

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

<b>California Independent System Operator Corporation</b>	) )	<b>Docket Nos. ER06-615-000 ER07-1257-000</b>
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**REPLY COMMENTS OF  
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

Pursuant to Rules 212 and 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. §§ 385.212 and 385.213 (2006), and the Commission’s September 25, 2007 “Notice of Extension of Time,” the California Independent System Operator Corporation (“CAISO”) respectfully submits its reply comments in response to comments and protests addressing the CAISO’s filing made on August 3, 2007 (“August 3 Filing”) pursuant to Section 205 of the Federal Power Act, the Commission’s orders of September 21, 2006, April 20, 2007 and June 25, 2007 addressing the CAISO’s Market Redesign and Technology Upgrade Tariff (“MRTU Tariff”).<sup>1</sup> A number of parties have submitted comments and protests concerning the August 3 Filing.<sup>2</sup> The CAISO’s response generally is organized using the same subject headings as utilized in the August 3 Filing.

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<sup>1</sup> Order Conditionally Accepting the CAISO’s MRTU Tariff, *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274 (2006) (“September 21 Order”); Order Granting in Part and Denying in Part Requests for Clarification and Rehearing, *Cal. Indep. Sys. Operator Corp.*, 119 FERC ¶ 61,076 (2007) (“April 20 Order”); Order on Compliance Filings, *Cal. Indep. Sys. Operator Corp.*, 119 FERC ¶ 61,313 (2007) (“June 25 Order”).

<sup>2</sup> Comments or protests concerning the November 20 Compliance Filing were submitted by the following entities: Alliance for Retail Energy Markets (“AReM”); Bay Area Municipal Transmission Group (“Bay Area”); the California Municipal Utilities Association (“CMUA”); the California Department of Water Resources State Water Project (“SWP”); the California Public Utilities Commission (“CPUC”); the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (“Six Cities”); the City and County of San Francisco (“CCSF”); City of Santa Clara, California, doing business as Silicon Valley Power and the M-S-R Public Power Agency (“SVP/M-S-R”); Imperial Irrigation District (“IID”); Indicated Parties (a group comprised of CMUA, WPTF, AReM, Bay Area, SVP, M-S-R, SMUD and TANC); the Metropolitan Water District of Southern California (“MWD”); Modesto Irrigation District (“MID”); Northern California Power Agency (“NCPA”); Pacific Gas and Electric Company (“PG&E”); Powerex

For the reasons explained below, the Commission should reject comments seeking substantial alterations to the August 3 Filing and accept the modifications to the MRTU Tariff as proposed in the August 3 Filing, with only those clarifications and revisions the CAISO commits to make in the instant filing.

## **I. BACKGROUND**

Since September of last year, the Commission has issued a number of major orders addressing the terms and conditions of the CAISO's MRTU Tariff, including orders issued on September 21, 2006, April 20, 2007, and June 25, 2007. In these three orders, the Commission conditionally accepted the MRTU Tariff and required the CAISO to make a number of modifications in accordance with various timelines. Pursuant to these Commission directives, the CAISO has made several compliance filings in this proceeding, the latest of which was filed on August 3, 2007. In that filing, the CAISO also included, pursuant to Section 205 of the Federal Power Act, a number of proposed revisions to the MRTU Tariff that were not explicitly required by the Commission, but represent reasonable enhancements to the overall MRTU market design and Tariff structure already approved by the Commission, and are necessary to ensure that MRTU functions successfully.

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Corporation ("Powerex"); Sacramento Municipal Utility District ("SMUD"); Southern California Edison Company ("SCE"); Transmission Agency of Northern California ("TANC"); and Williams Power Company ("Williams").

## II. REPLY COMMENTS

### A. Section 205 Tariff Change Issues

#### 1. Proposed Modifications to the Settlements Provisions of the MRTU Tariff

In its comments on the August 3 Filing, WPTF suggests several modifications to the proposed Settlements tariff language that the CAISO commits to making in an upcoming compliance filing

- With respect to Section 11.2.4.2.2, the term “pro-ration” will be changed to “pro-rated.”<sup>3</sup>
- Section 11.8.2.1.2 will be revised to read: “For the purposes of determining IFM Minimum Load Cost, a Bid Cost Recovery Eligible Resource is assumed to be On if its metered Energy in a Settlement Interval is equal to or greater than the difference between its Minimum Load Energy and the Tolerance Band. Otherwise, it is determined to be Off.”<sup>4</sup>
- Section 11.8.3.1.2 will be revised as follows: “For the purposes of determining RUC Minimum Load Cost, a Bid Cost Recovery Eligible Resource is assumed to be On if its metered Energy in a Settlement Interval is equal to or greater than the difference between its Minimum Load Energy and the Tolerance Band. Otherwise, it is determined to be Off.” A similar change will be made to Section 11.8.2.1.2 concerning the use of “On.”<sup>5</sup>
- Section 11.10.1.3.1 will be revised to read: “For each Settlement Period, the Congestion Charge for Suppliers of Real-Time Ancillary Services Awards at Scheduling Points for Dynamic System Resources shall be equal to the simple average of the 15 minute Shadow Prices at the applicable Scheduling Point multiplied by the quantity of the Ancillary Service award for the Settlement Period.”<sup>6</sup>
- The last sentence of Section 11.10.2.1.3, which was added on August 3, will be revised as follows: “Each Scheduling Coordinator’s Ancillary Services Obligation percentage for Regulation Down in an hour is equal to the total requirement for Regulation Down in that hour divided by the hourly metered

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<sup>3</sup> WPTF at 5.

<sup>4</sup> *Id.* at 6.

<sup>5</sup> *Id.* at 6-7.

<sup>6</sup> *Id.* at 8.

CAISO Demand for that hour.” Similar changes should be made to Section 11.10.2.2.2 for Regulation Up.<sup>7</sup>

- References to CRR Holders should be removed from Section 11.29.9.6.2 because Candidate CRR Holders do not have any financial obligations until they become CRR Holders.<sup>8</sup> The CAISO agrees that in Section 11.29.9.6.2 Candidate CRR Holder is inappropriately referenced and the following sentence will be modified as follows: “If the CAISO Reserve Account is drawn upon, the CAISO shall as soon as possible thereafter take any necessary steps against the defaulting Scheduling Coordinator or CRR Holder, including making any calculations or taking any other appropriate action, to replenish the CAISO Reserve Account including drawing on any credit support or other Financial Security provided by the defaulting Scheduling Coordinator or CRR Holder pursuant to Section 12 or serving demands on any defaulting Scheduling Coordinator or CRR Holder if Financial Security has been exhausted or if no Financial Security is available due to establishment of an Unsecured Credit Limit.
- The third sentence of Section 11.8.6.6 will be changed to read: “...MSS Operators that have elected a) not to follow their load, and b) Gross Settlement, in proportion...”<sup>9</sup>
- In Section 31.5.7.1 the phrase “System Resources that receives...” will be changed to read “System Resources that receive...”<sup>10</sup>

WPTF asserts that the first sentence of Section 11.8.4 is incomplete and should be completed.<sup>11</sup> The CAISO notes that the first sentence of 11.8.4 reads as follows: “For purposes of determining the RTM Unrecovered Bid Cost Uplift Payments as determined in Section 11.8.5, and for the purposes of allocation of Net RTM Bid Cost Uplift as described in Section 11.8.6.6 the CAISO shall calculate the RTM Bid Cost Shortfall or the RTM Bid Cost Surplus as the algebraic difference between the RTM Bid Cost and the RTM Market Revenues for each Settlement Interval.” This sentence is an introductory sentence and leads the reader to the defined terms and section of the tariff that describe

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<sup>7</sup> *Id.*

<sup>8</sup> *Id.* at 9-10.

<sup>9</sup> *Id.* at 7.

<sup>10</sup> *Id.* at 16.

<sup>11</sup> *Id.* at 7.

the relevant calculations. WPTF fails to assert what is missing and the CAISO asserts this sentence is complete and serves the purpose for which it was intended.

WPTF also contends that Section 11.8.4 appears to disallow Bid Cost Recovery (“BCR”) for Exceptional Dispatch energy, and argues that the CAISO should be directed to remove this disallowance and to justify other disallowances such as Standard Ramping Energy and Residual Imbalance Energy.<sup>12</sup> The CAISO does not agree that such changes should be made. These disallowances were part of the BCR tariff language that the CAISO filed in its February 2006 Filing, which the Commission found to be just and reasonable except for those modifications that it required in its subsequent orders addressing that filing. In none of those orders did the Commission require the CAISO to remove any of the disallowances that WPTF now objects to, over a year after the CAISO filed the relevant language. Thus, WPTF’s protest on this issue is beyond the scope of the August 3 Filing, and should be rejected.

Moreover, due to the manner in which Exceptional Dispatch Energy, Standard Ramping Energy and Residual Imbalance Energy are settled under the MRTU Tariff, it would not be appropriate to apply BCR to these types of Energy. With respect to Exceptional Dispatch Energy, such Energy is settled pursuant to the MRTU Tariff in a manner that ensures that the resource providing the Exceptional Dispatch Energy receives its bid cost, default bid cost, or a rate agreed to by the resource and the CAISO.<sup>13</sup> Under Section 11.5.5 of the MRTU Tariff, Residual Imbalance Energy is settled on the basis of the resource’s bid price during the hour in which the resource is dispatched. Thus, there is no need to subject these two types of Energy to BCR, because resources producing

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<sup>12</sup> *Id.* at 7.

<sup>13</sup> *See* MRTU Tariff, Section 11.5.6.

these types of Energy are already assured of recovering their costs. Finally, under Section 11.5.1 of the MRTU Tariff, Standard Ramping Energy is settled at a zero dollar price, and thus, it would be inappropriate to apply BCR rules to this type of Energy.

WPTF asserts that Section 11.5.8.1 should be revised to make it clear that the CAISO's normal process for handling Settlement disputes will be invoked first and ADR invoked only if the normal Settlement dispute process fails.<sup>14</sup> As the provisions of Section 11.5.8 apply only to emergency assistance arrangements with other Control Areas not provided through the CAISO's markets and not necessarily arranged through a Scheduling Coordinator, the CAISO is reticent to attempt to impose its normal Settlement dispute process on utilities in other Control Areas for assistance provided pursuant to Section 11.5.8. The CAISO considers it more appropriate to attempt to impose the CAISO ADR Procedures for handling Settlements disputes under this provision, as these procedures are more similar to dispute resolution processes with which utilities in other Control Areas may be familiar.

SWP asserts that Section 11.5.8.1 does not detail how the Commission or those who must pay the cost of emergency energy will determine whether the price is just and reasonable. SWP urges the Commission to take steps to provide that appropriate review will occur to ensure that such non-market, negotiated costs are in fact just and reasonable, consistent with the FPA.<sup>15</sup> The CAISO has added this backstop provision at the request of the only intervenor that raised this issue in this proceeding, Bonneville Power Administration. However, the CAISO does not expect this provision to be invoked very often -- if ever -- so the CAISO does not consider it necessary or useful to create even

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<sup>14</sup> WPTF at 5-6.

<sup>15</sup> SWP at 23-24.

more process for this unlikely case beyond the general provision for Settlement of any excess costs that might be associated with the CAISO's purchase of emergency assistance, which the CAISO has already set forth in Section 11.5.8.1.1. Any concerned Market Participant will have the right to dispute the CAISO's pass-through of any excess costs pursuant to Section 11.5.8.1.1 consistent with its ordinary rights under the CAISO Tariff Settlement dispute provisions.

WPTF asserts that the CAISO has revised the language concerning rescission of payments for AS and RUC Capacity originally located in Section 8.10.8 in ways that make it difficult to determine if there was a substantive change. WPTF proposes that the CAISO be directed to explain the differences and to clarify that payments will be reduced in proportion to amounts that would otherwise be payable across the DA, HASP and RTM absent any Undispatchable, Unavailable or Undelivered Capacity.<sup>16</sup>

The manner in which the former provisions of Section 8.10.8 have been moved to more appropriate locations in the MRTU Tariff was described on page 16 of the CAISO's filing letter for the August 3 Filing. The provisions regarding rescission of AS payments that were not left in Section 8.10.8 have been moved to new Section 11.10.9, and the provisions regarding rescission of RUC Availability Payments have been moved to new Section 31.5.7 and to Section 11.2.2.2. In addition, two former provisions of Section 8.10.8 that apply to rescission of payments for both AS and RUC Capacity (former Sections 8.10.8.4 and 8.10.8.5) have been moved to new Section 11.16.

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<sup>16</sup> WPTF at 8-9.

In conjunction with moving these provisions, the CAISO made minor "clean-up" changes, primarily in compliance with the Commission order to improve the use of defined terms. The CAISO has also made "clean-up" changes simply to separate out the references to AS and to RUC Capacity as appropriate to the new sections and to add cross-references between the new sections. Among the more noticeable of these "clean-up" changes, the CAISO deleted the former provisions of Sections 8.10.8.1, 8.10.8.2, and 8.10.8.3 that set forth redundant definitions of the defined terms "Undispatchable Capacity," "Unavailable Capacity," and "Undelivered Capacity." The CAISO also deleted a duplicate phrase from Section 8.10.8.6. None of these changes can be characterized as substantive.

