



California Independent
System Operator Corporation

November 16, 2007

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: Answer Of The California Independent System Operator Corporation To
Comments On Order No. 890 Compliance Filing**

Dear Ms. Bose:

Pursuant to Rule 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213, the California Independent System Operator Corporation ("CAISO") respectfully submits this Answer to comments and protests on its filing in compliance with the non-transmission planning elements of Order No. 890.

If there are any questions concerning this filing, please contact the undersigned.

Respectfully Submitted,

/s/ Anthony J. Ivancovich

Anthony J. Ivancovich

Counsel for the California Independent

System Operator Corporation

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

California Independent System Operator Corporation)	Docket No. OA08-12-000
)	

**ANSWER OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
TO COMMENTS ON ORDER NO. 890 COMPLIANCE FILING**

Pursuant to Rule 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213, the California Independent System Operator Corporation ("CAISO") respectfully submits this Answer to comments and protests¹ on its filing in compliance with the non-transmission planning elements of Order No. 890.

I. BACKGROUND

On February 16, 2007, the Federal Energy Regulatory Commission ("Commission") issued Order No. 890 in which it adopted a number of changes to the Open Access Transmission Tariff ("OATT") requirements of Order No. 888.² The Commission declined to exempt Independent System Operators from the compliance obligations of Order No. 890. It required Independent System Operators to submit compliance filings that either (1) contain tariff provisions that conform with the requirements of Order No. 890, or (2) demonstrate that their Commission-approved tariff

¹ The CAISO requests waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to permit it to make an answer to the protest. Good cause for this waiver exists here because the 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 Serv., Inc.*, 116 FERC ¶ 61,286, at P 6 (2006); *Midwest Indep. Transmission Sys. Operator, Inc.*, 116 FERC ¶ 61,124, at P 11 (2006); *High Island Offshore System, L.L.C.*, 113 FERC ¶ 61,202, at P 8 (2005).

² *Preventing Undue Discrimination and Preference in Transmission Service*, Order No. 890, 72 FR 12266 (March 15, 2007), FERC Stats. & Regs. ¶ 31,241 (2007), *reh'g pending*.

provisions are consistent with or superior to the provisions of the revised *pro forma* OATT.³ The CAISO submitted its compliance filing on October 11, 2007.

The Commission provided public notice of the filing on October 16, 2007, with interventions and comments due on November 1, 2007. Ten parties submitted interventions.⁴ Of those, only three submitted substantive comments or protests. The CAISO responds to the comments and protest below.

II. ANSWER

A. Response To Beacon Power Corporation

Beacon Power Corporation (“Beacon”) states that commercial deployment of its flywheel technology is dependent upon access to the CAISO’s regulation market. Beacon noted that Order No. 890 directs the ISOs and RTOs to open their regulation market to non-generation technologies on a non-discriminatory basis.⁵ Beacon claims that the CAISO has not followed this directive because its compliance filing failed to modify the Tariff to allow non-generation resources, such as Beacon’s flywheel technology, to provide Regulation services.⁶

In Order No. 890, the Commission modified the *pro forma* OATT to indicate that certain Ancillary Services -- reactive supply and voltage control, regulation and frequency response, energy imbalance, spinning reserves, supplemental reserves and generator imbalance services -- may be provided by generating units as well as other non-

³ *Id.* at P 157.

⁴ Beacon Power Corporation; the California Electricity Oversight Board; Metropolitan Water District of Southern California; Modesto Irrigation District; Northern California Power Agency; Powerex Corp. (“Powerex”); Sacramento Municipal Utility District; City of Santa Clara, d/b/a Silicon Valley Power, and M-S-R Public Power Agency; California Department of Water Resources State Water Project (“SWP”); Transmission Agency of Northern California.

⁵ Beacon Comments at 2.

⁶ *Id.* at 5-6.

generation resources, such as demand resources, where appropriate.⁷ The CAISO agrees that this modification should be incorporated into the CAISO's MRTU Tariff, to the extent the modification is compatible with the CAISO's service model.

The CAISO proposes to amend Section 8.1 of its MRTU Tariff to provide that Bids for Regulation, Spinning Reserve, Non-Spinning Reserve, and Voltage Control may be submitted by a Scheduling Coordinator for a non-generation resource that meets applicable Ancillary Service standards and technical requirements, and is certified by the CAISO to provide Ancillary Services. The CAISO notes that the MRTU Tariff already permits Participating Loads to provide Non-Spinning Reserve, as well as participate in the CAISO's Day-Ahead and Real-Time Markets. The CAISO will include this amendment to its MRTU Tariff in a filing to be submitted on December 21, 2007 that will contain numerous revisions to the MRTU Tariff.⁸ The CAISO believes that combining this tariff revision with other revisions to the MRTU Tariff will be more efficient than making a separate compliance filing and will allow the Commission to review the revisions as a composite package.

