docket on June 19, 2012, by Southern California Edison Company (“Southern California Edison”) and styled as a Protest and Comments regarding the ISO’s May 15, 2012, informational filing.<sup>1</sup> The ISO requests that the Commission accept the informational filing as fulfilling the directive of the Commission’s “Order on Compliance Filings,” dated September 16, 2011, in these dockets.<sup>2</sup>

---

<sup>1</sup> The ISO submits this filing pursuant to Rule 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.213. Rule 213 permits answers to comments. Although Rule 213(a)(2) prohibits answers to protests except by leave of the Commission, the ISO submits that Southern California Edison’s pleading is not properly a protest. Rule 211 of the Commission’s Rules, 18 C.F.R. §385.211, permits protests to “any application, complaint, petition, order to show cause, notice of tariff or rate examination, or tariff or rate filing.” The ISO’s informational filing is none of these. In the event that the Commission concludes that this Answer falls within the prohibition of Rule 213(a)(2), the ISO requests waiver of the rule to permit it to file this Answer. Good cause for a waiver exists because this Answer will aid the Commission in understanding the issues in the proceeding, provide additional information to assist the Commission in the decision-making process, and help to ensure a complete and accurate record in this case. See, e.g., *Entergy Services, Inc.*, 101 FERC ¶ 61,289, at 62,163 (2002); *Duke Energy Corporation*, 100 FERC ¶ 61,251 at 61,886 (2002); and *Delmarva Power & Light Company*, 93 FERC ¶ 61,098 at 61,259 (2000).

<sup>2</sup> *Cal. Indep. Sys. Operator Corp.*, 136 FERC ¶ 61,198 (2011) (“Compliance Order”).

## I. Background

These consolidated dockets concern Amendment No. 60 to the ISO tariff, which proposed a new allocation methodology for must-offer minimum load compensation costs, and a complaint filed by Pacific Gas and Electric Company regarding the ISO's allocation of must-offer compensation costs. Amendment No. 60 allocated minimum load compensation costs according to the cause of the must-offer commitment: system, zonal, or local.

In Opinion No. 492, issued in December 2006, the Commission approved the Amendment No. 60 methodology, with modifications, effective on the July 17, 2004, refund effective date.<sup>3</sup> In addition to the revised effective date, the modifications were an exemption of wheel-through transactions from system must-offer charges, application of the Amendment No. 60 methodology to start-up costs and emissions costs, and a classification of must-offer waiver denials to address the Miguel constraint as zonal.<sup>4</sup>

There was one exception to the effective date in Opinion No. 492. Under the approved allocation methodology, the ISO allocates the must-offer costs for local needs according to the "incremental-cost of local" methodology. That calculation involves the use of security constrained unit commitment procedures, which the ISO did not implement until October 1, 2004. Therefore, the Commission approved use of the incremental-cost-of-local methodology effective October 1, 2004.<sup>5</sup>

---

<sup>3</sup> *Cal. Indep. Sys. Operator Corp.*, 117 FERC ¶ 61, 348 (2006) ("Opinion No. 492"), *on reh'g* 121 FERC ¶ 61,193 (2007).

<sup>4</sup> *Id.* at PP 31, 90, 96.

<sup>5</sup> *Id.* P 123.

In its November 2007 order on rehearing, the Commission concluded that must-offer waiver denials to address the South-of-Lugo constraint should also be classified as zonal.<sup>6</sup> In addition, the Commission authorized the use of the ISO's "proxy" methodology to calculate the incremental-cost-of-local for the period in which the security constrained unit commitment procedures was unavailable.<sup>7</sup> One party sought rehearing of the November 2007 order.