In the filing letter for the August 3 Filing, the CAISO described the most significant change it made to the substance of the provisions -- the revision of the provisions of Section 8.10.8 (including provisions moved to Section 11, primarily new Section 11.10.9) to clarify that Self-Provided Ancillary Services capacity that is subject to rescission reduces the relevant Scheduling Coordinator's effective Ancillary Services self-provision in the Ancillary Services cost allocation, effectively charged back at the relevant Ancillary Services rate. No intervenor has expressed any concern about this substantive change.

Four additional revisions made by the CAISO in the course of moving these provisions are worth noting for a complete response to WPTF's concerns about the explanation of the changes. First, germane to the specific concern expressed by WPTF, the CAISO has clarified the reference in the former provisions of Section 8.10.8 to the proportional rescission of AS payments across multiple markets to make clear in new

Section 11.10.9 how that proportional allocation will be implemented. Second, the CAISO has clarified a discrepancy in the prior provisions of Section 8.10.8.1, which previously contained two conflicting provisions regarding the treatment of rescission of RUC Capacity payments for resources that are also Resource Adequacy Resources. The correct provision has been moved to new Section 31.5.7.1, and the inconsistent provision has been deleted entirely. Third, the CAISO has deleted the reference to the application of a "one-sixth" factor in the former provisions of Section 8.10.8.2.3 (which have otherwise been moved to new Section 11.10.9.2) on the basis that it inaccurately suggested that the calculation is made by 10-minute Settlement Interval rather than the entire hourly Settlement Period. Fourth, the CAISO has clarified the former provisions of Section 8.10.8.7 regarding the allocation of rescinded RUC Availability Payments in moving those provisions to new Section 11.2.2.2.3. The CAISO submits that all of these revisions are clarifying in nature and that none of them constitute significant substantive changes to the provisions that would raise any concerns.

Otherwise, the CAISO has not changed the substance of the former provisions of Section 8.10.8. More specifically with regard to WPTF's concern regarding the proportional reduction in payments across multiple markets, not only has the CAISO provided the clarification regarding rescission of AS payments in new Section 11.10.9, but the CAISO has also moved the former provisions of Section 8.10.8.4 regarding rescission of a combination of AS payments and RUC Availability Payments to new Section 11.16.1 without any substantive change from the provisions already accepted by the Commission. Consequently, the proposal by WPTF that the CAISO further "clarify" these accepted provisions is unnecessary.

WPTF notes that the CAISO refers to “Undispatchable Capacity” in Section 31.5.7, but claims that Undispatchable Capacity as it is defined in Appendix A applies to Ancillary Services, not RUC.<sup>17</sup> WPTF is incorrect in this assertion. The definition of "Undispatchable Capacity" has included a reference to "capacity committed in RUC" since the filing of the original version of the MRTU Tariff, and that reference remains. There is no basis for a change to Section 31.5.7 or to the definition in this regard.

WPTF asserts that the CAISO should be directed to modify Section 31.5.7 to specifically state that penalties will not be levied if the SC complies with all applicable CAISO and WECC reporting procedures after suffering an unplanned outage as follows, “If a) the CAISO determines that a Participating Load, Generating Unit, System Unit or System Resource fails to comply with an operating order or Dispatch Instruction from the CAISO, or with any other applicable technical standard under the CAISO Tariff, and b) fails to follow procedures set forth in this Tariff and applicable WECC rules for reporting unplanned outages and, c) as a result causes or exacerbates system conditions for which the WECC imposes a penalty on the CAISO, then the Scheduling Coordinator of such Participating Load, Generating Unit, System Unit or System Resource shall be assigned that portion of the WECC penalty....”<sup>18</sup> WPTF apparently fails to recognize that the provisions of Section 31.5.7 have not been significantly changed in substance in their move from Sections 8.10.8 and 8.10.8.8. As the substance of Section 31.5.7 has already been accepted by the Commission in the current version of the MRTU Tariff, the CAISO submits that there is no basis for revising this provision in conjunction with this filing.

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<sup>17</sup> WPTF at 15.

<sup>18</sup> *Id.* at 15-16.

PG&E asserts that the assignment of the WECC penalty (or portion) as described in Section 8.10.8 is too subjective and that the CAISO Tariff should include some description of how the CAISO will apportion the penalty under this section, or at a minimum, a note that any such determination is subject to the dispute resolution provisions of the tariff.<sup>19</sup> PG&E fails to recognize that this provision has been moved essentially verbatim from the former provisions of Section 8.10.8.8 that have already been accepted by the Commission. As the substance of this provision of Section 8.10.8 has already been accepted by the Commission in the current version of the MRTU Tariff, the CAISO submits that there is no basis for revising this provision in conjunction with this filing.

PG&E asserts that the statement in Section 31.5.7.1 that “[i]f the Undispatchable Capacity is capacity committed in RUC and is from a Generating Unit, System Unit or System Resource that is a Resource Adequacy Resource, there is no payment obligation to the CAISO for the Undispatchable RUC Capacity” is unnecessary, and potentially confusing. PG&E points out that the previous sentence already indicates how the Undispatchable Capacity will be settled, in accordance with Section 11.2.2.2.1.<sup>20</sup> However, the statement PG&E quotes has been moved virtually verbatim from the former provisions of Section 8.10.8.1, and the CAISO considers it to provide useful clarification. Consequently, as the substance of this provision of Section 31.5.7.1 has already been accepted by the Commission in the current version of the MRTU Tariff, the CAISO submits that there is no basis for revising this provision in conjunction with this filing.

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<sup>19</sup> PG&E at 2-3.

<sup>20</sup> PG&E at 7.

TANC asserts that it is premature for the CAISO to seek approval of the proposed language of Sections 8.10.8 and 31.5.7 regarding the assignment of WECC penalties by the CAISO to entities that the CAISO reasonably determines to be attributable to the non-compliance of those entities with CAISO operating orders, Dispatch Instructions, or any other applicable technical standard under the CAISO Tariff, particularly pending the outcome of the Commission's technical conference on the implementation of the new NERC Reliability Standards.<sup>21</sup> The CAISO recognizes that revisions to these provisions may be necessary as a result of the Commission's technical conference, and will certainly incorporate any revisions required in compliance with a Commission order on this matter. However, as discussed above in response to the comments of WPTF and PG&E, the provisions regarding the CAISO's authority to assign portions of WECC penalties have already been accepted by the Commission as former Section 8.10.8.8. The CAISO's mere movement of these provisions essentially verbatim from Section 8.10.8.8 into Sections 8.10.8 and 31.5.7 should not serve as the vehicle for TANC (or WPTF or PG&E) to be provided another opportunity to protest these provisions. As the substance of these provisions of Sections 8.10.8 and 31.5.7 has already been accepted by the Commission in the current version of the MRTU Tariff, the CAISO submits that there is no basis for revising these provisions in conjunction with this filing.

WPTF asserts that the CAISO should be directed to explain why it has removed the first two categories of neutrality charge adjustments in Section 11.14 or where these adjustments have been moved in the Tariff.<sup>22</sup> These categories were eliminated to reflect the new charge codes for settlement of these two charges as reflected in the BPM for

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<sup>21</sup> TANC at 15-18

<sup>22</sup> WPTF at 9.

Settlements. The first category addressed the settlement of charges necessary for any rounding up of invoice amounts expressed in dollars. As reflected in Charge Code 4999 Rounding Adjustment Allocation, this is now accounted for and settled through the same balancing charge code which is reflected in old Section 11.14 (c), new 11.14 (a). The CAISO agrees to include a statement in new 11.14 (a) “which includes any amounts required to round up any invoice amount expressed in dollars and cents to the nearest whole dollar amount.” The second category in old Section 11.14 (b) was also removed as a clean up from a BPM to tariff reconciliation effort because the CAISO has a separate Charge Codes 1591, 1592, and 1593 to settle all penalties imposed by the CAISO which are supported by CAISO Section 37. The settlement of these charges is already fully reflected in Sections 37.9.3 and 37.9.4 and does not require further supporting Tariff language.

## **2. Proposed Modifications to Resource Adequacy Provisions**

Commenters addressed numerous aspects of the Resource Adequacy (“RA”) provisions in the CAISO’s MRTU Tariff. Because of the significant overlap between the various issues, the CAISO is addressing all of the RA-related comments in this section, rather than differentiating between comments related to the provisions filed under Section 205 of the Federal Power Act, and comments concerning modifications made in compliance with the Commission’s orders in this proceeding. The CAISO has organized its response into three sections. First, the CAISO lists the proposed revisions suggested by commenters as to which it either supports or does not object. Second, the CAISO addresses those proposed revisions suggested by parties that the Commission should

reject. Finally, the CAISO addresses other RA-related comments raised by parties in their comments on the August 3 Filing.

**a. Revisions Acceptable to the CAISO**

A number of comments suggest revisions to the RA provisions of the MRTU Tariff that the CAISO supports or to which it does not object:

- Six Cities’ and CMUA’s recommendation that Section 40.3.4.2 be revised such that the CAISO must post a report within 10 days after the end of each month that: (1) identifies any backstop procurement of capacity that took place within that month and the associated costs or (2) states that no backstop procurement of capacity was necessary for that month.<sup>23</sup>
- Six Cities’ and CMUA’s recommendation that Section 40.4.2 be revised to require that the CAISO notify affected SCs of changes in a resource’s Net Qualifying Capacity and provide any supporting analyses within 10 days of the CAISO’s determination that such changes are appropriate, but in any event not later than 15 days prior to the posting of the Net Qualifying Capacity annual report.<sup>24</sup>
- CCSF’s and BAMx’s recommendation that Sections 40.3.1.1 and 40.3.1.2 be modified to replace the reference to the “NERC/WECC Planning Standard I.A” with a reference to reference NERC Reliability Standards applicable to Transmission Planners and Planning authorities, NERC Reliability Standards, TPL-001-0, TPL-002-0, TPL-003-0 and TPL-004-0.<sup>25</sup>
- SWP’s recommendation that the current tariff language identifying CAISO backstop procurement based only on annual Resource Adequacy Plans procurements be modified to include more frequent evaluations of the need for CAISO non-market purchases, based on both monthly RA Plan updates and intra-monthly Use-Limited Plans.<sup>26</sup>

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<sup>23</sup> CMUA at 7; Six Cities at 14; see also WPTF at 20, SVP/M-S-R at 3-4.

<sup>24</sup> CMUA at 8; Six Cities at 14-15.

<sup>25</sup> CCSF at 6-7, BAMx at 2-3.

<sup>26</sup> SWP at 22-23.

**b. Proposed Revisions that Should be Rejected in Whole or In Part.**

The CAISO disagrees with certain other recommended changes to or protests of RA-related provisions in the August 3 filing.

**(1) 40.2.1 and 40.2.2**

The CPUC contends that Sections 40.2.1 and 40.2.2 should be revised to enable the CAISO to set a minimum reserve margin for LRAs that would ensure compliance with short-term operational requirements. The CPUC is concerned that the proposed tariff allows LRAs to set unreasonably low reliability standards through inadequate reserve margins and thus create undue reliance on RUC or the need for additional backstop procurement by the CAISO, which CPUC jurisdictional LSEs would be forced subsidize.<sup>27</sup>

Although the CAISO anticipates LRAs will exhibit responsibility in adopting reserve margin levels, the CAISO recognized the potential inequity identified by the CPUC and made similar arguments in favor of a minimum planning reserve margin in the initial MRTU filing. In the September 21 Order, however, the Commission rejected the inclusion of a minimum reserve margin in the MRTU Tariff stating that setting a 15% reserve margin for non-CPUC jurisdictional LSEs was inconsistent with the deference accorded the CPUC with regard the setting an appropriate reserve margin. Accordingly, the Commission rejected the minimum reserve margin and, instead, directed the CAISO to impose a 15% default reserve margin that would apply only if the LRA fails to

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<sup>27</sup> CPUC at 13-15.

establish a reserve margin on its own.<sup>28</sup> Sections 40.2.1 and 40.2.2 are consistent with the prior determinations of the Commission.

**(2) 40.2.2.4**

SWP seeks clarifying language to Section 40.2.2.4, to require specification of Local Capacity Area Resources in annual and monthly Resource Adequacy Plans.<sup>29</sup> Sections 40.2.2.4 and 40.3.3 currently require specification of Local Capacity Area Resource in both the annual and monthly Resource Adequacy Plans.

SWP further contends that any potential relationship between updates to Use-Limited Resource Plans and monthly Demand Forecasts should be clarified.<sup>30</sup> Although the CAISO is not entirely clear as to the scope of the requested clarification, the CAISO does not believe tariff modifications are necessary to achieve SWP's likely objective. The CAISO recognizes that SWP Demand and resource capacity and availability fluctuate with changing hydrological conditions. With respect to the effect this reality has on the required Demand Forecasts, the CAISO recommends that SWP work with the CEC to improve the accuracy of Demand Forecast protocols applied to SWP. In this regard, the Commission has correctly identified the CEC as the appropriate source of uniform Demand data for setting RA obligations.

Hydrological conditions will also affect Energy availability from hydro-electric Generating Units and Pumping Load. It is the purpose of the Use Plans to communicate to the CAISO potential changes in expected Energy or Pumping Load availability. In

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<sup>28</sup> September 21 Order at P1153-1155.

<sup>29</sup> Many of the issues raised by SWP are addressed in Section 2c below.