The CAISO submits that good cause exists to permit the CAISO to make this modification based on the service model and tariff provisions that will be in place on the effective date of MRTU implementation, which is targeted for March 31, 2007. This approach is also consistent with the demonstration of compliance made by the CAISO in its October 11, 2007 filing in this docket. For these reasons, and the reasons set forth in the CAISO's October 11, 2007 compliance filing, the CAISO requests that the Commission grant leave and any necessary waivers to permit the CAISO to demonstrate

⁷ Order No. 890 at P 888.

⁸ See CAISO Market Notice dated November 12, 2007, posted on the CAISO's website at <http://www.aiso.com/1c94/1c94b5ab10d40.html>

compliance with the Ancillary Services OATT revisions adopted in Order No. 890 based on the terms of the CAISO's MRTU Tariff.⁹

B. Response To Powerex

Powerex Corp. ("Powerex") asserts that the CAISO failed to demonstrate that the provisions of the MRTU tariff that address imbalances are consistent with or superior to the requirements of the pro forma OATT in that its imbalance settlement rules, while serving to price imbalance energy, do not discourage inaccurate scheduling or performance. It contends that the CAISO's proposed underscheduling mechanism is intended only to address the potential for load-serving entities to depress the day-ahead market prices by underscheduling in the day-ahead and does not address generator or energy imbalances caused by deviations in suppliers' performances. Powerex states that an Uninstructed Deviation Penalty ("UDP") is the appropriate mechanism to encourage consistent scheduling and performance accuracy of generators and system resources because it would provide scheduling coordinators with the appropriate incentives to prevent deviations from generation and intertie schedules and to comply with energy dispatch instructions.¹⁰

The Commission should not require the CAISO to file UDP tariff provisions as part of its Order No. 890 compliance. Order No. 890 does not require the CAISO or any other transmission provider to implement UDP. Powerex misinterprets the Order No. 890 requirements for energy and generator imbalance service promulgated and attempts

⁹ The CAISO notes that energy imbalance service, which is an Ancillary Service under the *pro forma* OATT, is not an Ancillary Service under the CAISO Tariff. Instead, imbalances are resolved through the CAISO's Imbalance Energy markets, and those markets accommodate bids by Participating Loads.

¹⁰ Powerex Protest at 6-7.

to apply them to the separate and distinct UDP product. Energy and generator imbalance services are intended to manage the variability in **scheduled** versus actual delivery of energy over a single hour.¹¹ This is different than the UDP provisions contemplated by the CAISO the purpose of which are to penalize supply resources for deviations from their CAISO Dispatch Instruction, *i.e.*, not deviations from schedules as is contemplated in Order No. 890.¹² While energy and generator imbalance services are intended to allow the transmission provider and market participants to manage variations from energy and generation scheduled by the market participant (and allows differences between scheduled and actual quantities to be made up within thirty days) and promote good scheduling practices, UDP is intended for a different purpose -- to discourage generators from deviating from Dispatch Instructions issued by the CAISO because such deviations may threaten system reliability and/or allow market participants to exercise market power.¹³ Thus, UDP, unlike generator and energy imbalances, is not something to be managed over a thirty day period. For these reasons, UDP is not a “service” and is a different concept than the energy and generator imbalance services contemplated in Order No. 890. The CAISO demonstrated in its October 11 compliance filing that the imbalance mechanisms in its MRTU market design are consistent with or superior to the energy and generator imbalance provisions of Order No. 890. As such, the Commission should not add UDP to the CAISO’s (or any other ISO’s or RTO’s) Order No. 890 compliance obligation.

¹¹ Order No. 890 at 627, 631.

¹² See *California Indep. Sys. Operator*, 105 FERC ¶ 61,091 P 28 (2003); and 116 F.E.R.C. P61,274 116 FERC ¶ 61,274 at P 580 (2006).

¹³ See *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274 at P 592 (2006) (September 2006 MRTU Order).

Moreover, the CAISO notes that it is under a Commission-mandated requirement that, prior to implementation of UDP, the CAISO must make a Section 205 filing with the Commission demonstrating that generator performance conditions require the termination of the suspension of the UDP.¹⁴ Powerex has not demonstrated that current generator performance conditions require the implementation of UDP. Powerex has previously requested that the Commission order the implementation of UDP at the start of MRTU, and the Commission denied such request on the basis that nothing in the record indicated that implementation of UDP was necessary.¹⁵ The record is still void of such evidence, and Powerex has not raised any new arguments or supplied one iota of evidence that UDP is needed at the start of MRTU. Under these circumstances, the arguments raised by Powerex are nothing more than a collateral attack on the Commission's prior MRTU orders and should not be countenanced by the Commission.

