

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

**California Independent System
Operator Corporation**

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Docket No. ER08-1113-000

**RESPONSE OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR
CORPORATION TO JOINT MOVANTS' REQUEST TO EXTEND THE DEADLINE
FOR MOTIONS TO INTERVENE, PROTEST, AND COMMENT AND TO PERMIT
SETTLEMENT EFFORTS**

I. INTRODUCTION

Pursuant to Rule 213 of the Federal Energy Regulatory Commission's ("FERC" or "Commission") Rules of Practice and Procedure, 18 C.F.R. § 385.213, the California Independent System Operator Corporation ("CAISO") respectfully submits this response to the "Joint Motion To Extend the Protest And Comment Deadline To Permit Settlement Efforts To Continue And Request for Shortened Response Time and Expedited Action" ("Joint Motion"). The Joint Motion was filed by the Sacramento Municipal Utility District ("SMUD"), the Western Area Power Administration ("Western"), and the Transmission Agency of Northern California ("TANC") (collectively "Joint Movants").¹

On June 17, 2008, the CAISO filed tariff amendments to further enhance the CAISO's congestion management solutions under the Market Redesign and Technology Upgrade ("MRTU") program by, *inter alia*, appropriately pricing and modeling interchange transactions

¹ TANC members include SMUD, the Modesto Irrigation District ("MID"); the Turlock Irrigation District ("TID"); and the California cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah. The Plumas-Sierra Rural Electric Cooperative is an associate member of TANC. The Joint Movants indicate that, in addition to MID and certain California cities that are members of TANC, the Northern California Power Agency ("NCPA") and the California Municipal Utilities Association ("CMUA") concur in the motion and urge that it be granted. Joint Motion at 1, n.1. Unless noted otherwise, the term "Joint Movants" includes NCPA and CMUA in this response.

(i.e., imports and exports) between the CAISO Controlled Grid and two Balancing Authority Areas (“BAA”) whose transmission facilities are highly integrated with the CAISO Controlled Grid facilities in the CAISO BAA (“IBAA Filing” or “June 17 Filing”). The proposed revisions would establish the SMUD BAA² and the TID BAA as an Integrated Balancing Authority Area (“SMUD-TID IBAA” or “IBAA”) to be implemented in conjunction with MRTU start-up which means being incorporated into pre-production testing prior to start-up.

The Commission established a deadline of July 8, 2008 for motions to intervene, protests and comments.³ The Joint Movants request a comment date of August 1, 2008 which would more than double the comment period from 3 to 6.5 weeks. The reasons for the Joint Movants’ request are: (1) to provide time for the completion of ongoing settlement talks between Joint Movants and the CAISO to resolve disputes regarding the IBAA Filing;⁴ (2) that the filing is “massive” and over 400 pages long;⁵ and, (3) that an effective date equal to the start date for MRTU is uncertain and won’t take effect until October at the earliest which “obviates the need for the Commission to act on the MRTU revisions within 60 days.”⁶ For the reasons expressed in more detail below, the CAISO opposes the request of the Joint Movants.

First, and most importantly, Commission action is required within 60 days (i.e., by August 18, 2008)⁷ in order to allow the proposed and conditionally-approved functionality to be

² In addition to SMUD’s own transmission system, the SMUD BAA includes the transmission facilities of: (a) Western – the Sierra Nevada Region; (b) MID; (c) the City of Redding (“Redding”); and (d) the City of Roseville (“Roseville”). The TID BAA contains TID’s transmission facilities.

³ See the Commission’s June 19, 2008 Combined Notice of Filings at 3.

⁴ Cover Letter to Joint Motion at 1-2; Joint Motion at 1-2.

⁵ Joint Motion at 2.

⁶ Joint Motion at 2, 11-13.