<sup>30</sup> SWP at 19.

contrast, capacity or Qualifying Capacity of SWP resources reflected in Resource Adequacy Plans need not vary. Rather, the LRA may, under current tariff provisions, adopt Qualifying Capacity formulas that utilize conservative estimates of likely water levels based on historic data that will result in constant capacity values. Accordingly, there is no necessary relationship between Use Plans and monthly Resource Adequacy Plans that warrant tariff modifications. Similarly, while hydrological conditions may affect both Use Plans and SWP's Demand Forecast, tariff changes are again unnecessary because there is no direct regulatory relationship between the Use Plan and Demand Forecast and any practical relationship will be reconciled, if necessary, by CEC Demand Forecast protocols.

**(3) 40.3.1**

Six Cities contends that Section 40.3.1 and its subsections would force the Six Cities to procure LCR capacity in excess of their total monthly peak loads in many months of the year. Six Cities request that the Commission require the CAISO to adjust LCR requirements on a seasonal basis, consistent with the load-sensitive criteria on which the Local Capacity Technical Study is based, so as to avoid over-procurement of LCR during seasons with lower loads.<sup>31</sup> Six Cities position, while viscerally appealing, does not withstand closer scrutiny and should be rejected.

As originally filed, Section 40.3 provided that the CAISO would “determine the minimum amount of Local Capacity Area Resources in MW that must be available to the CAISO within each identified Local Capacity Area” and that the CAISO will allocate

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<sup>31</sup> Six Cities at 12-13

responsibility for “the aggregate Local Capacity Area Resources required for all Local Capacity Areas within each TAC Area” to non-CPUC LSEs “in accordance with the LSEs proportionate coincident share, on a gross load basis, of the previous annual peak Demand in the TAC Area.” (Sections 40.3.1 and 40.3.2.) Together, these provisions make clear that the LSE’s assigned local capacity responsibility will be a single number based on peak load conditions. The September 21 Order accepted these MRTU Tariff provisions and the CAISO did not propose to modify this fundamental aspect of Sections 40.3.1 and 40.3.2 in the August 3 filing. Indeed, the changes to Section 40.3.2 served simply to shift the basis of the peak calculation from historic load data to CEC forecast data to be consistent with other aspects of RA procurement.

More importantly, the CAISO believes the purported efficiencies of a seasonal LCR are speculative at best and likely overstated. The basic underpinning of a capacity market is to provide generators with an opportunity to recover fixed costs that the resource could not otherwise obtain through the Energy and Ancillary Services markets alone and, in return for the payment, the generator agrees to make itself available to maintain the reliability of the buyer’s control area. Generators will seek to recover their full fixed costs regardless of the whether the capacity contract is for one month or 12 months. Accordingly, the potential cost savings of a seasonal LCR are largely illusory and, if Generators fail to receive a sufficient contribution to fixed costs, then the RA program’s objective of ensuring critical resources remain available where and when needed for reliable system operations may be jeopardized. Furthermore, assuming market conditions do preclude Generators from obtaining an equivalent cost recovery under a seasonal LCR, the potential cost savings are reduced by the fact that the capacity

procured for local reliability fully counts toward meeting the LSE's system reserve margin requirement. As such, the true cost implication of the annual LCR is the net cost difference, if any, between local capacity values and system capacity values. While local capacity is likely to command some premium, the proponents of the seasonal LCR fail to quantify the difference or otherwise establish that it overcomes the Commission's prior finding that the reliance on system peak to determine LCR is a just and reasonable approach to ensuring generators remain available. Similarly, while an annual LCR may result in somewhat greater variable costs, due to the requirement that the Generator be available during times when historically offline, those costs may be managed, in significant part, through the greater bidding flexibility provided under MRTU. Finally, reliance on the annual peak promotes greater reliability protection against erosion of the planning reserve margin due to unexpected generator outages. For these reasons, the CPUC in D.07-06-029 rejected a seasonal requirement at this time because it "lack[ed] sufficient evident to conclude that the potential benefits of a seasonal LCR approach outweigh the likely costs."

CCSF and BAMx request that the Commission direct the CAISO to modify Sections 40.3.1 to describe "how" load curtailments can permissibly be implemented by "LSEs" for Performance Level C and D events, the stakeholder process to evaluate proposed manual or automatic load curtailment procedures, and a timeline and dispute resolution process for considering such proposals.<sup>32</sup> The CAISO agrees that the process for evaluating the viability of load curtailment to resolve local reliability issues is a critical element of the Local Capacity Technical Study. However, CCSF and BAMx

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<sup>32</sup> CCSF at 7; BAMx at 5.

ignore proposed MRTU Tariff language that provides all stakeholders with assurance that the CAISO is under an obligation to implement feasible load curtailment options to the extent consistent with Reliability Criteria, including NERC/WECC standards. As such, the CAISO disagrees that the current level of detail in the MRTU Tariff is somehow insufficient.

Sections 40.3.1 and 40.3.2 collectively require that the CAISO ensure that the Local Capacity Technical Study is performed in a manner that allows Participating TOs to propose operating solutions to local capacity requirements, which will encompass load curtailment options. Stakeholders will have the opportunity to review such proposals, and the CAISO is required to allow solutions that are consistent with NERC/WECC Standards and specific Reliability Criteria. Further details regarding the schedule and stakeholder process are more appropriately set forth in the Reliability Assurance BPM.

Two additional items on this topic should be noted. First, given the physical and logistical requirements for implementing load curtailment, it is necessary for the Participating TO to initially assess the feasibility of such solution to a local capacity requirement with the CAISO, as the system operator, making the final determination in accordance with NERC/WECC standards, Reliability Criteria, and other practical considerations as to whether the operating procedure is viable, i.e., will truly result in planned and controlled curtailment of load. Second, while it is appropriate for LSEs to request that Participating TOs evaluate load curtailment solutions in the stakeholder process, the CAISO will seek CPUC and LRA input given that any identified and viable load curtailment solution does not contravene the expected level of service provided to

retail customers under their jurisdiction. This input must be considered by the CAISO, pursuant to Sections 40.3.1 and 40.3.1.1, in its final determination. Thus, request by CCSF and BAMx to modify Sections 40.3.1 should be rejected.

SWP requests specific clarification with respect to the CAISO's definition of "reasonable time" for review of a draft Local Capacity Technical Study under Section 40.3.1.<sup>33</sup> The schedule, which was recently addressed at a CPUC workshop attended by non-CPUC jurisdictional LSEs, will be included in the BPM. The CAISO believes that process schedules that are subject to greater potential modification based on experience are more appropriately included in the BPM than in the MRTU Tariff. In summary, the schedule will provide for publication of a draft study manual setting forth study criteria, assumptions and methodology in October Y1, which will be the subject to stakeholder review for publication in December Y1. Based on the final study manual, base cases will be built and studies performed from January Y2 through May Y2, with final results provided to LRAs in May Y2. Stakeholders will be provided an opportunity to comment on the final base cases, preliminary results, potential operating procedures, and final results. Thus, the schedule is very specific and will allow SWP sufficient time to conduct its own planning efforts.

#### **(4) 40.3.2**

Six Cities and CPUC contend that a potential consequence of aggregating procurement obligations according to TAC Area, as included in Section 40.3.2, is that LSEs may procure too much local capacity in some Local Capacity Areas within a TAC

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<sup>33</sup> SWP at 21-22.

Area, but not enough local capacity in other Local Capacity Areas within the same TAC Area. They contend the result may be increased use of CAISO backstop procurement. The CPUC is also concerned that the TAC Area methodology would allow some non-jurisdictional LSEs to cherry pick in their procurement the less expensive local areas in California, unfairly leaving only the most expensive areas/units for CPUC jurisdictional LSEs and that the methodology prevents a more granular allocation of the local procurement obligation based on location of the LSE's load.<sup>34</sup> Six Cities and the CPUC recommend that the LCR provisions be amended to require the CAISO to allocate LCR on a Local Capacity Area basis to each LSE as well as allow LSEs an opportunity for additional procurement to cure deficiencies prior to any CAISO backstop procurement.<sup>35</sup>

The allocation of responsibility on the basis of an LSE's contribution to TAC Area peak load, rather than contribution to peak Demand within the Local Capacity Area, was included in the original February filing and has not been the subject of modification by the Commission. As noted in the CAISO's original filing, "[u]nder MRTU, the CAISO will receive Load schedules and metering data from Scheduling Coordinators at the Default LAP level. The CAISO will not have data available to fairly and efficiently allocate [the cost of local capacity] with greater granularity." (Exhibit No. ISO-5 at pg. 40 (Feb. 9, 2007).) Accordingly, the CAISO does not believe an allocation methodology based on the location of the LSE's load is currently practical.

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<sup>34</sup> CPUC at 12-13, 15-16. The CPCU does aggregate Local Capacity Areas in the TAC Area corresponding to PG&E's service territory, except for the "Greater Bay Area." The CPUC does not aggregate Local Capacity Areas in the TAC Area corresponding to SCE's service territory. Aggregation is irrelevant in the southern TAC Area given that SDG&E's service territory contains only one Local Capacity Area.

<sup>35</sup> Six Cities at 13-14.

The CAISO also disagrees with the assertion that assigning discrete local capacity obligations to LSEs on a per Local Capacity Area basis, rather than aggregating Local Capacity Areas, represents the only reasonable method to implement allocate responsibility for local capacity backstop costs. In this regard, the CAISO elected to aggregate Local Capacity Area minimum requirements by TAC Area to protect smaller LSEs from having to buy fractional or small MW quantities in each Local Capacity Area, possibly increasing transaction costs and potential market power. It is not shown that these concerns are misplaced.

Nevertheless, the CAISO recognizes the countervailing concerns identified by the CPUC and Six Cities. Permitting aggregation may reduce the effectiveness of the overall portfolio of local capacity resources in meeting local reliability and thereby increase the potential for CAISO backstop procurement. Therefore, the CAISO believes it is appropriate to reweigh the respective considerations, but only if experience demonstrates that its current approach leads to inefficient aggregate LSE portfolios and a concomitant need for CAISO backstop procurement or, alternatively, upon the implementation of a capacity market that would facilitate procurement by small LSEs. Finally, the CAISO has committed as part of the ICPM process to assess the viability of allowing LSEs to cure a collective deficiency.

**(5) 40.3.1.1 and 40.3.2.2**

CCSF and BAMx recommend that the Reliability Criteria to which Section 40.3.1.1 refers should be specifically identified in the MRTU Tariff to the extent they

exceed the adopted NERC Reliability Standards.<sup>36</sup> The CAISO acknowledges that the Commission originally rejected in the September 21 Order the CAISO's unqualified reference to Applicable Reliability Standards as too general and compelled specification of "which set of reliability criteria it will use in developing the local capacity area resource requirements."<sup>37</sup> In accordance with the Commission's directive, Sections 40.3.1.1 and 40.3.1.2 do, in fact, include the specific Reliability Criteria used to develop the LCR. However, as discussed below, the CAISO agrees with the CPUC and PG&E that those sections should be modified to better identify which Reliability Criteria are being applied and how they are being used.<sup>38</sup>

Section 40.3.1.1 describes the Reliability Criteria as those standards adopted in accordance with Section 5.1.5 of the Transmission Control Agreement.<sup>39</sup> While accurate, Section 40.3.1.1 is not complete in that the referenced Reliability Criteria are also intended to encompass the "CAISO Planning Standards" authorized in Section 24.1.3 of the Tariff.<sup>40</sup> The CAISO Planning Standards include standards explicitly set forth in

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<sup>36</sup> CCSF at 7-8; BAMx at 4.

<sup>37</sup> September 21 Order at 1167.

<sup>38</sup> CPUC at 16-18, PG&E at 11-12.

<sup>39</sup> Section 5.1.5 of the Transmission Control Agreement provides in pertinent part: "The ISO shall, in consultation with Participating TOs and other Market Participants, develop and promulgate Applicable Reliability Criteria for the ISO Controlled Grid, which shall be in compliance with the reliability standards promulgated by NERC, WSCC, Local Reliability Criteria and NRC grid criteria related to operating licenses for nuclear generating units." Applicable Reliability Criteria are "[t]he reliability standards established by NERC, WECC, and Local Reliability Criteria as amended from time to time, including any requirements of the NRC." Local Reliability Criteria are "Reliability Criteria unique to the transmission systems of each of the PTOs established at the later of: (1) the ISO Operations Date, or (2) the date upon which a New Participating TO places its facilities under the control of the ISO." Reliability Criteria are more encompassing, being defined as "[p]re-established criteria that are to be followed in order to maintain desired performance of the ISO Controlled Grid under contingency and steady state conditions." (See, CAISO Tariff, Appendix A.) Since Applicable Reliability Criteria are developed and promulgated by entities independent and external to the CAISO, Section 5.1.5 has meaning only if the CAISO is "developing and promulgating" standards that interpret or augment NERC, WECC and existing PTO standards.