The ISO has made two compliance filings, one after Opinion No. 492, in February 2007, and one after the rehearing order in December 2007. Southern California Edison protested the initial compliance filing. Opinion No. 492 had directed the ISO to publish sufficient information on its website for scheduling coordinators to validate the incremental-cost-of-local component.<sup>8</sup> In its February 2007 compliance filing, the ISO asserted that it had complied with this directive going back to July 17, 2004. Southern California Edison protested that the information provided by the ISO was insufficient. In the November 2007 compliance filing, the ISO indicated that it would work with Southern California Edison to address the concerns.

The Compliance Order accepted the ISO's compliance filings. It also directed the ISO to submit an informational filing within 30 days explaining how the ISO addressed Southern California Edison's concerns.<sup>9</sup> Simultaneously with the Compliance Order, the Commission denied the outstanding rehearing request.<sup>10</sup>

---

<sup>6</sup> *Cal. Indep. Sys. Operator Corp.*, 121 FERC ¶ 61,193 (2007).

<sup>7</sup> *Id.* at P 82.

<sup>8</sup> *Opinion No. 492* P 49.

<sup>9</sup> *Compliance Order* P 21 and Ordering Paragraph (c).

<sup>10</sup> *Cal. Indep. Sys. Operator Corp.*, 136 FERC ¶ 61,197 (2011).

On October 17, 2011, the ISO requested an extension of time to make the informational filing. The ISO explained that, because of the outstanding rehearing request, which would have affected cost allocation, and because until the Compliance Order the ISO did not have a final rate allocation in place, the ISO had not yet been able to finalize calculation of the reallocation of must-offer costs consistent with the tariff revisions approved in the Compliance Order for the entire refund period. The ISO therefore had not determined the incremental-cost-of-local under the proxy methodology for the entire period in which that methodology was applicable.

The ISO also explained that the Amendment No. 60 refund calculation is one of a number of re-runs that the ISO is processing from the period prior to the implementation of the ISO's new market structure. The ISO estimated that it will be able to calculate the final allocation of must offer compensation costs, and the resultant refunds, within the next six months. It will then be able to publish the final incremental-cost-of-local information from the period of July 17, 2004 through March 31, 2009, when the new market design went into effect. The ISO therefore requested that the Commission extend the time for the informational filing regarding the publishing of such data until May 15, 2012. The Commission granted the extension on November 9, 2011, in an unpublished order.

The ISO made an informational filing on May 15, 2012. The ISO stated that it had published three reports on its website for the period July 17, 2004, through March 31, 2009: the total minimum load megawatts of must-offer capacity, the total

minimum load costs; and the total start-up costs. The website reported these amounts on a daily basis.

## **II. Answer**

Southern California Edison raises two issues regarding the informational filing. First, Southern California Edison states that the information posted on the website does not allow it to calculate the incremental costs of local. Second, it notes that the ISO has not as yet provided the refunds.

### *Posting of Must-Offer Cost Information*

Southern California Edison states that the data posted by the ISO does not show the costs that would have been incurred to meet system requirements only, and as a result, it cannot verify that the local information is accurate or that it reflects the incremental cost of local methodology adopted by the Commission.

As an initial matter, the ISO notes that the costs that would have been incurred to meet system requirements only is not relevant to the determination of incremental cost of local. The incremental cost of local is the additional cost that the ISO incurs to address local reliability issues relative to the cost that the ISO would have incurred to meet *system and zonal* reliability issues in the absence of the local need. The minimum load and start-up cost that the ISO would have incurred to meet system and zonal reliability issues absent the local reliability issue is in fact calculable from the website information by adding the system and zonal columns. The information that is not available on the website is the minimum load and start-up costs that the ISO would have allocated locally if it had not used the incremental cost of local process, *i.e.*, the “nonincremental” cost of local.