⁷ In the IBAA Filing the CAISO requests a Commission order within 60 days from June 17, 2008 or by August 18, 2008. Transmittal Letter to IBAA Filing at 2. However, in the Transmittal Letter the CAISO stated that 60 days from the filing date was “August 12, 2008” which is incorrect. *Id.* at 57. The date of the CAISO’s request

incorporated into the MRTU market systems and tested in time for the start of MRTU in the fall of 2008.⁸ Joint Movants are well aware of the testing and market simulation activities that need to occur prior to the “go-live” date for MRTU. While, as indicated by the Joint Movants, there are other CAISO efforts underway in July that will result in a FERC filing later this summer, the IBAA proposal is distinct from upcoming tariff amendments in that it requires the implementation of appropriate and necessary enhancements to the CAISO’s Full Network Model, which in addition to being used in every market process in the CAISO MRTU markets, also will serve as the basis for the upcoming release of Congestion Revenue Rights (“CRRs”). As discussed further below, these necessary enhancements, including any changes directed by the Commission, will require a number of weeks to develop, test and implement.

In other words, significant changes to the IBAA proposal can have a significant impact to the MRTU implementation schedule. Receiving a Commission order within 60 days of the June 17 Filing (as opposed to receiving an order later as suggested by Joint Movants) will give the CAISO the certainty it needs on how to proceed with its modeling and pricing systems. It is simply not just and reasonable to allow the Joint Movants to further jeopardize a fall 2008 start for MRTU, given that the CAISO explicitly has provided a mechanism that would enable the CAISO and Joint Movants to address the concerns of the Joint Movants through the development of a Market Efficiency Enhancement Agreement (“MEEA”). In contrast, the matters to be addressed in other upcoming tariff amendments do not require extensive software development or testing or otherwise significantly impact critical market systems.

for a Commission order is Monday August 18, 2008. The CAISO notes that 60 days from June 17, 2008 is August 16, 2008 which is a Saturday and per the Commission’s rules, 18 C.F.R. § 385.2007(a)(2), the date of the CAISO’s request for a Commission order becomes Monday August 18, 2008.

⁸ In a recent Market Notice the CAISO made clear that it remains focused on a Fall 2008 implementation of MRTU. See June 19, 2008 Market Notice. The Market Notice can be found at: <http://www.caiso.com/1feb/1febc19f71e00.html>.

Second, as indicated in the June 17 Filing, the CAISO will continue to negotiate with Joint Movants regarding an alternative arrangement that meets the requirements of an MEEA.⁹ However, the CAISO understands that the negotiations may be delayed during the time period in which Joint Movants prepare their comments and/or protests on the IBAA filing. Joint Movants may make their comments to the June 17 Filing a priority during the upcoming weeks and then resume negotiations with the CAISO regarding a possible MEEA. As proposed in the June 17 Filing, having the Commission act on the IBAA proposal (including the default modeling and pricing provisions) does not preclude the CAISO from entering into an alternative agreement with the Joint Movants. If Joint Movants are unable to continue negotiating with the CAISO while they prepare their comments on the IBAA Filing, more detailed discussions can take place after the comment date has past.

Third, regarding comments about the “massive” length of the IBAA Filing, its length reflects, and is in direct proportion to, a complete description of the stakeholder process that led to the IBAA filing. Every aspect of the IBAA Filing has been discussed in four previously published CAISO discussion papers, numerous IBAA power point presentations, stakeholder meetings, conference calls, responses to stakeholder questions, CAISO Department of Market Monitoring (“DMM”) reports, CAISO Market Surveillance Committee (“MSC”) opinions, Board of Governors documents, and/or in the CAISO’s May 30, 2008 response to the proposal of Joint Movants. The Transmittal Letter and its attachments simply recount and marshal the record in the CAISO’s IBAA stakeholder process – a process that was 18 months in length and in which the Joint Movants were key participants. Joint Movants literally are familiar with all of the underlying materials on which the IBAA Filing is based.

⁹ The CAISO notes that it cannot enter into an arrangement that would forgive certain costs for certain market participants without there being a concomitant benefit for all market participants. Transmittal Letter at 55.