<sup>40</sup> Section 24.1.2 of the Tariff provides in pertinent part: "After the CAISO Operations Date, the CAISO, in consultation with Participating TOs and any affected UDCs and MSSs, will work to develop a

Section 40.3.1.2 in both the list of contingencies and in the “notes.” First, Item 5 under NERC/WECC Performance Level B in the Contingency Table included in Section 40.3.1.2 is derived from the CAISO Planning Standards. Under the CAISO Planning Standards, “[a] single transmission circuit outage with one generation already out of service and the system readjusted shall meet the performance requirements of the NERC Planning Standards for Category B contingencies.” Second, Note #1 in Section 40.3.1.2 repeats the CAISO Planning Standard that interprets the NERC/WECC Planning Standard on system “manual readjustment” to require such adjustments occur in “less than 30 minutes.” Third, Note #3 reflects application of the CAISO Planning Standard that the involuntary interruption of load is permitted for a Category C or D event in a planned or controlled manner. What the CAISO will not permit is cascading and uncontrolled blackouts that would result from voltage collapse or dynamic instability under the higher probability Category D event of “B1-4 system readjusted with (Common Mode L-2).”<sup>41</sup> Thus, based on the foregoing discussion, CPUC and PG&E are correct that the notes in Section 40.3.1.2 more appropriately relate to the CAISO’s response to contingencies, rather than the identification of the contingencies themselves and therefore should be included in Section 40.3.1.1.

The CAISO proposes to:

- Modify the table by deleting the notes; and

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consistent set of Reliability Criteria for the CAISO Controlled Grid which the Participating TOs will use in their transmission planning and expansion studies or decisions.” The CAISO Planning Standards can be found at <http://www.caiso.com/1c63/1c63de754c0a0.html>.

<sup>41</sup> The likelihood of a B1-4 event, i.e., Single Pole (dc) line outage, is relatively high such that the risk of a catastrophic blackout from a common mode failure is perceived by the CAISO as too great and should be mitigated. No LCR is driven by this circumstance.

- Modify Section 40.3.1.1 in a manner as follows or which meets the intent of the following:

The Local Capacity Technical Study will determine the minimum amount of Local Capacity Area Resources needed to address the Contingencies identified in Section 40.3.1.2. In performing the Local Capacity Technical Study, the CAISO will apply those methods for resolving Contingencies considered appropriate for the performance level that corresponds to a particular studied Contingency, as provided for in , NERC Reliability Standards, TPL-001-0, TPL-002-0, TPL-003-0 and TPL-004-0 ~~the version of the WECC Reliability Criteria, NERC/WECC Planning Standard I.A, in effect as of the date that the Local Capacity Technical Study is commenced, as augmented by CAISO Reliability Criteria to the extent such application will not result in a violation of Reliability Criteria adopted by the CAISO in accordance with Section 5.1.5 of the Transmission Control Agreement and Section 24.1.2 of the CAISO Tariff as may be included in the Business Practice Manual developed pursuant to Section 40.3.1.~~ The CAISO Reliability Criteria shall include:

(1) Time Allowed for Manual Readjustment: This is the amount of time required for the operator to take all actions necessary to prepare the system for the next contingency. This time should not be less than 30 minutes.

(2) No voltage collapse or dynamic instability shall be allowed for the Category D event any B1-4 system readjusted (Common Mode) L-2, as listed in Section 40.3.1.2.

BAMx urges the Commission to withhold acceptance of proposed sections 40.3.1.1 and 40.3.2.2 until the CAISO and a stakeholder group review the Planning Standards for the Local Capacity Technical Studies.<sup>42</sup> The CAISO believes that the extensive filings on RA, as well as two years of stakeholder proceedings to implement local requirements for 2007 and 2008, have already provided the Commission and stakeholders with sufficient information to determine that the LCR study process and inputs are just and reasonable. No additional delay is necessary.

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<sup>42</sup> BAMx at 2.

(6) 40.3.1.2

CMUA and NCPA argue that Section 40.3.1.2 should replicate Table 1 from NERC’s TPL standards, and that if the CAISO intends to deviate from the NERC and WECC contingency criteria, the CAISO should be required to explain why in a subsequent filing, and parties should be given an opportunity to respond to that explanation.<sup>43</sup> BAMx makes a similar argument. BAMx at 3-5. These parties are correct that the criteria listed in Section 40.3.1.2 are not coextensive with table 1 from NERC’s TPL standards. The deviations from NERC’s TPL standards arise from inclusion of the “combined line and generator outage standard” adopted as part of the CAISO’s Grid Planning Standards,<sup>44</sup> pursuant to Section 24.1.2 of the Tariff, or because not all of the criteria in table 1 are relevant to the Local Capacity Technical Study. With regard to the latter criteria, LCR is not a requirement of NERC/WECC standards although the CAISO has elected to base LCR analysis on current NERC/WECC standards. As such, there is no obligation that all contingencies set forth in the entire NERC/WECC table be studied. Indeed, the CAISO believes it unwise to include the MRTU Tariff a laundry list of material superfluous to the subject of the Tariff provision.

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<sup>43</sup> CMUA at 8-9; NCPA at 18-19.

<sup>44</sup> The CAISO’s Grid Planning Standards provide that “[a] single transmission circuit outage with one generator already out of service and the system readjusted shall meet the performance requirements of the NERC Planning Standards for Category B contingencies.” See <http://www.caiso.com/1c58/1c58e461106b0.html>. The Grid Planning Standards were adopted to comply with the requirement in Section 24.1.2 of the CAISO Tariff that “[a]fter the ISO Operations Date, the ISO, in consultation with Participating TOs and any affected UDCs and MSSs, will work to develop a consistent set of Reliability Criteria for the ISO Controlled Grid which the Participating TOs will use in their transmission planning and expansion studies or decisions.”

**(7) 40.3.4**

SVP/M-S-R argue that that the Commission should require the CAISO to justify its procurement decisions at the time it executes its backstop procurement authority. SVP/M-S-R at 5. As noted above, the CAISO agrees it is appropriate to require that the CAISO issue a report within 30 days of any procurement that lists the Local Capacity Area Resources procured under Section 40.3.4, the megawatts of capacity procured, and the duration of the procurement. This should provide Market Participants sufficient information to monitor the CAISO's procurement activities.

SVP/M-S-R state that the reference to Section 11.20 within Section 40.3.4 must be modified, as Section 11.20 does not exist; as a result, the MRTU Tariff currently fails to provide a mechanism for allocating costs of local capacity backstop procurement. SVP/M-S-R at 6. WPTF similarly argues that the changes to Section 40.3.4 cross-reference Section 11.20 of the MRTU Tariff, which is currently "NOT USED" and that the CAISO should be directed to provide stakeholders with a copy of Section 11.20 as soon as possible and to provide an opportunity for stakeholder comments. WPTF at 19-20. Section 40.3.4 is sufficiently definite to warrant conditional approval by the Commission. The CAISO acknowledges that implementation of Section 40.3.4 is necessarily contingent upon acceptance of the cost allocation provisions of the Interim Capacity Procurement Mechanism, which is to be filed in January 2008.

**(8) 40.4.2**

PG&E agrees with the intent of Section 40.4.2, but is concerned that the absolute prohibition against reducing Net Qualifying Capacity would preclude the remediation of

inadvertent typographical or other errors. PG&E asserts that the CAISO should be free to amend the annual report to correct such errors, assuming it provides notice and explanation of the error(s) and the remedy or remedies.<sup>45</sup> The CAISO agrees with PG&E that inadvertent errors should be correctable. However, it disagrees that changes should be permitted after publication of the annual Net Qualifying Capacity report. LSEs should be allowed to rely on the report to engage in procurement activities. Errors, whether caused by the CAISO or the resource, should be caught prior to the report's publication. Once the report is published, the LSE should not be at risk that the Net Qualifying Capacity of a unit that it has secured under contract will change for the next year.

**(9) 40.4.6.1**

Six Cities contend that the outcome of the deliverability analysis under Section 40.4.6.1 must be effective for greater than the next Resource Adequacy Compliance Year to provide the stability necessary to encourage longer-term procurement. Six Cities recommends that, at a minimum, the CAISO should be required to adopt a proactive transmission expansion process that includes as an objective preserving the deliverability of Resource Adequacy Resources.<sup>46</sup>

The Commission has already rejected the CAISO's attempt to incorporate a duty to prevent degradation of resource deliverability in the context of the IRRP: "We direct the CAISO to modify proposed tariff section 40.5.2.1 to eliminate the apparent duty to prevent degradation of an existing unit's deliverability, and clarify that the

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<sup>45</sup> PG&E at 12.

<sup>46</sup> Six Cities at 15.

interconnection process is governed by section 25 of the tariff.”<sup>47</sup> This directive was repeated in the September 21 Order.<sup>48</sup> In addition, the Commission previously accepted provisions of the IRRP providing that the deliverability analysis will be effective for a period no shorter than the next calendar year.<sup>49</sup> Thus, while the CAISO may agree that greater stability is desirable and that developing longer-term deliverability tests may be appropriate, the annual deliverability assessment is nevertheless just and reasonable.

Moreover, in repeatedly reaching its conclusion, the Commission implicitly recognized that it simply may not be economically efficient to build transmission solely in order to retain a particular resource’s deliverability. Accordingly, Market Participants that believe a transmission solution to a deliverability problem is economically efficient have the ability to propose an economic project through the CAISO’s transmission planning process. There is no reason to revisit the Commission’s previous conclusion on this issue.

**(10) 40.4.6.1(2)**

WPTF notes that Section 40.6.1(2) cross-references Section 31.7, but contends that Section 31.7 does not explain the obligations of Extremely Long-Start Resources. As an example, it asserts that the CAISO never explains what information must be provided by an Extremely Long-Start Resource once it is committed by the CAISO, such as the time it is expected to be on. It asks that the CAISO be directed to clarify the obligations of Extremely Long-Start Resources in this section and in Section 31.7.<sup>50</sup>

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<sup>47</sup> *California Independent System Operator Corp.*, 115 FERC 61,172 (2006) at P 84.

<sup>48</sup> September 21 Order at P 1215.

<sup>49</sup> *California Independent System Operator Corp.*, 119 FERC 61,240 (2007).

<sup>50</sup> WPTF at 20-21.

Contrary to WPTF’s assertion, Section 31.7 explains in great detail how the Extremely Long-Start Commitment Process functions and how resource commitments are determined. Given the substantial detail included in the Tariff, WPTF’s perfunctory criticism should be ignored in an equally cursory fashion by the Commission.

**(11) 40.4.6.2.2.2**

WPTF protests the revision to Section 40.4.6.2.2.2 that requires a “per MW” price for bilateral transactions. WPTF contends that the CAISO has no need for pricing information on these transactions.<sup>51</sup> To the contrary, the CAISO requires this information because the Commission has directed the CAISO to post such information.<sup>52</sup>

Six Cities and CMUA recommends that, under Sections 40.4.6.2.1 (Step 8), 46.6.2.2.1, and 40.6.2.2.2, the CAISO should be required to confirm that it has not received notification of any transfers of Import Capability allowances for Resource Adequacy purposes when that is the case.<sup>53</sup> The CAISO disagrees, especially with respect to transactions under Section 40.6.2.2.2. That section applies to transfers that can occur at any time of the year after the initial assignment process. Notifying the market “promptly” that no transactions have occurred places a needless burden on the CAISO. Rather than having to constantly report the absence of activity, it is reasonable to require the CAISO to promptly report transactions and place the responsibility on market participants to monitor the CAISO’s website. Significantly, the CAISO’s compliance

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<sup>51</sup> WPTF at 20.

<sup>52</sup> *California Independent System Operator Corp.*, 119 FERC 61,164 (2007) at P 30

<sup>53</sup> CMUA at 8; Six Cities at 15.

with its posting requirement can be measured against the quarterly reports to the Commission also required by Section 40.4.6.2.2.2.

**(12) 40.4.7**

SWP states that the Commission should encourage the CAISO to specify precisely the measures that the CAISO plans to undertake under Section 40.4.7 to validate the accuracy of Supply Plans and how, in such circumstances, the CAISO will defer to the LRA.<sup>54</sup> The CAISO will contact the SC for the supplier, which may or may not also be affiliated with an LRA, to determine if the quantity submitted is accurate. If the amount is in excess of the resource's Net Qualifying Capacity, the CAISO will reduce the amount in the Supply Plan. If the reported Resource Adequacy Capacity is simply different from that included in prior reports, the CAISO may contact the SC to confirm the accuracy of the Supply Plan. Also, the CAISO may inquire of the SC whose set of Qualifying Capacity rules it is applying. In this last circumstance, it is likely that the need for validation will be triggered by a discrepancy between the Resource Adequacy Plan and the Supply Plan. This circumstance will fall under 40.7. While the CAISO will defer to the LRA for determining Qualifying Capacity, to the extent there is a disagreement between the Supply Plan of the resource and the Resource Adequacy Plan of the LSE, Section 40.7.1 makes clear that the CAISO will follow the Supply Plan. This has been a consistent feature of all CAISO RA filings, including the IRRP.

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<sup>54</sup> SWP at 20.

**(13) 40.6.3**

WPTF asserts that, although revised Section 40.6.3 indicates that the CAISO will post a short-start release policy, no procedure has been developed for public review.<sup>55</sup> WPTF is correct that the CAISO does not currently have a waiver process for short-start Resource Adequacy Resources. The CAISO therefore would consent to delete this provision and refile it if, and when, the CAISO develops such a waiver process.

**(14) 40.6.9**

WPTF requests explanations of the deletion of the second sentence of Section 40.6.9.<sup>56</sup> The phrase identified by WPTF was simply converted into a definition. See August 3 filing, Appendix A “Firm Liquidated Damages Contract.”

