

I. BACKGROUND

Since April 1, 2009, the ISO has been operating under its new locational marginal price (LMP)-based markets. The ISO's new market system includes a range of design elements that have improved the ISO's market and system operations significantly. One important design element missing from the new market has been the ability to accurately model the unique operational and economic parameters of combined cycle generating units and other resources that have multiple operating or regulating modes that limit the resource to operate in only one of those modes at any particular point in time. In the initial order accepting the tariff amendment for the new market design, the Commission directed the ISO to develop and implement a more robust modeling approach for combined cycle generating units.²

On May 28, 2010, following a robust stakeholder process, the ISO filed with the Commission a tariff amendment to incorporate market rules that support the implementation of a multi-stage modeling approach for generators, which includes combined cycle generating units. The proposal was widely supported by all stakeholders, as evidenced by the lack of protests to this filing. The ISO and stakeholders are currently actively involved in preparations for market simulation to commence this summer and the start of this functionality in actual production on October 1, 2010. The ISO requested earlier effectiveness of certain tariff provisions that will enable the proper registration of facilities that intend to participate as Multi-

² *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274, P 573 (2006) [hereinafter *September 21 MRTU Order*]

Stage Generating Resources as of August 2010. Below the ISO addresses certain comments raised with the ISO's proposal.

II. ANSWER

A. Transition Costs Related Comments

SCE comments that it is generally supportive of the ISO's Multi-Stage Generating Resources design and does not oppose any aspect of the current proposed tariff amendment. SCE, however, also comments on the lack of language on the determination and mitigation rules for transition costs and expresses concern regarding the impact of transition costs on the October 1st implementation date.³

As acknowledged by SCE, the ISO is currently working through a stakeholder process to finalize the rules surrounding transition costs and that the ISO has made good progress in finalizing these rules. The ISO is wrapping up its efforts to finalize these details and has recently filed its draft final proposal. Based on comments submitted thus far, there is no significant opposition to this proposal.⁴ The ISO has worked closely and collaboratively with stakeholders to address concerns and, while unable to accommodate all stakeholder requests because of the need to balance competing interests, the ISO believes it has arrived to a just and reasonable proposal, which it will be filing with the Commission at the end of the July subject to obtaining approval by its Board of Governors in July.

There is no need to extend comments on the proposed tariff amendment in the instant filing as they relate to the integration of the transition costs into the bid

³ See SCE Comments at parts II.B and II.D.

⁴ All stakeholder materials related to the transition costs initiative including the draft final proposal and the latest comments submitted by participants are available at: <http://www.caiso.com/23d9/23d9c75e22ab0.html>.

cost recovery as requested by SCE. The subject filing does not include any details regarding the determination and the mitigation of transitions costs, which will be part of a separate upcoming filing. To avoid inhibiting the Commission from proceeding with an order in the instant filing, the ISO structured the instant filing so that there would be no overlap between this filing and the upcoming filing that incorporates how the determination and mitigation of transition costs. In the instant filing the ISO is only proposing that the transition costs recovery mechanism be incorporated into the bid cost recovery method, proposes the inclusion of transition costs as an information requirement for Multi-Stage Generating Resources, and their consideration in the ISO markets and processes.⁵ The ISO further proposes a definition for transition costs, which requires that transition costs will be based on the configuration to which the resource is transitioning. None of these proposes amendments will be modified by the upcoming filing.

These elements of the proposed amendment have no bearing on how the transition costs are to be determined and how they may be mitigated. Regardless of how the costs are determined and mitigated, the ISO sees no other just and reasonable method for recovering such costs than through its well developed and proven bid cost recovery infrastructure and that transition costs be considered

⁵ As provided in the May 28 Filing, the ISO proposes changes to or the addition of the following tariff sections to incorporate the recovery of transitions costs through the bid cost recovery mechanism contained in Section 11.8: Section 11.8.1, 11.8.1.3, 11.8.2.1, 11.8.2.1.7, 11.8.3.1, 11.8.3.1.4, 11.8.4.1, 11.8.4.1.2, and 11.8.4.1.7. The ISO also proposes to specify in proposed Section 27.8.2 that transition costs will be included in the informational requirements for Multi-Stage Generating Resources. In Section 31.3, the ISO specifies that Transition Costs are considered in the clearing of the Integrated Forward Market. In Sections 31.5, 31.5.5, and 31.5.6, the ISO specifies that Transition Costs are considered in the clearing of the Residual Unit Commitment process. In Sections 34 and 34.5, the ISO specifies that Transition Costs are considered in the clearing of the Real-Time Market. In Section 34.9, the ISO specifies that Transition Costs are considered in conducting exceptional dispatches. The ISO also proposes to include the reference to Transition Costs in the definition of Bid Costs, IFM Bid Costs, RTM Bid Cost, the proposed definition for MSG Transition, and Transition Matrix. The ISO proposes a definition for Transition Costs.