Finally, if the Commission were inclined to grant the Joint Motion, the CAISO respectfully requests that the Commission limit the extension to one week or July 15, 2008. The reasons for the CAISO's opposition to the Joint Motion also support the notion that any extension, if granted, should be limited to a period much shorter than three and half weeks.

II. DISCUSSION

Joint Movants request a comment date of August 1, 2008 which would more than double the comment period from 3 to 6 and half weeks. As noted above, Joint Movants provide three reasons to support the requested extension: (1) to provide time for the completion of ongoing settlement talks between Joint Movants and the CAISO to resolve disputes regarding the IBAA Filing; (2) that the filing is "massive" and over 400 pages long; and (3) that an effective date equal to the start date for MRTU is uncertain and won't take effect until October at the earliest which "obviates the need for the Commission to act on the MRTU revisions within 60 days."¹⁰ None of the reasons put forth by Joint Movants warrants the requested extension and the CAISO respectfully requests that the Commission deny the request of the Joint Movants.

A. The Requested Effective Date Simultaneous With the Go-Live Date for MRTU Does Not Obviate the Need For the Commission to Act Within 60 Days

Joint Movants assert that a three and half week extension of the comment deadline is acceptable because the start date for MRTU is uncertain and won't take effect until October, at the earliest, which "obviates the need for the Commission to act on the MRTU revisions within 60 days".¹¹ Joint Movants' claim is disingenuous. Commission action is required within 60 days (i.e., by August 18, 2008) in order to allow the proposed and conditionally-approved

¹⁰ Joint Motion at 2, 11-13.

¹¹ *Id.*

functionality to be incorporated into the MRTU market systems and tested in time for the start of MRTU in the fall of 2008. Joint Movants are well aware of the testing and market simulation activities that need to occur prior to the “go-live” date for MRTU.

The CAISO’s current target date is October 1, 2008. It is true that the target date does not mean that CAISO management has recommended, based on the course of market simulations, that the CAISO Board approve filing the MRTU readiness certification in time for an October 1, 2008 Go Live date. However, the CAISO continues to target implementation of MRTU in the fall 2008 and October 1, 2008, is the earliest candidate date. To meet its intended goal for a fall 2008 start, the CAISO is already well underway in its implementation of its release of CRRs for the remaining months of 2008 and for the 2009 calendar year for the annual CRRs. Crucial in this release is the CAISO’s stated intention to use the FNM consistent with the single hub IBAA proposal. Obtaining certainty for the purposes of CRR release is crucial in meeting these goals, which will certainly be derailed if the CAISO does not obtain any direction from the Commission on this important issue until October 2008 (as opposed to obtaining an order by August 18, 2008 as requested by the CAISO).

As described herein and as further described in the Panel Testimony of Mr. Rothleider and Dr. Price submitted with the June 17 Filing,¹² significant changes to the IBAA proposal can have a significant impact to the MRTU implementation schedule. Receiving a Commission order within 60 days of the June 17 Filing (as opposed to receiving an order later as suggested by Joint Movants) will give the CAISO the certainty it needs on how to proceed with its modeling and pricing systems. It is simply not just and reasonable to allow the Joint Movants to further jeopardize a fall 2008 start for MRTU, given that the CAISO explicitly has provided a

¹² See Attachment F to the IBAA Filing.

mechanism that would enable the CAISO and Joint Movants to address the concerns of the Joint Movants through the development of an MEEA.