**(15) 40.7**

SWP states that the CAISO should modify its RA tariff language to address clear notice and due process provisions in the event of disputes, particularly as this pertains to circumstances where competing interests must be considered (such as the SWP’s primary responsibility to manage water<sup>57</sup>). Section 40.7 already provides clear notice, deadlines, and an obligation to provide justifications for CAISO decisions regarding Resource Adequacy Plan compliance. In addition, Section 37 sets for clear procedures for the application of penalties. Due process for the resolution of disputes is further established in the ADR Process set forth in Section 13 of the MRTU Tariff.

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<sup>55</sup> WPTF at 21.

<sup>56</sup> WPTF at 21.

<sup>57</sup> SWP at 20.

The CAISO also expects that disputes regarding the dispatch of SWP resources should be minimal because SWP's resources, which are assumed to be hydroelectric resources and Pumping Loads, remain under the control of the Scheduling Coordinator for the resources, and are not subject to must-offer obligations. (See Sections 40.6.4 and 40.6.12.)

SWP contends that Section 40.7 should be revised to require the CAISO to recognize (1) a clear deference to each LRA, and (2) the ability of LRAs to elect a lesser degree of reliability. Additionally, it believes the Commission should require the CAISO to establish clear deadlines for the CAISO to act in providing notice and opportunity to cure, in addition to those set forth for SCs representing LSEs. SWP at 20-21. The CAISO does not believe changes to Section 40.7 are warranted or that deference is required or appropriate in the context suggested by SWP. Section 40.7 acknowledges that the CAISO constitutes the entity to determine whether local capacity was provided in a quantity sufficient to avoid cost implications of backstop procurement. It would be unreasonable to allow LRAs to determine whether that they should avoid the cost consequences of failing to provide sufficient local capacity. That said, in making its determination, the CAISO will rely on the resources' Net Qualifying Capacity values, which incorporate the Qualifying Capacity determinations reached by the LRAs. As to other potential deficiencies exhibited in Resource Adequacy Plans, including compliance with reserve margin requirements, Section 40.7 simply provides for notification to the LRA or CPUC of the need for correction; if not corrected, the Supply Plan controls. As noted, this latter construct, which does refer compliance actions to the CPUC or LRA,

has been incorporated in all CAISO resource adequacy tariff filings from the IRRP to the MRTU.

**(16) 40.7.1**

WPTF inquires why a new provision was added to Section 40.7.1 in a compliance filing and states that the CAISO should change this provision so that it contains either a list or a general description of the information the CAISO may request to determine a resource's Net Qualifying Capacity. WPTF at 21. The basis for the change to Section 40.7.1 was set forth on page 17 of the transmittal letter for the August 3 filing, in which the CAISO discussed clarifying supplier obligations, as recommended by in a joint proposal by a group of Market Participants, including WPTF. Section 40.7.1 was inadvertently omitted from the list of affected sections and therefore should have been characterized as part of the CAISO's Section 205 filing. With respect to the request for greater specificity on possible information sought pursuant to Section 40.7.1, the ability of the CAISO to rigidly articulate in its Tariff the specific categories of information required to determine Net Qualifying Capacity is inherently limited. The Commission's approved RA structure provides that the CAISO must rely on CPUC or LRA rules to calculate Qualifying Capacity, which is the foundation for Net Qualifying Capacity. The information required by Qualifying Capacity rules may be quite diverse and subject to change, rendering such a list impractical.

**(17) 40.8.1.9**

WPTF seeks an explanation of the conditional limitation in Section 40.8.1.9 on the amount of Qualifying Capacity from specific demand response products that can

comprise a Scheduling Coordinator's portfolio (0.89%).<sup>58</sup> This limitation was included in the CAISO's original MRTU filing. It has been accepted by the Commission and WPTF's protest is untimely. Notwithstanding the WPTF's procedural infirmity, the CAISO notes that this provision relates to default counting provisions, which are intended to be as consistent as possible with the rules adopted by the CPUC. The CPUC in D.04-10-35 imposed the disputed limitation on the use of demand response products based on an assessment of the CAISO's load curves on peak and the historical performance of 2 hour demand response programs.

**(18) 42.1.8**

SVP/M-S-R assert that the August 3 revisions to Section 42.1.8 unjustly allocate costs to all users of the grid without regard to causation, rather than first allocating costs to entities that caused the costs to be incurred.<sup>59</sup> The version of Section 42.1.8 included in the August 3 filing is substantively identical to that included in the currently effective CAISO Tariff. The only alterations made reflect the use of MRTU-related terms. Section 42.1.8 was reinserted into the MRTU Tariff because of the assumption, incorporated into Section 40 of the August 3 filing, that the CAISO will file the Interim Capacity Procurement Mechanism ("ICPM") and that the ICPM will serve as the primary source of CAISO authority to secure capacity to backstop LSE RA procurement. Given the reliance on ICPM, the CAISO elected to simply maintain the current *status quo* with respect to existing Section 42 procurement provisions. According, the provision

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<sup>58</sup> WPTF at 21.

<sup>59</sup> SVP/M-S-R at 6.

challenged by SVP/M-S-R is an existing Tariff provision previously approved by the Commission.

**c. Response to Other Comments**

SWP seeks confirmation that the CAISO recognizes that it has no tariff authority to enforce LSEs to provide Resource Adequacy Resources Plans that meet the MRTU criteria prior to its effective date.<sup>60</sup> The CAISO understands its current tariff authority and plans to seek approval of earlier effectiveness of appropriate portions of the MRTU RA provisions. The request for early effectiveness reflects the fact that RA contains “forward” planning process elements, i.e., monthly Resource Adequacy Plans and Supply Plans. Consequently, these elements must be accomplished prior to the effective date of MRTU in order to have an effect on CAISO operations at the start of the new market.

SWP expresses concern that RA templates designed for conventional LSE loads and resources are ill-suited to SWP’s hydroelectric and other use-limited resources and looks forward to working with CAISO to further refine reporting and forecasting requirements in manner more conducive to the unique characteristics of SWP’s Demand and resource characteristics. Section 40.2.2.4 of the Tariff provides the CAISO with the flexibility to work with LSEs whose circumstances legitimately do not conform to the general RA reporting templates. Accordingly, no additional Tariff modifications or authority is necessary. As noted, the CAISO has no objection to exercising its discretion to accommodate SWP’s admittedly unique circumstances.

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<sup>60</sup> SWP at 16.

SWP seeks confirmation that Use Plans concerning Use-limited Resources, such as hydroelectric and Pumping Load, will not form the basis of enforcement actions and that deviations in reporting and updates as the year proceeds will not subject the SC to penalties.<sup>61</sup> SWP is correct. The Use Plans do not establish performance standards against which a Resource Adequacy Resource will be measured. Deviations from the Use Plan will not subject the resource SC or owner to potential penalties. The CAISO may, however, seek further information from the resource if the deviations persist or are substantial. At that point, the Use Plan serves no value to CAISO grid operators and should be modified to more accurately reflect the resource's actual availability and use pattern.

SWP contends that the CAISO's allocation of Local Capacity Area resource obligations under Section 40.3.2 has the effect of a public utility rate, inasmuch as it imposes potential costs on LSEs, but provides no mechanism for those paying these costs or the Commission to examine the justness and reasonableness of the underlying data or the allocation outcomes.<sup>62</sup> SWP's contention lacks merit. The "formula" for the allocation is "on file." It is described specifically in Section 40.3.2 as the CPUC allocation when applicable, or otherwise as the result of mathematical formula included in that section ("( $\sum$  Local Capacity Area MW in TAC Area from the Local Capacity Technical Study) \* (LSE Demand in TAC Area at CAISO annual coincident peak Demand)/(Total TAC Area Demand at the time of CAISO annual coincident peak Demand)"). To the extent that SWP is arguing that the results of the application of the formula should be filed, its argument is again misplaced. The very nature of a formula

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<sup>61</sup> SWP at 18.

<sup>62</sup> SWP at 24.

rate is that the outcome may change without the need for a FERC filing. Market Participants will have access to all the necessary data to determine the validity of the application of the allocation formula, i.e., CEC Demand Forecasts and CAISO Local Capacity Technical Study results. If they believe the CAISO has applied the formula incorrectly, the LSE may initiate dispute resolution procedures or file a complaint with the Commission.

SWP seeks confirmation that if, as the year progresses, a deviation arises in the annual forecast RA procurement plans for a Local Capacity Area Resource and the LSE is deficient in fulfilling its RA obligations, CAISO will inform the LSE, which can choose to rectify the deficiency within a timeframe on the order of a week to 10 days.<sup>63</sup> Sections 40.3.3 and 40.7 together provide LSEs with such an opportunity.

Six Cities and CMUA argue that it is not possible to evaluate whether the RA program, and Section 40.3.4 in particular, is just and reasonable without knowledge of the CAISO's backstop capacity procurement program, the Interim Capacity Procurement Mechanism ("ICPM"), which the CAISO intends to file in January 2008. In essence, they contend that the cost to LSE's for noncompliance may determine whether the RA program is just and reasonable.<sup>64</sup> The CAISO, however, does not believe that the decision whether to comply with RA obligations should properly be considered an economic decision. LSEs are under an independent obligation to procure local capacity. The CPUC establishes the obligation for its jurisdictional LSEs. Public Utilities Code section 9620 covers the RA requirements for publicly owned utilities. Subdivision (b)

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<sup>63</sup> SWP at 22.

<sup>64</sup> Six Cities at 11-12; CMUA at 5-7; SVP/M-S-R at 6.

provides, “Each local publicly owned electric utility serving end use customers shall, at a minimum, meet the most recent minimum planning reserve and reliability criteria approved by the ... [WECC].” As noted above, the local capacity requirements are based on meeting WECC system performance standards and therefore complement the legal obligation imposed by Public Utilities Code section 9620. Further, until the ICPM is approved, the CAISO will rely upon RMR to provide any necessary backstop local capacity. The cost allocation under RMR provisions has already been approved by the Commission. Whether the cost of the CAISO procurement under the ICPM is reasonable is a separate issue that can, and should, be addressed when the CAISO files the ICPM.

Six Cities note that the CAISO has not yet posted a form of registration of Use-Limited Resources that must be used for compliance with Section 40.6.4.1, even though the BPM for Reliability Requirements indicates that annual use plans for Use-Limited Resources as required under MRTU Tariff Section 40.6.4.2 should be submitted in September. Six Cities also state that the BPM for Reliability Requirements at page 39 refers to a link to a proposal issued by the CAISO in August 2005 and apparently never updated. Six Cities asks the Commission to require the CAISO to post the registration form for Use-Limited Resources immediately and to require the CAISO to review requirements for Use Plans, bidding, and availability applicable to Use-Limited Resources in light of MRTU developments subsequent to the issuance of the August 2005 proposal.<sup>65</sup> The CAISO recognizes the need for these activities and intends to undertake them in the immediate future.

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<sup>65</sup> Six Cities at 15-16.

CMUA and NCPA state that because the CAISO is required by Section 5.1.5 of the Transmission Control Agreement and Section 215 of the FPA to follow NERC standards, the CAISO's LCR standards should be consistent with NERC criteria and with the CAISO's obligation to provide economic and efficient transmission. They state that LCR is not a requirement of NERC, but rather emanates from an inadequate transmission grid inherited by the CAISO. They, therefore, contend that the Commission should clarify that LCR obligations are but an interim requirement to be remedied through transmission infrastructure investment. NCPA is correct that the need for local capacity is a function of the topology of the transmission system. Nonetheless, the use of existing generation to maintain reliability standards may constitute the more economically efficient means of satisfying local reliability needs. Through the CAISO's transmission planning process, the CAISO and other stakeholders can evaluate the cost-effectiveness of transmission or other resource solutions to reduce the LCR for any particular load pocket. As a result, the LCR for a particular load pocket may or may not be "interim" and any blanket policy goal to reduce LCR ignores the need to assess the economic viability of alternative solutions to meeting reliability criteria.

After noting the progress that has been made resolving its concerns about the CAISO's LCR studies, NCPA states that the Commission make its approval of the LCR approach subject to resolution of the open issues now pending in the stakeholder process.<sup>66</sup> Conditioning the implementation of the CAISO's LCR approach on resolution of every matter that a stakeholder considers an "open issue" is untenable. Such a condition would give any particular stakeholder a veto right on the LCR and

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<sup>66</sup> NCPA at 13-18

would almost certainly result in deadlock. The CAISO has committed to publishing a draft LCR Study Manual in October 2007, which will form the basis of stakeholder meetings in October and December, to develop an approved LCR Study Manual that sets forth study criteria, assumptions and methodology. Further, the CAISO's LCR study schedule for the 2009 Compliance Year calls for stakeholder review of base cases, preliminary results, and incorporation of operating procedures. This will be a highly transparent and interactive process. Any dissatisfied stakeholders – and the CAISO hopes there will be none – can always seek relief from the Commission after completion of the process. The Commission should not require more.

Similarly, Calpine states that the RA provisions in the August 3 filing reflect elements of the stakeholder proposal to the CPUC to reform the RA contracting process. Calpine expects that the CPUC stakeholder process will conclude with recommendations that the CPUC take action to approve elements of the proposal. Calpine asks the Commission to require that the CAISO commit to submission of additional tariff revisions that would implement those elements of the stakeholder proposal that must be incorporated in the CAISO's MRTU Tariff. Chief among those elements would be provisions to implement the determination of an ex-ante fixed performance obligation on Resource Adequacy Resources that may impact Net Qualifying Capacity.<sup>67</sup> In Section 40.4.5, the Commission approved the CAISO's projected schedule of addressing performance obligations and penalties for generators. This schedule recognized the many competing priorities confronting the CAISO in its effort to implement MRTU. Accelerating this process would indiscriminately redirect resources from other MRTU related projects set for Phase 2. Such a redirection may be appropriate; however, the

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<sup>67</sup> Calpine at 1-9.