through the ISO markets and processes. There is no need to develop any new procedures to recover transition costs when the existing bid cost recovery costs already incorporate similarly commitment-based costs. It would be unreasonable to not require that the ISO markets consider the transition costs as these are an essential component of this enhancement. Finally, it would also be unreasonable to calculate the transition costs based on a configuration “from” which the resource is transitioning, which is the only alternative to the ISO’s proposal in the instant filing that they be based on the configuration to which it is transitioning. Simply put, there is no reason why any of the tariff changes proposed in the instant filing would be altered by the upcoming filing. SCE itself also fails to provide any indication of how the determination of the transition costs could impact these aspects of the subject filing. The Commission should accept the proposed unopposed amendments and proceed with ruling on the transition costs determination and mitigation proposal when filed by the ISO later in July.

The ISO also supports SCE’s recommendation that the Commission take any necessary actions that help expedite related the ISO filings pertaining to the transition costs rules to be filed with the Commission at the end of July. The ISO will be requesting an effective date of October 1, 2010 with the need for an order at least two weeks before the go live date so that the ISO can consider the impact of any changes to the ISO’s implementation schedule and therefore, it may be necessary for the ISO to request expedited treatment of the filing. Nevertheless, the ISO is hopeful that the robust stakeholder process preceding the upcoming transition costs filing will have yielded a filing well supported by stakeholders, and will avert any protests.

B. Bid Cost Recovery

SCE raises concerns regarding how the existing bid cost recovery tariff rules that apply to all supply resources impact the settlement of those resources whose schedules are modified in real-time from their day-ahead schedule. While the existing tariff rules will apply similarly to Multi-Stage Generating Resources, the concerns raised by SCE are due to the existing tariff rules that require final financial settlement of the day-ahead market and that the bid cost recovery rules that apply for the recovery of the energy bid and the start-up and minimum load commitment costs based on delivered energy and not scheduled energy. These requirements have been long standing principles of the ISO tariff rules and in no way did the ISO seek to modify these rules in this initiative and this proceeding because no party raised this issue during the policy development stage. Had the ISO opened up review of the principles of bid cost recovery, many of the previously stakeholdered and litigated issues would arise again, the resolution of which would likely have landed back in the same just and reasonable balance that was struck in the existing tariff rules. SCE's concerns lie with the existing bid cost recovery rules, which are not a part of this proceeding and should, therefore, the Commission should not permit SCE to circumvent the ISO stakeholder process by forcing a requirement to change the rules myopically with respect to the consideration of the revenue without consideration of the other impacts such a change would have on the overall outcome of the bid cost recovery mechanism.

SCE provides an example in which it demonstrates that under the existing rules, when a resource is dispatched down to a lower configuration than the configuration in which it was scheduled in the day-ahead market the Multi-Stage

Generating Resource receives a net profit of \$625, which SCE claims should be rescinded. SCE, however, erroneously attributes this profit to the rules filed in this proceeding for Multi-Stage Generating Resources in Section 11.8.1.3. In actuality, this net profit is due to the bid cost recovery principles already in the ISO tariff and not due to the new rules filed in Section 11.8.1.3. First, the rules in 11.8.1.3 are the same principles that apply to all resources and were included in the tariff in this filing to demonstrate how the rules work out for Multi-Stage Generating Resources given the extra complexity added by recognition of the configurations. The existing rules for all resources that govern the selection of which commitment period applies for any given trading hour are in existing Sections such as 11.8.1.1, 11.8.1.2, and 11.8.2.1.1. These rules would for example qualify that the resources commitment costs be settled based on the real-time commitment costs. SCE itself notes in footnote five that “this same situation can occur for non-MSG units that are decremented in real-time below their day ahead schedule.” SCE’s real concern is with the existing bid cost recovery principles as is reflected in footnote five, in which SCE states “that any profits made on from the purchase of replacement energy when being decremented below a resources day-ahead award in real-time should be considered in the calculation of Bid Cost Recovery.”