Joint Movants claim that “even assuming a link between the MRTU start up date and the instant filing, the ISO has not demonstrated that it needs a Commission order within 60 days of the filing.”¹³ Joint Movants then state that:

[n]ot only is MRTU start up several months off, the ISO itself does not plan to make its Parameter Tuning filing – a filing which it also purports is integrally related to MRTU start up – until mid July. Yet it apparently believes that an order on *that* filing will come sufficiently in advance of MRTU start up.¹⁴

The parallel Joint Movants draw between the IBAA Filing and upcoming proposed changes on the appropriate settings of certain parameters used in making Uneconomic Adjustments under the MRTU Tariff is inapt as it relates to software and network model changes. The CAISO needs an order on the IBAA Filing within 60 days because if the IBAA proposal were either not adopted or were modified by the Commission, it is likely that software, network model changes and/or Master File data changes would be required. It would take at least five weeks and possibly longer to implement and internally test the necessary changes to the FNM and this, in turn, could negatively impact or disrupt other preparations for MRTU Go-Live because of the need to commit CAISO resources to such changes rather than other implementation activities. In addition, with any substantial change to the FNM, the CAISO anticipates that market participants will request several weeks to complete their preparations and their market simulation testing that would incorporate the CAISO’s implementation of any Commission-mandated changes to the software and Full Network Model.

¹³ Joint Motion at 12.

¹⁴ *Id.* 12-13.

In contrast, the CAISO's upcoming filing regarding Uneconomic Adjustment parameter maintenance does not require reconfiguration of the FNM. Indeed, as will be explained in the CAISO's upcoming filing, the parameters in question by necessity are configurable and thus will not require changes in software code. These configurable parameters are already included in the CAISO's market software that is currently undergoing testing and market simulation. The CAISO's upcoming filing will propose to set the initial value of these parameters and a "parameter tuning" and parameter maintenance process that will continue after Go-Live to ensure that the initial values set for MRTU Go-Live continue to be appropriate. Therefore, because the CAISO's proposal and any likely Commission action on such proposal will not require software modifications and thus will not significantly impact Go-Live preparations, the CAISO does not need early Commission action on that upcoming filing.

In summary, the CAISO needs timely Commission action on the IBAA Filing because it impacts critical MRTU market systems and software, such as the FNM, and the CAISO and Market Participants will need *weeks* to develop, implement and test changes to such systems and software. In contrast, the CAISO's upcoming proposal regarding the parameters to make Uneconomic Adjustments and the parameter tuning and maintenance process will not impact critical systems or software and can be implemented in a matter of *days*.

B. Having Negotiations Delayed While Joint Movants Submit Their Comments To The IBAA Proposal Will Not Prevent The CAISO and Joint Movants From Entering Into An Alternative Agreement After The Comment Deadline

Joint Movants and the CAISO have scheduled a meeting to resume discussions to work towards an MEEA for July 3, 2008, which Joint Movants erroneously characterize as a "stakeholder meeting".¹⁵ As stated in the June 17 Filing, the CAISO intends to accommodate

¹⁵ Joint Motion at 3.

alternative pricing and modeling arrangements to the default single hub proposal. However, as fully supported by its June 17 Filing, the CAISO does not intend to stakeholder or address in the upcoming meeting with Joint Movants the merits of the single hub proposal the CAISO has submitted for approval.¹⁶

If the CAISO and the Joint Movants have to delay or suspend their efforts at agreeing to an alternative modeling and pricing arrangement for a short period of time until the comment deadline, this is an acceptable consequence given the need for a Commission order approving the default modeling and pricing aspects of the IBAA proposal within the 60 days. Moreover, the CAISO notes that the IBAA proposal applies to the interchange transactions (imports and exports) of *all* market participants using the CAISO Controlled Grid and the transmission systems within the SMUD BAA and the TID BAA. As discussed in its June 17 Filing, in the absence of the CAISO obtaining more specific information that allows it to verify the location and dispatch of the external resources used to implement interchange transactions, it is extremely important for the CAISO to establish the default modeling and pricing rules that eliminate inappropriate price incentives and reduce the risk to CAISO Market Participants of paying: (i) too much for power, and (ii) for the cost of the real time re-dispatch necessary because the CAISO procured and paid for power that was not representative of the value of such power to the CAISO for managing congestion on the CAISO Controlled Grid.