CAISO uses stakeholder input to its policy “road map” to establish such priorities. The CAISO believes this is the appropriate process to determine where resource performance criteria ranks in the hierarchy of MRTU program elements. The Commission should thus not direct CAISO to accelerate this process.

The CPUC requests confirmation of the CAISO’s intent to eliminate Operating Procedure M-438 upon MRTU startup. If this procedure were to remain in operation, the CPUC understands that California ratepayers may pay repeatedly for the same capacity or energy services.<sup>68</sup> The CAISO confirms that it intends to terminate Operating Procedure M-438 following MRTU startup. This change in circumstances, however, is a result of the entire panoply of reliability services under MRTU, not because RA itself fulfills the same needs as Operating Procedure M-438.

## **B. Issues Relating to Business Practice Manuals**

Comments on issues raised by the August 3 Filing related to Business Practice Manuals (“BPMs”) fall into two general categories: (1) comments on whether certain details in the draft BPMs should be included in the MRTU Tariff and related issues (*e.g.*, whether the MRTU Tariff should reference specific BPMs) and (2) comments on the CAISO’s BPM change management process. The first set of issues were discussed at a technical conference convened by Commission Staff on September 26 and 27. During the technical conference, the CAISO, other participants in the technical conference, and Commission Staff developed a procedural schedule for further addressing this first set of issues. This procedural schedule was adopted in the Commission’s October 2, 2007, Notice Establishing Post-Technical Conference Schedule (“October 2 Notice”). This

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<sup>68</sup> CPUC at 18-19.

schedule includes a CAISO filing of a response by November 15 which, among other things, will identify commitments the CAISO will make to add details from BPMs to the MRTU Tariff based on stakeholder input. Initial and reply comments on the CAISO's November 15 filing will be due on November 30 and December 7 respectively. Although not mentioned in the October 2 Notice, the CAISO, stakeholders and Commission staff also reached conceptual agreement at the technical conference on a proposal to convene a further technical conference approximately six to eight months after MRTU implementation to address any questions concerning whether revisions to BPMs made after November 15 should be reflected in the MRTU Tariff.

The September 26 and 27 technical conference did not address the merits of the CAISO's proposed BPM change management process. The participants in the technical conference agreed that the merits of the BPM change management process would not be addressed in the November 15 through December 7 filings and that Commission could and should rule on the merits of that change management process based on the initial and reply comments on the August 3 Filing. The CAISO strongly supports this approach. The Commission should approve the CAISO's BPM change management process as a just and reasonable proposal to obtain advisory stakeholder input on proposed changes to the rules, standards, and business practices that implement the MRTU Tariff.

**1. The CAISO's Proposed BPM Change Management Process is Just and Reasonable**

To address stakeholder concerns regarding the development and modification of BPMs over time, the CAISO proposed in mid-2006 to develop a BPM change management proposal that the CAISO would include in its Tariff.<sup>69</sup> This was a voluntary

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<sup>69</sup> See September 21 Order at P 1368.

commitment on the part of the CAISO. The Commission accepted the CAISO's commitment and directed the CAISO to "file its proposed tariff language regarding a "standard formalized process for amending Business Practice Manuals."<sup>70</sup> The CAISO's BPM change management process is a just and reasonable proposal that fully complies with that directive. The CAISO's BPM change management process is also consistent with Order No. 890, which provides transmission providers with significant discretion in determining the appropriate procedures for amending business practice documents like BPMs: "As part of their business practice amendment procedures, transmission providers may adopt such additional procedures *they deem appropriate*, such as opportunities for comment to proposed changes to rules, standards, and practices."<sup>71</sup> Moreover, Order 890 merely requires a transmission provider's change management process to be posted on the transmission provider's website.<sup>72</sup> Accordingly, the CAISO's change management process reflected in filed proposed tariff language exceeds Order 890 requirements.

Specifically, the CAISO has developed a BPM change management process that provides for far greater transparency and stakeholder involvement than the CAISO's current practices while retaining the independence of the CAISO's governance structure.

The CAISO's change management proposal borrows elements of ERCOT's web-based approach to considering protocol revisions, which can be found at:

<http://www.ercot.com/mktrules/protocols/index.html>. Under this proposal, a simple request template will trigger a systematic review process that the submitter and interested stakeholders alike can follow on a dedicated page on the CAISO Website to provide

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<sup>70</sup> September 21 Order at P 1371.

<sup>71</sup> *Preventing Undue Discrimination and Preference in Transmission Service*, Order No. 890, 72 FR 12266 (March 15, 2007), FERC Stats. & Regs. ¶ 31,241 at P 1655 n.943 (2007) ("Order No. 890") (emphasis added).

<sup>72</sup> *Id.*

transparency. This transparency will document the CAISO's treatment of every proposed change to a BPM. This transparency will ensure that the CAISO is held accountable with stakeholders, the CAISO Governing Board and with the Commission.

As described in the August 3 Filing, every proposed BPM change starts with a PRR ("Proposed Revision Request"). Any party can initiate a PRR, the CAISO, a market participant, or other stakeholder. The PRR is publicly posted on the CAISO Website. The CAISO and stakeholders can submit comments on the PRR, which are publicly posted on the CAISO Website. Monthly stakeholder meetings are conducted to review proposed changes and comments. The CAISO will be identifying a dedicated employee, the BPM Change Management Coordinator, to oversee this process. The BPM Change Management Coordinator's determination on the PRR and rationale are publicly posted on the CAISO Website. Any interested stakeholder can appeal that determination to a standing committee of CAISO executives. These appeals are then discussed at a public meeting open to all interested parties.

The CAISO has also crafted an appropriate role for the CAISO Board of Governors that ensures that the Board of Governors has oversight of the process without the need to address routine disputes concerning proposed BPM changes. CAISO Staff will prepare a report on BPM Change Management to the Board of Governors for each meeting of the Board which will document:

- All PRRs and the party initiating each PRR;
- The BPM Change Management Coordinator's determination on each PRR;
- The results of any appeals of PRR determinations; and
- Any BPM changes implemented by the CAISO under its emergency authority.

In response to stakeholder comments, the CAISO also agreed to include a number of modifications to the early versions of the draft Tariff language implementing its BPM change management process to expressly provide that an appellant may raise concerns it may have with the CAISO Board of Governors at the next regularly scheduled Board meeting through the public comment period or through a prior letter to the Governing Board. The CAISO expects that the need to raise such concerns with the Board will be infrequent in practice, but that does not diminish the importance of the ability of stakeholders to raise BPM change issues with the Board. This change in response to stakeholder comments is reflected in the August 3 filing.

Notwithstanding the significant procedural rights, that exceed the requirements of Order 890, some commenters, including the Indicated Parties, have argued that the CAISO's BPM change management process does not contain sufficient procedural rights for stakeholder input on BPM changes. This is not the case. Under the MRTU Tariff, stakeholders will have far greater procedural guarantees of input concerning changes to BPMs than exists today. Any interested party can propose a BPM change and have their changes considered on the same basis as a CAISO-proposed change. Parties will have the right to comment on proposals and participate in key meetings. Perhaps most importantly, there are two opportunities for interested stakeholders to seek reconsideration of the original decision of the BPM Change Management Coordinator: (1) the right to appeal to a standing committee of CAISO executives, and (2) the right to raise concerns about the determinations of CAISO management on BPM issues with the CAISO Board of Governors. Thus, Indicated Parties and TANC are mistaken in arguing that the only redress concerning the CAISO's initial resolution of a proposed BPM

change is a complaint under Section 206 of the Federal Power Act. Of course a 206 complaint is available to stakeholders, but this is in addition to the numerous other procedural rights offered to stakeholders under the CAISO's process.

A close reading of the comments opposing the CAISO's BPM change management process reveals that the real objection of these commenters is that the CAISO has not proposed a process by which the CAISO violates the principles of independence and provides market participants with a decisional role on proposed BPM changes. For example, Indicated Parties argues that, "The CAISO's proposal limits stakeholders to an advisory role and improperly reserves for itself the exclusive right to determine which changes will be considered and which changes will be approved."<sup>73</sup> Indicated Parties is incorrect in claiming that the CAISO has reserved the right to determine which changes will be considered. As explained above and in the August 3 Filing, under the CAISO's proposal, the CAISO is obligated to consider all proposed BPM changes on the same basis as if the CAISO had proposed the BPM change. It is true, however, that the CAISO's proposal limits stakeholders to an advisory role. But it is entirely appropriate for the CAISO to make decisions on modifications to business rules so long as the changes are within the CAISO's tariff authority.

The Commission has ruled that the CAISO's governance structure satisfied the independence requirements of ISOs under Order No. 888 and the independence standards applicable to RTOs under Order No. 2000.<sup>74</sup> Under the CAISO's independent governance structure, the CAISO cannot permit market participants to have a decisional role concerning the terms and conditions of its Tariff. It would be contrary to the

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<sup>73</sup> Indicated Parties at 4.

<sup>74</sup> *California Independent System Operator Corp.*, 112 FERC ¶61,010 (2005) ("July 1 Order").

fundamental nature of the CAISO as an independent entity to provide representatives of market participants with decisional rights or a vote on the BPMs that include the business rules for implementing the MRTU Tariff. Indeed, the Commission has found that an Independent System Operator (“ISO”) or Regional Transmission Organization (“RTO”) must have sole authority to make rule changes “and other changes it deems necessary” in order to be truly independent of market participants.”<sup>75</sup> The CAISO’s proposal is consistent with this principle of independence because it provides stakeholders with ample procedural input on BPM changes but reserves to the Independent System Operator the final decision on such proposed changes.

## **2. The CAISO's BPM Change Management Process Has Been Crafted To Address Significant Stakeholder Comments**

The CAISO’s August 3 filing, including in particular Attachments D, G, H, and I to that filing, documents the extensive stakeholder process that contributed to the development of the CAISO’s BPM change management process. The CAISO has added a number of features to its change management process to address the concerns of stakeholders, including:

- the right to appeal the BPM change management coordinator’s final decision on any BPM PRR to a committee comprising at least three CAISO executives, which shall hold public meetings on the appeal,
- a requirement that the CAISO Governing Board approve changes to the Business Practice Manual for BPM Change Management, and
- the addition of Tariff language expressly providing that an appellant may raise concerns it may have with the CAISO Board of Governors at the next regularly scheduled Board meeting through the public comment period or through prior letter to the Governing Board.

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<sup>75</sup> *Bangor Hydro-Electric Co., et al.*, 96 FERC ¶61,063 at 61,259 (2001) (“In order for ISO-NE to be truly independent of market participants, it must have the sole authority to make changes to Market Rules and any other changes it deems necessary without being required to seek approval from [the stakeholder group] NEPOOL.”)

These modifications have satisfied the concerns of a number of significant stakeholders. For example, the CPUC in its September 18 Comments in this proceeding stated that the CAISO:

has provided opportunities for the CPUC to provide input on the change management process, and the CPUC is satisfied that the current approach provides a reasonable opportunity for market participants to initiate and impact proposed changes.

CPUC September 18 Comments at 2. Similarly, PG&E has stated that it generally agrees with the tariff provisions relating to the process for revisions to the BPMs.<sup>76</sup> At the September 26-27 BPM technical conference, SCE also indicated its general support for the CAISO's BPM change management proposal. The Indicated Parties are therefore incorrect when they suggest that there is no stakeholder support for the CAISO's change management process.

The CAISO has also committed to stakeholders to discuss any remaining concerns about the BPM change management process after its process has been implemented for an initial shakedown period. In light of this commitment, the CAISO should be permitted to implement its process without modification rather than being forced to modify that process based on unsupported hypothetical concerns.

### **3. Proposed Alternatives to the CAISO's BPM Change Management Process Should Be Rejected.**

Because the CAISO's BPM change management process is a just and reasonable proposal that provides great transparency and substantial procedural rights for stakeholders while retaining the independence of the CAISO's governance structure, there is no need for the Commission to even consider the alternative procedures supported by some commenters. Nonetheless, the CAISO believes the Commission

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<sup>76</sup> PG&E at 5.

should recognize that these alternatives are not just and reasonable and would substantially compromise the ability of the CAISO to function under its approved governance structure and to implement and enforce the Tariff through reasonable and appropriate changes to business rules.

Some commenters have supported a WPTF proposal that the CAISO be required to create an eight member “appeals panel,” half of which would be comprised of representatives of market participants.<sup>77</sup> Under this proposal, market participants would essentially have the ability to veto any proposed BPM change. The CAISO believes that providing stakeholders a formal decisional vote on BPM terms that implement the Tariff is as contrary to the concept of independence as providing stakeholders with a decisional role on the Tariff itself. The CAISO cannot emphasize strongly enough its opposition to this proposal. In addition, although the CAISO cannot imagine that the Commission would consider approving such a model, recent court decisions make it clear that the Federal Power Act does not provide the Commission with the authority to compel a public utility like the CAISO to fundamentally alter its corporate governance structure.<sup>78</sup> Some commenters argue that the CAISO should be compelled to adopt a formal stakeholder committee structure. The approved governance structure of the CAISO does not have a formal stakeholder committee structure, but this has not prevented the CAISO from effectively obtaining stakeholder input on numerous critical issues in recent years.<sup>79</sup>

The CAISO’s BPM change management process incorporates many elements of the

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<sup>77</sup> Indicated Parties at 8-9.