For example, assume that the ISO has local, zonal, and system reliability needs. The ISO calls upon Units A and B to meet the local need. Besides meeting the local need, Units A and B meet a portion of the zonal and system needs,<sup>11</sup> and the ISO calls upon Units C and D to meet the remaining needs. Minimum load and start-up costs of the four units is \$Y. If there had been no local reliability need, the ISO would have been able to call upon Unit E, which is less expensive than Units A and B, to fulfill that portion of the zonal and system needs. The minimum load and start-up cost of Units C, D, and E is \$Z. The incremental cost of local process allocates only \$Y-\$Z on a local basis. This represents the difference between the minimum load and start-up costs of Units A and B, on one hand, and Unit E, on the other. On the website data, the sum of the system and zonal allocation equals \$Z. The sum of the system, zonal, and local data equals \$Y.

Absent the incremental cost of local process, the ISO would have allocated the entire minimum load and start-up costs of Units A and B locally. Neither this data, nor the minimum load and start-up costs of the Unit E, is calculable from the website data.

The ISO recognizes that Southern California Edison may desire data on the costs that the ISO would have allocated locally absent the incremental cost of local process, but that data is simply not available. The incremental cost calculation was performed by the must-offer unit commitment software. This process does not include a calculation of the “nonincremental” cost of local. To determine the incremental cost of local, the software conducted two must-offer unit commitment

---

<sup>11</sup> Because system needs can be met by any generating unit, units called upon for a local need will always reduce a system need – if a system need exists. Whether the units can meet a zonal need will depend upon their location.

runs. The first run did not enforce any local transmission constraints and the second enforced all the local transmission constraints. The full output of the individual runs, moreover, is not captured. Rather, only the incremental cost was captured and written to the settlement system database.

The ISO has expressed a willingness to work with Southern California Edison to work with the available data in order to facilitate their review and understanding of the refund calculation process. The ISO could not, however, provide the “nonincremental” cost of local without the enormous expenses of rewriting the must-offer unit commitment software (which is not even used today under the new market design) and re-running five years of unit commitments.

#### *Refunds*

In its motion for an extension, the ISO did estimate that it would be able to calculate the final allocation of must-offer compensation costs, and the resultant refunds, within the following six months. That was, however, an estimate. Largely consistent with that estimate, the ISO has indeed calculated the allocation of must-offer compensation costs. The calculation, however, is only one part of the determination of refunds.

As the ISO also stated in the motion for an extension, the Amendment No. 60 refund calculation is but one of a number of re-runs that the ISO is processing from the period prior to the implementation of the ISO’s new market structure. Each of these re-runs can affect the outcome of refund calculations due other re-runs. Moreover, the result may be that market participants will receive refunds from one rerun and surcharges from another. Rather than issue a drawn-out series of

offsetting refunds and surcharges, the ISO intends to consolidate them into a single calculation, so that market participants will have a single refund or surcharge total. Depending on the magnitude of the single calculation, the ISO may also invoice it over a period of time to allow participants to better manage their resulting obligations. The ISO notes that because market participants receiving refunds are entitled to interest, in accordance with Commission's regulations,<sup>12</sup> no party will be prejudiced by this process.

### **III. Conclusion**

For the reasons discussed above, the ISO respectfully asks that the Commission accept the informational report as fulfilling the requirements of the Compliance Order.

Respectfully submitted,

Nancy Saracino, General Counsel  
Sidney Davies, Assistant General Counsel  
The California Independent System  
Operator Corporation  
250 Outcropping Way  
Folsom, CA 95630  
Tel: (916) 351-4400  
Fax: (916) 351-4436

/s/ Michael E. Ward  
Michael E. Ward  
Alston & Bird LLP  
The Atlantic Building  
950 F Street, N.W.  
Washington, DC 20004-1404  
Tel: (202) 239-3300  
Fax: (202) 239-3333

Counsel for the California Independent  
System Operator Corporation

Dated: July 5, 2012

---

<sup>12</sup> 18 C.F.R. 35.19(a).

## CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service lists in the 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 at Washington, DC, this 5<sup>th</sup> day of July, 2012.

/s/ Rafael Lopez

Rafael Lopez  
Paralegal  
Alston & Bird LLP  
The Atlantic Building  
950 F Street, N.W.  
Washington, DC 20004-1404