Having negotiations delayed while Joint Movants submit their comments to the IBAA Filing will not prevent the CAISO and Joint Movants from entering into an alternative agreement after the comment deadline. As noted previously, the IBAA proposal contemplates such MEEAs being entered into based on either the receipt of better information that allows the CAISO to

¹⁶ See Transmittal Letter to the IBAA filing at 53-56 (Section IV.F).

verify the location and dispatch of the external resources used to implement interchange transactions or the provision of market enhancements or efficiencies that provide a net benefit for all market participants.

C. Joint Movants Were Key Participants in the IBAA Stakeholder Process and Have Previously Reviewed Virtually All of the Material on Which the IBAA Filing Is Based

Joint Movants' request for an extension of time due to the difficulty of reviewing the "massive" length of the IBAA Filing is overstated, unnecessary and unreasonable. The Joint Movants were key participants in the entire IBAA consultation and stakeholder process and literally are familiar with *all* of the underlying materials on which the IBAA Filing is based.

This material includes the following:

- The CAISO's initial IBAA proposal as set forth in the two December 14, 2007 discussion papers;¹⁷
- The subsequent stakeholder comments, CAISO responses to stakeholder questions, stakeholder meetings and conference calls;¹⁸
- The resolution of certain CRR issues associated with the IBAA proposal;¹⁹
- The March 6, 2008 stakeholder meeting;²⁰
- An April 9, 2008 technical meeting between the CAISO and Joint Movants;

¹⁷ See the December 14, 2007 "Discussion Paper – Modeling and Pricing Integrated Balancing Authority Areas Under the California ISO's Market Redesign and Technology Upgrade Program" ("Modeling & Pricing Discussion Paper"); and the December 14 ,2007 "MRTU Release 1 Implementation of Preferred Integrated Balancing Authority Area Modeling and Pricing Options" ("Release 1 Implementation of IBAA Modeling & Pricing Options"). The *Modeling & Pricing Discussion Paper* can be found at <http://www.caiso.com/1cb4/1cb4e1a154060.pdf>. The *Release 1 Implementation of IBAA Modeling & Pricing Options* paper can be found at <http://www.caiso.com/1cb4/1cb4e0984a670.pdf>.

¹⁸ See Attachment E to the IBAA Filing at 30 (describing the fourteen (14) IBAA related stakeholder events that occurred from December 20, 2007 through March 6, 2008).

¹⁹ See the February 20, 2008 Issue Paper and Straw Proposal regarding Congestion Revenue Rights (CRRs) Associated with Integrated Balancing Authority Areas (IBAAs). The issue paper can be found at: <http://www.caiso.com/1f74/1f74d20558b20.pdf>.

²⁰ The materials discussed at the March 6, 2008 meeting including TANC's presentation can be found at: <http://www.caiso.com/1f50/1f50ae5b32340.html>.

- The April 11, 2008 joint MSC and stakeholder meeting;²¹
- The issuance of the April 18, 2008 draft final IBAA proposal;²²
- The MSC's May 7, 2008 Opinion on IBAAAs;²³
- The alternative proposal submitted by the Joint Movants to the CAISO on May 8, 2008;²⁴ and
- The IBAA material prepared for the May 22-23, 2008 CAISO Board of Governors meeting.²⁵

The length of the transmittal letter noted by Joint Movants includes 18 pages of executive summary, background and stakeholder process material; 15 pages describing the final IBAA proposal; 4 pages describing the related CRR issues; 2 pages on how new IBAAAs or modifications to existing IBAA are to be handled; 2 pages describing how the IBAA proposal is consistent with experience of the eastern Regional Transmission Organizations ("RTOs") and Independent System Operators ("ISOs"); 11 pages describing the CAISO's responses to the issues raised by Joint Movants *themselves* (responses that Joint Movants were aware of prior to filing), and 2 pages describing the Joint Movants alternative proposal and the CAISO's subsequent response. There is very little, if anything, in the Transmittal Letter that Joint Movants have not seen prior to filing.