Finally, the CAISO notes that Powerex never raised this issue during the CAISO's stakeholder process on compliance with the non-transmission planning process elements of Order No. 890, although they were given two opportunities to submit written comments, once in response to the CAISO's posted discussion paper and once in response to the posted draft ATC tariff language.

For the foregoing reasons, the Commission should reject Powerex's request.

C. Response To The Department of Water Resources/State Water Project

The Department of Water Resources/State Water Project ("SWP") asks that the Commission require the CAISO to post two additional types of information on its

¹⁴ September 2006 MRTU Order at P 591.

¹⁵ *California Indep. Sys. Operator*, 119 FERC ¶ 61,076 PP 312-313 (2007).

website. First, SWP states that the Commission’s emphasis on ATC calculation transparency dictates that the Transmission Rights and Transmission Curtailment (“TRTC”) Instructions used to model Existing Transmission Contracts, Transmission Ownership Rights, and Converted Rights be posted.¹⁶ Second, SWP states that because Appendix L makes it appear that the transmission provider is capable of determining a Remedial Action Scheme’s (“RAS”) value in supporting transmission capacity, the values for each RAS and special protective system should be publicly posted. With regard to the latter, SWP contends that posting the information would be consistent with Order 890’s support of comparable treatment for demand-based resources, the express support in the Energy Policy Act of 2005 for alternative transmission technologies including demand-based resources, and the Order 890 requirements for transparency.¹⁷

1. Posting of TRTC Instructions

The Commission should reject SWP’s assertion that the Order No. 890 requires the CAISO to post the TRTC Instructions submitted by participants. SWP fails to demonstrate how Order No. 890 requires the CAISO to publish the TRTC Instructions. Moreover, SWP’s request that TRTC Instructions be made public is a collateral attack on the Commission’s orders in the MRTU tariff proceedings and orders. Finally, the Commission should not require the posting of TRTC Instructions because they contain commercially sensitive information.

The TRTC Instructions are a tool that the CAISO uses to obtain information from Participating Transmission Owners (“PTOs”) that hold Existing Transmission Contracts (“ETCs”) in order to model the use of such contracts in its operations of its nodal market

¹⁶ SWP Comments at 3.

¹⁷ SWP Comments at 4.

design under MRTU.¹⁸ While the CAISO has always received operating instructions from the applicable PTOs to implement such ETC rights, under its existing zonal market these instructions are only necessary at the interties. Under MRTU, the CAISO will be operating a two-settlement nodal Locational Marginal Price (“LMP”) based energy market that also makes use of Congestion Revenue Rights to assist participants in managing their exposure to the cost of congestion associated with LMPs. Therefore, operations under MRTU require detailed instructions regarding the ETC Self-Schedules at the nodal level.

Contrary to SWP’s suggestion, the TRTC Instructions themselves are not required for the CAISO to determine ETC quantities in its determination of ATC as described in the October 11, 2007 Compliance Filing. Further, as is the case today, the CAISO will make use of the known encumbrances as reflected in the Transmission Control Agreement (“TCA”).¹⁹ These encumbrances are listed and will continue to be listed clearly in Appendix B of the TCA. Moreover, the CAISO will provide hourly notification of the applicable ETC values it will use in its applicable ATC calculations. Consistent with the Order No. 890 requirements, the CAISO will be providing all the information parties need in determining the ATC values.

The CAISO also notes that the TRTC Instructions are similar to the ETC operating instructions it receives from the PTOs today, and those instructions are not publicly posted. For similar reasons, the TRTC Instructions should not be posted, especially given that Order No. 890 did not require the posting of operating instructions provided by ETC rights holders. In particular, Order No. 890 did not contemplate that

¹⁸ *California Indep. Sys. Operator*, 119 FERC ¶ 61,124 at PP 9-14 (2007)

¹⁹ *See Transmission Control Agreement Among the Independent System Operator and Transmission Owners*, FERC Electric Tariff No. 7.

system operators would be required to make public information that pertains to how a customer intends to use its contractual rights. Moreover, nowhere in Order No. 890 did the Commission contemplate that such operating instruction templates would be necessary to calculate ATC, let alone require that they be made public.

In any event, the CAISO believes that there is more than sufficient transparency in its ATC calculation process without having making the TRTC Instructions public. The CAISO already makes public the total encumbrances on the system on an hourly basis. This amount is derived through the use of its ETC Calculator, which accounts for known conditions on the system. In addition, each individual rights holder receives notice of their rights for that hour. SWP has not demonstrated how the TRTC Instructions would provide more transparency than is already provided by this process.