<sup>78</sup> *See California Independent System Operator Corp. v. FERC*, 372 F.3d 395 (2004) (finding that the Federal Power Act does not create the authority “to regulate all actions or activities of public utilities including the personnel and structure of its corporate governance under the rubric of ‘practices.’ ”)

<sup>79</sup> In the July 1 Order, the Commission encouraged the CAISO to consider creating an advisory committee of stakeholders but rejected arguments that such an advisory committee was a necessary prerequisite to a finding that the CAISO’s governance is independent. 112 FERC ¶61,010.

stakeholder process the CAISO has successfully used to date to develop the MRTU Tariff (*e.g.*, transparency, opportunities for public comment, open meetings, *etc.*). Although stakeholder committees have already been established for ISOs and RTOs in the East, the CAISO believes creating a formal stakeholder voting structure in California would create far more conflicts and issues than other viable approaches to obtain stakeholder input on issues. Among the highly contentious issues that would need to be resolved in order to develop such a process are the issues of: (1) the appropriate number of segments, (2) the appropriate segment categories, (3) how to determine which entities could populate a given segment, (4) how votes would be allocated among segments, (5) how votes would be allocated in a segment, and (6) whether entities could be adequately covered by any single segment. A wide range of Market Participants (including investor-owned utilities, municipal entities, generators, marketers, load-serving entities, and others) have expressed concerns about the potential to be under-represented or misrepresented in such a stakeholder structure.

No commenter has demonstrated why advisory sector voting in a formal committee structure provides better procedural rights to stakeholders than written comments and stakeholder meetings without a formal sector structure. In fact, the CAISO's approach ensures that CAISO management focuses on the comments of the stakeholders most interested in the proposed BPM change rather than the votes of sectors that may not be interested in a particular BPM. The CAISO's process therefore ensures consideration of the interests of minority stakeholders.

Development of a formal stakeholder committee with sector voting would divert scarce resources which should be devoted to the finalization and implementation of

MRTU. Such a requirement would also increase CAISO costs without any compelling justification for such costs. These costs would likely be ongoing and would affect both the CAISO and others, as stakeholders would require expensive consultants or other representatives to participate in the numerous committees and sub-committees that are characteristic of a formal stakeholder committee with sector voting.

Some commenters have proposed that all BPM change determinations should be subject to a right to appeal to the CAISO Board of Governors. The CAISO's proposal already permits stakeholders to raise issues involving proposed BPM changes on a case-by-case basis to the CAISO Board of Governors as part of the procedures that solicit public comment on the CAISO Board agenda. The fact that the right to raise issues with the Board exists today does not make it any less meaningful – in fact any Board discussions on BPM change issues will be more meaningful since the process leading up to the Board discussion will be much better documented than comparable decisions today. The CAISO expects such discussions to be the exception to the general rule, as most BPM changes will involve detailed implementation issues that are not within the expertise of the Board and that are more appropriately delegated to CAISO management. Consistent with this expectation, stakeholders do have an appeal right to a committee of CAISO executives who are more appropriate to address such implementation issues.

Some commenters have argued that the CAISO should be compelled to adopt a stakeholder process to review BPM changes comparable to the committee structure of the Western Electricity Coordinating Council (“WECC”). There is no precedent for compelling an ISO or RTO to abandon its own governance structure and adopt a structure based on the applicable regional reliability entity.

The CAISO does not believe a BPM change management process based on the WECC committee structure is appropriate. The WECC process can often take substantial time to consider any proposed changes. While such a deliberative process may be appropriate for an entity establishing reliability standards for the entire Western Interconnection, it would be completely unworkable for an ISO or RTO that often must respond quickly to changing market conditions or more localized reliability needs. For example, the WECC committee process would not have permitted the CAISO to act quickly enough to address various exigent circumstances that arose over the course of the 2000-2001 energy crisis. Moreover, for the reasons explained above, a standing stakeholder committee structure is not appropriate or justified for the CAISO.

#### **4. The CAISO Has Included Sufficient Detail on Its BPM Change Management Process in Its Tariff**

Some commenters have argued that the CAISO should be required to incorporate the entire BPM for BPM Change Management in the MRTU Tariff. Although issues concerning the level of detail in the MRTU Tariff versus the BPMs will be addressed in the CAISO's November 15 filing established by the Commission's October 2 Notice, the CAISO believes it is important that the Commission recognizes that the MRTU Tariff includes ample detail for the Commission to approve the CAISO's BPM change management process consistent with the Commission's "rule of reason." Recently, in Order No. 890, the Commission has made clear that it will continue to apply its rule of reason in a manner that would not require all of a transmission provider's business practices to be included in its tariff:

The Commission disagrees with parties arguing that all of a transmission provider's rules, standards, and practices should be incorporated into its

OATT. We believe that requiring transmission providers to file all of their rules, standards and practices in their OATTs would be impractical and potentially administratively burdensome.

Order No. 890 at P 1651.

It is worth noting that the Commission did not conclude that the CAISO must include the BPM change management process in its Tariff, but instead accepted a CAISO proposal to include this process in its Tariff. The CAISO did not intend, as part of that proposal, to include detail in the Tariff that exceeded the detail required under the rule of reason or that would be administratively burdensome.

The CAISO notes that it did add much detail to the Tariff concerning the BPM change management process based on stakeholder comments prior to the August 3 filing. The CAISO also added language to the Tariff providing that the BPM for BPM Change Management itself cannot be altered by CAISO management; it can be changed only with Governing Board approval.

The CAISO is also prepared to accept certain proposals to add detail to the MRTU Tariff, including:

- Minimum comment periods in non-emergency circumstances as suggested by PG&E in their comments and at the BPM Technical Conference
- A commitment that the committee of CAISO executives reviewing appeals of BPM change determinations will be a standing committee selected based on procedures to be set forth in the BPM for BPM Change Management.<sup>80</sup>

Specific Tariff language on these items will be included in the November 15 filing. Also, the CAISO is considering the additional non-substantive suggestions raised by parties, including PG&E, and will include any appropriate revisions in connection

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<sup>80</sup> The first two commitments are based on comments from PG&E. Based on discussions at the September 26-27 technical conference, the CAISO understands that these commitments address PG&E's concerns.

with the November 15 filing. The fact that the CAISO is willing to include additional detail in the Tariff in order to accommodate stakeholder requests, however, does not mean that the CAISO's Tariff language as filed in the August 3 Filing is insufficient to satisfy the rule of reason. The MRTU Tariff already contains more detail on manual change management procedures than other ISO or RTO tariffs. Indeed, some other ISOs and RTOs have not included any details on their manual change management procedures in their tariffs.<sup>81</sup> Moreover, in Order No. 890, the Commission required public posting of "a transparent process for amending rules, standards, and practices previously posted by a transmission provider" but did not require that this process be included in the transmission provider's tariff. Order No. 890 at P 1655. This is the standard against which any application of the rule of reason should be judged.

#### **5. The CAISO's Proposed Emergency Authority to Modify BPMs is Justified and Consistent With the Emergency Authority of Other ISOs and RTOs**

In some circumstances, immediate changes to BPMs will be essential to protect System Reliability or security, to protect the competitiveness or efficiency of the CAISO markets, to comply with legal requirements, or to address emergency circumstances specific to a BPM. Some commenters have argued that CAISO emergency changes to the BPMs should be limited to System Emergency conditions or should not be permitted based on market competitiveness concerns. Even if seldom used, the CAISO needs this emergency authority to ensure that it can address reliability concerns that have not yet resulted in a System Emergency, administer competitive markets and address market design flaws. The

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<sup>81</sup> For example, changes to the Midwest ISO's business practice manuals are governed by the "Stakeholders Governance Guide" not approved by the Commission. Changes to the NYISO manuals are governed by the "NYISO Manual Review, Revision and Approval Process" document which is also not approved by the Commission.

CAISO’s emergency authority is comparable to the authority of other ISOs and RTOs that have the authority to modify their manuals to address market-related exigent circumstances as well as reliability concerns. For example, when there are “Exigent Circumstances,” ISO-NE may unilaterally implement a “new or amended Market Rule, Operating Procedure, Manual, Reliability Standard, provision of the Information Policy . . . , General Tariff Provision, or Non-TO OATT Provision.”<sup>82</sup> ISO-NE defines Exigent Circumstances as:

circumstances such that ISO determines in good faith that (i) failure to immediately implement a new Market Rule, Operating Procedure, Reliability Standard, provision of the Information Policy, Non-TO OATT Provision or Manual would substantially and adversely affect (A) System reliability or security, or (B) the competitiveness or efficiency of the New England Markets, and (ii) invoking the procedures set forth in Section 11.1, 11.3 or 11.4 would not allow for timely redress of ISO’s concerns.<sup>83</sup>

Similarly, SPP may unilaterally make changes to the Market Systems if there are Exigent Circumstances, defined as:

circumstances such that SPP determines in good faith that: (1) failure to implement a Market System change on an expedited basis would substantially and adversely affect system reliability or security or the competitiveness or efficiency of the SPP market, and (ii) invoking the Market System change management procedures set forth above would not allow for timely redress of SPP’s concerns.<sup>84</sup>

The CAISO’s proposed authority to make emergency changes to BPMs is therefore fully consistent with Commission precedent for ISO and RTO authority in exigent circumstances.

## **6. The CAISO’s BPM Change Management Process Should Become Effective on the MRTU Implementation Date**

Some commenters argued that the CAISO should be required to implement the BPM change management process prior to the MRTU effective date. The CAISO

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<sup>82</sup> See Section 11.2 of the ISO-NE Participants Agreement

<sup>83</sup> *Id.* at Section 1.1

<sup>84</sup> SPP EIS Market Change Management Process, at 2

believes this concern has been addressed by the CAISO's willingness to participate in a further technical conference approximately six to eight months after MRTU implementation to address any questions concerning whether revisions to BPMs made after the November 15 filing should be reflected in the MRTU Tariff.

The CAISO notes that there is no justification for requiring the change management process to become effective prior to MRTU implementation because no party has demonstrated that the CAISO's current stakeholder process is not just and reasonable. Implementing the change management process in advance of the MRTU start date would require the diversion of needed resources to develop the interactive website contemplated in the CAISO proposal and would delay the process of finalizing the BPMs for MRTU implementation. For these reasons, the Commission should permit the CAISO's BPM change management process to go into effect on the MRTU implementation date.

### **C. Compliance Changes**

#### **1. Locational Marginal Pricing**

##### **a. Tariff Details on Locational Marginal Pricing**

CMUA, NCPA, and Six Cities argue that although Appendix C to the MRTU Tariff provides some additional transparency concerning the details of the Locational Marginal Pricing ("LMP") calculation, the CAISO still needs to officially designate a Reference Bus. These parties note that the studies performed by the CAISO and provided to Market Participants, and Market Participants' own studies, have assumed a Reference Bus at DUKMOSS1, and contend that if the CAISO has decided to designate DUKMOSS1 as the Reference Bus, it should say so in the MRTU Tariff. CMUA and

NCPA also argue that if the CAISO contemplates changing the Reference Bus from time to time, the CAISO should make this intention clear and should justify it.<sup>85</sup> This argument is misplaced because it relies on a misunderstanding of how the CAISO will calculate LMPs using a Reference Bus. As set forth in the MRTU Tariff, the CAISO will use a distributed Reference Bus, rather than a single Reference Bus, to calculate LMPs.<sup>86</sup> Designating a single “official” Reference Bus is not consistent with this methodology. The use of the DUKMOSS1 was not as a Reference Bus for LMP calculations. In the LMP studies the CAISO selected DUKMOSS1 as the angle reference bus, which, as described more fully in the BPM for Market Operations, is used to measure the distribution of flows throughout the network based on the calculation of phase angles, which are measured from a single reference location. In the case of angle reference, there must be a single angle reference bus for the entire system (unless the system has multiple islands, in which case each island would have an angle reference bus). As also explained in the BPM for Market Operations, the selection of the angle reference bus does not affect the LMPs that result from the clearing of the CAISO Market. The distributed Reference Bus will be used to define the Energy and losses components of LMPs. The total LMP will be the same for any choice of Reference Bus selected but the losses and congestion components will vary based on the location relative to the Reference Bus. Computing the LMP components based on a distributed Reference Bus reflects adjustments that are spread throughout the network, which is similar to the use of a slack reference bus in system Power balance. As is the case when a distributed slack variable is used for maintaining system power balance, the results of LMP disaggregation are

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<sup>85</sup> CMUA at 11-12; NCPA at 12-13; Six Cities at 16.

<sup>86</sup> CAISO Tariff §§ 27.1.1.1 and 27.1.1.2.

independent of the choice of angle reference bus because the reference variable is distributed throughout the system. The distributed Reference Bus will be based on constituent PNodes that are weighted in prespecified proportions referred to as Reference Bus distribution factors. The CAISO is currently conducting testing to determine exactly what inputs it will use to initially determine the distributed Reference Bus – *i.e.* load, generation or designated weights. When this determination is made, it will be reflected in the BPM for Market Operations, and any changes to the distributed Reference Bus will be subject to the BPM change management process. At such time the CAISO will also evaluate whether additional detail should be included in the tariff based on the information it has obtained from its testing.