²¹ The materials discussed at the April 11, 2008 joint MSC and stakeholder meeting also can be found at: <http://www.caiso.com/1f50/1f50ae5b32340.html>. The April 11, 2008 joint meeting included: (i) a presentation by Dr. Harvey regarding a review of the use of the proxy bus mechanism by RTOs in the east; (ii) a presentation by Dr. Hildebrandt regarding the market monitoring requirements for IBAAAs; (iii) a presentation with an IBAA pricing illustration; and (iv) a presentation on the where the CAISO and market participants were in the IBAA stakeholder process.

²² The April 18, 2008 "Draft Final CAISO Integrated Balancing Authority Area (IBAA) Proposal can be found at: <http://www.caiso.com/1fad/1fad12f244a990.pdf>.

²³ See Attachment I to the IBAA Filing.

²⁴ The proposal was from the SMUD BA, the TID BA, and the TANC members and can be found at <http://www.caiso.com/1fc2/1fc2d9bcd910.pdf>.

²⁵ See Attachment J to the IBAA Filing.

Regarding the testimony submitted in Attachments F, G, and H to the IBAA Filing, this material also is based on CAISO issue papers, draft and final proposals, and various power point presentations – all of which are familiar to the Joint Movants. The panel testimony of Mr. Rothleder and Dr. Price describes the details regarding the CAISO’s original proposal and the move to its final proposal. The testimony reflects the CAISO’s two December 14, 2007 issue papers, the April 18, 2008 draft final proposal, and includes approximately 20 pages of material from two CAISO power presentations regarding the IBAA proposal dated *January 22, 2008* and an *April 11, 2008* respectively.²⁶ The testimony of Dr. Hildebrandt reflects his presentation at the joint MSC and stakeholder meeting on April 11, 2008 and a May 13, 2008 DMM market monitoring report.²⁷ The testimony of Dr. Harvey reflects his two presentations at the joint MSC and stakeholder meeting on April 11, 2008 and the May 22-23, 2008 CAISO Board of Governors meeting, respectively.²⁸

In summary, the Joint Movants were fully aware of all of the material on which the IBAA Filing was based long before the CAISO filed the proposal with the Commission. Moreover, a significant portion of the filed material contains items that should require little time for the Joint Movants to review.²⁹ The CAISO respectively suggests that, in these circumstances, to more than double the comment period as requested by Joint Movants is unnecessary and unreasonable.

²⁶ The January 22, 2008 power point presentation can be found at <http://www.caiso.com/1f56/1f56eb9739860.pdf>; the April 11, 2008 power point presentation can be found at <http://www.caiso.com/1f9f/1f9fb1d434e0.pdf>.

²⁷ The May 13, 2008 DMM Market Monitoring Report can be found at: <http://www.caiso.com/1fc7/1fc7da34509e0.pdf>.

²⁸ Dr. Harvey’s two presentations can be found at <http://www.caiso.com/1fa4/1fa4d0c871df0.pdf> and <http://www.caiso.com/1fce/1fce75a450290.pdf> respectively.

²⁹ For example, Attachment H (Dr. Harvey’s testimony) contains 52 pages consisting of Dr. Harvey’s Curriculum Vitae and a paper on Proxy Buses by Dr. Harvey that was previously noted in one of the CAISO’s two December 14, 2007 issue papers. *See Release 1 Implementation of IBAA Modeling & Pricing Options* at 3, n.1.

III. CONCLUSION

For the reasons expressed herein, the CAISO respectfully asks that the Joint Movants' request be denied. If the Commission were inclined to grant the Joint Motion, the CAISO respectfully requests that the Commission limit the extension to one week or July 15, 2008.

Respectfully submitted,

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Dated: June 25, 2008

CERTIFICATE OF SERVICE

I hereby certify that I have this day electronically served a copy of the foregoing document on each party named in the official service list in this proceeding.

Dated at Folsom, CA this 25th day of June, 2008.

/s/ Anna A. McKenna

Anna McKenna