SWP also fails to demonstrate how this tool developed for the purposes of implementing the nodal market is required for transparency of ATC calculations under Order No. 890. SWP's recommendation is essentially a collateral attack on the Commission's MRTU orders wherein the Commission approved the Transmission Instructions as a tool to assist the CAISO in operating its markets under the nodal market design. The Commission recently issued its *Order Denying Requests for Rehearing and Clarification and Accepting For Filing Compliance Filing* in the proceeding in which the CAISO sought, among other things, early implementation of the TRTC Instructions by incorporating certain provisions of the conditionally MRTU Tariff into the currently effective CAISO tariff.²⁰ This order closed all issues that were pending before the Commission regarding the implementation of the TRTC Instructions under MRTU.

²⁰ See *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274 (2006) (September 2006 Order).

In developing the TRTC Instructions, the CAISO and stakeholders did not contemplate that the templates would be made public. In the process for the TRTC tariff amendment filing, SWP did not request that the TRTC Instructions be made available to the public, nor did any other stakeholder. The TRTC Instructions contain commercially sensitive information about the configuration of the rights and the physical resources contemplated to be used by a ETC Holder, as well as expected usage of the rights under the ETCs. Information regarding how a party intends to use its resources under a specific ETC -- as contained in the TRTC Instructions -- is particularly sensitive and should not be made public.

Finally the CAISO notes that during the stakeholder process regarding compliance with the non-transmission planning elements of Order No. 890, the CAISO provided stakeholders opportunities to review and comment on its discussion paper (which set forth the CAISO's proposed compliance with the non-transmission planning elements of Order No. 890) and tariff language regarding the CAISO's ATC methodology. SWP did not submit comments on either document requesting that the TRTC Instructions be posted. This is important because SWP is seeking to have commercially sensitive information regarding other parties' usage under ETCs made public, and the issue was not vetted with stakeholders in the process leading up to the October 11 filing. The Commission should reject this collateral attack on orders in the MRTU proceeding, especially given that SWP's request exceeds the transparency requirements of Order No. 890.

2. Posting of RAS Scheme Information

The Commission should likewise reject SWP's request that the values for each RAS and special protective system be posted on the CAISO's website. While SWP makes a broad claim that posting these two additional categories of information would be consistent with certain goals of Order No. 890, SWP fails to cite to any specific provision in Order No. 890 that requires this information be made public. Likewise, SWP does not cite any specific requirement in Order No. 890 that the CAISO failed to satisfy in its compliance demonstration. Absent any such requirement in Order No. 890, SWP's request must be viewed as a new request for information, which falls outside the scope of any compliance obligation that the CAISO has under Order No. 890 and, as such, should not be considered by the Commission.

It would be particularly inappropriate to "read" the release of RAS information into the general discussion in Order No, 890 and to require the CAISO to incorporate such changes into its tariff without the opportunity discuss this matter with stakeholders and without an opportunity for all stakeholders provide comments. There are market and system security considerations associated with RAS information that should be fully vetted with stakeholders and considered by the Commission in making a decision whether to release the information. Those considerations have not been explored in this proceeding or in the stakeholder process leading up to the CAISO's October 11 filing. In that regard, it should be noted that SWP never raised this issue during the CAISO's stakeholder process on compliance with the non-transmission planning process elements of Order No. 890, although they were given two opportunities to submit written

comments, once in response to the CAISO's posted discussion paper and once in response to the posted draft ATC tariff language.

In any event, because this is an issue that affects transmission providers generally, not just the CAISO, and given the Commission's goal of industry-wide consistency and transparency of all components of the ATC calculation methodology (*see* Order No. 890 at P 193) to the extent the Commission believes it is necessary to consider this issue, it would be more appropriate for SWP to raise this issue in the NERC and NAESB processes on ATC and address the issue fully in those forums. That would ensure that the issue is addressed and resolved on a consistent basis industry-wide, as opposed to the piecemeal approach that SWP is undertaking here.

III. Conclusion

For the reasons set forth herein, the Commission should (1) reject the comments of Powerex and SWP, and (2) allow the CAISO to include provisions in its December 21, 2007 MRTU Tariff filing regarding the provision of Ancillary Services by non-generation resources, as described herein.

Respectfully submitted,

/s/ Anthony J. Ivancovich
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Dated: November 16, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for the captioned proceeding, 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, California this 16th day of November, 2007.

/s/ *Melissa Hicks*
Melissa Hicks