Second, the net profit is in essence due to an accounting of the day-ahead settlement for energy that results in a cost for the replacement energy of \$875 due to the lower dispatch. But this would have happened regardless of the rules that account for the MSG Configurations because the bid cost recovery under the existing rules would work out in exactly the same way for all resources. In fact, SCE’s example can be slightly modified by removing the reference to the Multi-

Stage Generating Resource configurations and simply consider a unit that is dispatched down from its 50 MWs day-ahead schedule to a real-time dispatch of 25 MWs. The same settlement would result in either case. This is largely due to the fact that the existing rules require that a resource's bid cost recovery be based on metered energy, which is consistent with the Commission's September 21 MRTU Order in which the Commission required the removal of the Tolerance Band but provided that if the resources fall short of the day-ahead and real-time Dispatch Instructions the ISO should only guarantee recovery of costs associated with the Energy actually provided.⁶ Therefore, all the bid cost recovery amounts in Section 11.8 are based on metered Energy amounts. Only the day-ahead *delivered* portions as indicated in existing Section 11.8.2.1.5, are eligible for Integrated Forward Market bid cost recovery, leaving any undelivered Integrated Forward Market scheduled portions as ineligible for bid cost recovery in the Integrated Forward Market. This leaves the undelivered amounts free to either benefit of be subject to further costs as a result of a price differential between the day-ahead and real-time. There is, therefore, no distinction in the existing tariff requirements that the day-ahead be based scheduled amounts, thereby eliminating the opportunity for the price arbitrage between the day-ahead and real-time.

SCE requests that the Commission require a modification to these long-standing principles such that they recognize the replacement energy profits a Multi-Stage Generating Resource makes in cases where the resource is scheduled in real-time in a configuration level below its day-ahead schedule. However, the

⁶ See, *Cal. Indep. Sys. Operator Corp.*, 119 FERC ¶ 61,313, at PP 95-96 and Ordering Paragraph (A) (2007) (order conditionally accepting changes to section 11.8.2.1 contained in the ISO's November 20, 2006 MRTU Tariff compliance filing).

application of the different principles only to Multi-Stage Generating Resource would result in discrimination between non-Multi-Stage Generating Resource and Multi-Stage Generating Resource for no apparent good reason that distinguishes these resources for this purpose.

Moreover, the Commission cannot mandate such discrimination as a result of SCE's late requests in this proceeding. While SCE raised concerns prior to filing, SCE only did so during the final stages of the tariff stakeholder process of this initiative, after the ISO Board of Governors had already approved the final proposal, and at a time when the ISO was preparing to finalize the tariff for this filing. The ISO explained that there was no opportunity to consider these changes at this time. During the eleven months after the final draft proposal had been posted in 2009 and the ISO's commencement of the tariff stakeholder process, despite the many implementation meetings held during this time, SCE never raised these issues so that they could at least receive full vetting amongst stakeholders. Any late changes to the underlying principles of bid cost recovery as requested by SCE will result in a derailment of the application of the Multi-Stage Generating Resources functionality in October, 2010. Such an overhaul of the bid cost recovery rules would require a substantial stakeholder process to ensure that all competing interests are properly balanced. The ISO and stakeholders already underwent such a process prior to filing the initial new market tariff in 2006 and continuing through the stakeholder and FERC process after that initial filing.

The Commission should accept the tariff amendment in this proceeding as filed and allow all market participants an opportunity to evaluate whether in fact the rules work more adversely merely as a result on the introduction of this new

modeling approach rather than force the ISO to halt this much needed enhancement to consider a major overhaul of the bid cost recovery mechanism.

C. Pumps and Pumped Storage Hydro Operations

The SWP also filed comments expressing their appreciation of the ISO's intent to expand this enhancement at some future date to model pumps and pumped storage hydro operations and conveying that it looks forward to participating in that endeavor. SWP commented that, nonetheless, they reserve their rights to comment on and if necessary object to the application of the instant mechanism to pumps or pumped storage hydro operations and requests that the Commission determine that the Commission's approval of tariff language in this docket will not prejudice or predetermine the potential application of this Multi-Stage Generating Resources modeling approach for pumps or pumped storage hydro.

The ISO also looks forward to working with SWP and all stakeholders on future enhancements to better model resources such as pumps or pumped storage hydro. While the ISO does believe the Multi-Stage Generating Resources approach is a viable approach, the ISO agrees that the Commission's findings in this filing should not prejudice the application of this approach in any future filings to implement future enhancements.

III. CONCLUSION

For the reasons provided herein, the Commission should accept the tariff revisions as submitted by the ISO in the May 28 Filing.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service lists for the above-referenced proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, CA this 6th day of July, 2010.

/s/ Jane Ostapovich
Jane Ostapovich