Powerex raises several issues concerning LMP calculations. The CAISO agrees with two of the suggestions made by Powerex. Specifically, the CAISO agrees that the word “one” should be removed from the last paragraph of Section F in Appendix C.<sup>87</sup> The CAISO also agrees to revise the term “whose physical location is unknown” in Section G of Appendix C to read “whose physical location may be unknown.”<sup>88</sup>

Powerex also contends that the first sentence of Section G in Appendix C should be modified to reflect the fact that, although in some cases Scheduling Points can be external to the CAISO Control Area, this is but one possibility. The second sentence of Section G states a “Scheduling Point *typically* is physically located at an ‘outside’ boundary of the CAISO Controlled Grid.” Thus, this section already contemplates that a Scheduling Point is not necessarily located outside the CAISO Control Area, and no further change is necessary.

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<sup>87</sup> See Powerex at 3-4.

<sup>88</sup> See *id.* at 5.

Powerex also argues that Section G of Appendix C appears to give the CAISO discretion to determine how to place injections and withdrawals, although the exercise of this discretion seems unclear and inconsistent with how the CAISO is to account for Embedded Control Areas and Adjacent Control Areas when preparing the FNM, as set forth in MRTU Tariff Section 27.5.3. Powerex maintains that the CAISO should clarify how it proposes to place injections and withdrawals for Embedded Control Areas and Adjacent Control Areas, including the standards that would govern its decisions, the frequency of those actions, and information provided to Market Participants.<sup>89</sup> The CAISO disagrees that Appendix G is somehow inconsistent with Section 27.5.3, although the CAISO's accounting for ECAs and ACAs will depend in part on the CAISO's discussions with each ECA or ACA when it is established. This will be addressed in the CAISO's ECA/ACA model, and will be a matter of discussion whenever the CAISO establishes an ACA or ECA. Currently, the CAISO is working to establish ECA/ACAs with SMUD and the Turlock Irrigation District, and the CAISO plans to provide stakeholders with the opportunity to comment on this process. Powerex asserts that it is unclear why the CAISO, in the last two sentences of Section G of Appendix C, makes a particular distinction regarding constraints at Interties. Powerex contends that the CAISO should clarify how it evaluates constraints at the Interties, including with respect to any potential downstream transmission paths within the CAISO Control Area.<sup>90</sup> The full description of how the CAISO evaluates constraints at the Interties for its DAM and RTM is fully described in Section 3.1.4 of the BPM for Full Network Model. In the IFM and RTM all the schedules on each intertie are optimized together to compete for

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<sup>89</sup> *Id.* at 5-6.

<sup>90</sup> *Id.* at 7.

capacity subject to its Operating Transfer Capability limit. On such interties unscheduled flow is managed by enforcing both flow limits and scheduling limits on the interties.

Management of scheduled limits at the interties has no effect on downstream paths.

Powerex also argues that the first sentence of Section A of Appendix C appears to conflate the components of the LMP calculation and the resulting Day-Ahead Schedule and proposes that to reduce potential ambiguity, the CAISO should remove specified language from that sentence.<sup>91</sup> Powerex specifically requests the removal of the italicized phrase in the following sentence “In each hour of the Day-Ahead Market for Energy, the CAISO calculates the LMP for each PNode, which is equal to the marginal cost of Energy available at the PNode in the hour, based on the Bids of sellers and buyers selected in the Day-Ahead Market for Energy *and specified in the Day-Ahead Schedule.*” This italicized phrase was intended to indicate that LMPs are based on the Bids of sellers and buyers that are selected in the DAM as specified in the specific Day-Ahead Schedule, which lists all cleared Bids. The CAISO commits to clarify this sentence by replacing the italicized words with “as specified in the Day-Ahead Schedule.” The CAISO also notes that this section should be clarified to indicate that the marginal prices are limited by resources that are not eligible to set the price or have constraints such that they cannot be marginal and therefore it is not the case that the highest price resource bid in at a particular node would set the price. The CAISO commits to make this clarification in a compliance filing.

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<sup>91</sup> Powerex at 3-4.

**b. Market Participant and Consultant Access to CRR Full Network Model**

The CPUC requests that the Commission require the CAISO to clarify its proposed CRR Full Network Model (“FNM”) tariff language to ensure that government entities, including but not limited to the CPUC, will have access to the FNMs used to operate the grid and calculate CRRs under MRTU.<sup>92</sup> The CAISO appreciates the CPUC’s concern, and in response agrees to modify the phrase “legitimate business interest” in Section 6.5.1.4(d) to read “legitimate business *or governmental* interest.”

PG&E argues that it is inappropriate for the CAISO to submit tariff language in the August 3 filing that assumes its request for clarification of the June 25 Order concerning distribution of the CRR FNM has already been accepted.<sup>93</sup> PG&E contends that the Commission should direct the CAISO to file appropriate tariff language regarding the security check process as set forth in the June 25 Order. The Commission should decline to grant PG&E’s request. The Commission’s decision and directives in the June 25 Order concerning access to the CRR FNM were premised on the CAISO’s original proposal to require a security check process to be conducted by the Investor-Owned Utilities (“IOUs”) prior to distributing the CRR FNM to interested parties. In other words, the CAISO reads the June 25 Order as a conditional directive. That is, if the CAISO is to require security checks for access to the CRR FNM, then the CAISO, not the IOUs must conduct the security checks. As explained in the CAISO’s request for clarification of the June 25 Order, and the filing letter accompanying the August 3 Filing, the CAISO’s reasoning for requiring a security check was solely for the purpose of accommodating the confidentiality and security concerns of the IOUs not because the

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<sup>92</sup> CPUC at 5-6.

<sup>93</sup> PG&E at 2.

CAISO believed that security checks should be required. Thus, when the Commission, in the June 25 Order, concluded that the IOUs would not be permitted to conduct the security checks, the underlying rationale for the CAISO requiring a security check in the first place was rendered moot. Therefore, the CAISO's preferable course of action is to eliminate the security check process entirely. Accordingly, the CAISO filed alternative language regarding access to the CRR FNM in the August 3 Filing.

There is nothing in the CAISO's proposal, as contained in the August 3 Filing, that is inconsistent with the June 25 Order. The Commission did not state or in any way suggest that a security check was a necessary pre-requisite to obtaining the CRR FNM. Therefore, the CAISO's proposal to remove the security check requirement from the CRR FNM tariff language in the August 3 Filing is not in conflict with the June 25 Order. Moreover, the CAISO has continued to refer requests for the CRR FNM to the IOUs so that they can conduct their own security check pending the Commission's order on the CAISO's request for clarification, while making the CRR FNM available to the broader group of qualified entities.

CMUA and NCPA state that they have not been able to locate on the CAISO's website a revised NDA incorporating the MRTU Tariff provisions relating to access to the CRR FNM contained in the August 3 filing.<sup>94</sup> The CAISO will post a new NDA that incorporates the revised procedures for CRR FNM access no less than two weeks prior to the release of the next version of the CRR FNM in October 2007. In its comments, SMUD states that it supports new MRTU Tariff Sections 6.5.1.4 and 6.5.1.5, but disagrees with the CAISO's general request under MRTU Tariff Section 35.3 for waiver of FERC's rules to permit its entire filing – including Sections 6.5.1.4 and 6.5.1.5 – to go

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<sup>94</sup> CMUA at 12; NCPA at 20.

into effect when MRTU is implemented. Instead, SMUD asserts that Sections 6.5.1.4 and 6.5.1.5 should be implemented without delay, along with other CRR-related tariff changes.<sup>95</sup> In the interest of administrative efficiency, the CAISO would prefer to limit requests for early effectiveness of tariff sections to those that impose requirements on Market Participants. Even if these sections are not implemented prior to MRTU startup, SMUD and other Market Participants will still have access to the CRR FNM, as they have to date, access to the CRR FNM.. As noted above, the CAISO is already making the CRR FNM available to qualified market participants consistent with the June 25 Order notwithstanding the fact that the CAISO has not, to date, sought early effectiveness of these tariff sections.

WPTF states that, although not mentioned in its transmittal letter, the CAISO appears to be making substantial changes to its policy in Section 27.5.1 regarding the representation of external control areas in its FNM. WPTF argues that the CAISO should be directed to include language in this section that obligates the CAISO to: (a) provide at least 30 days notice of any modeling changes incorporated into the FNM that are not required for emergency purposes; (b) when changes are made to the FNM, hold a workshop or other stakeholder meeting in which it describes the changes in detail and offers stakeholders an opportunity to ask clarifying questions; (c) capture qualitatively in its BPM for Managing the Full Network Model the approach used to represent each Adjacent Control Area that is not modeled as a radial interconnection; and (d) provide under its confidentiality arrangements updated technical network model representations.<sup>96</sup>

The CAISO notes that WPTF's comments relate to the FNM used to operate the

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<sup>95</sup> SMUD at 3-5.  
<sup>96</sup> WPTF at 11-12.

CAISO's markets, and have nothing to do with access to the CRR FNM. The full FNM, which uses instantaneous real-time information to produce the State Estimator solution that is used to operate the grid and run the markets is a much more dynamic product than the CRR FNM, and must be continually updated in order that the MRTU markets operate correctly. The CAISO does not make the full FNM available to Market Participants, and should not be compelled to conduct a stakeholder process in order to update the full FNM. Requiring the CAISO to do so would seriously impair the efficient functioning of the CAISO markets because of the frequent updating that the FNM requires, even under non-emergency conditions. Such updates often cannot be anticipated far in advance of being required, and certainly not with 30 days lead time, as WPTF requests. WPTF's suggestions should be rejected. Nevertheless, the CAISO agrees to provide Market Participants with more high-level information concerning how the CAISO models external control areas.

## **2. Day-Ahead Market**

WPTF contends that the sentence added to Section 31.3.1.1 in the August 3 Filing is not explained and concerns Real-Time Market ("RTM") requirements, and therefore should be moved to another part of the MRTU Tariff.<sup>97</sup> The CAISO disagrees that this sentence should be moved. The new language underscores the fact that units are committed in the Day-Ahead Market ("DAM") and have to be prepared to start-up and meet that commitment in Real-Time. While the commitment is to be ready to deliver energy consistent with the Day-Ahead Schedule in Real-Time (and that amount or even the commitment could change in Real-Time subject to the Real-Time Dispatch), the

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<sup>97</sup> WPTF at 14.

resources are committed in the Day-Ahead Schedule, and not in Real-Time, and there is no separate Start-up instruction. Therefore, this language is appropriately included in the sections of the MRTU Tariff relating to the DAM.

### **3. Residual Unit Commitment Process**

Although SCE agrees that the CAISO needs the ability to designate RUC Zones, SCE states that at the very least, prior to activating any new RUC Zone, the CAISO should be required to notify market participants and FERC and perform a comprehensive market power analysis to determine if additional mitigation is needed given conditions within the RUC Zone.<sup>98</sup> SCE also contends that any RUC Zone proposed by the CAISO should be reviewed by its DMM to determine if there is the potential for market power within the zone. SCE's request reflects a misunderstanding of the role of RUC Zones in the CAISO's procurement of RUC Capacity in its markets. As explained in the August 3 Filing,<sup>99</sup> and as also reflected in the BPM for Market Operations and in Section 31.5.3.7.2 of the Tariff, RUC Zones are designated areas representing a collection of Pricing Nodes for which the CAISO has developed sufficient historical CAISO Demand and relevant weather data to perform a forecast demand. The CAISO does not procure RUC Capacity based on RUC Zones, but rather uses these defined regions to adjust the CAISO Forecast of CAISO Demand ("CFCD") on a local area basis so that the overall CFCD is improved as a result of its adjustment of the forecast in a given RUC Zone. The CFCD is the basis for the RUC procurement target, which is the adjusted CFCD distributed nodally over the FNM. The use of RUC Zones to refine the RUC procurement target based on issues identified in given RUC Zones enhances the CAISO's ability to procure RUC more

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<sup>98</sup> SCE at 2-3.

<sup>99</sup> August 3 Filing, Transmittal Letter at 46-47.

economically. Once the initial RUC procurement target is calculated for each RUC zone, adjustments to these load forecast quantities may be made, on a RUC Zone basis, for the specific reasons described in Sections 31.5.3.2 through 31.5.3.6 of the MRTU Tariff.<sup>100</sup>

The CAISO does not believe that a market power analysis should be a necessary prerequisite in order to define new RUC Zones. The Commission has already found that no market power mitigation, beyond the RUC Availability Bid cap, is necessary for RUC.<sup>101</sup> The CAISO does not believe that its further definition of the CAISO's ability to adjust RUC procurement target based on a forecast adjustment of a more granular nature changes the Commission's prior findings on the lack of need for further market power mitigation in RUC. The CAISO fails to see how the further definition of the RUC Zones provides additional opportunity to exercise market power. In the first instance, in any constrained area, any resource adequacy resource will be required to bid in their RUC Capacity at a RUC Availability Bid of zero dollars per megawatt. Local Capacity Area requirements are set so that under a very high percentage of conditions there would be enough resource adequacy capacity to meet local RUC requirements. Therefore, there should be sufficient capacity to meet the RUC requirements without raising local market power concerns. Finally, while initially the CAISO had contemplated that there would be no maximum bid caps on startup and minimum load bids, the CAISO has now submitted a proposal for implementing startup and minimum load bid caps to prevent generators from submitting very high bid-based startup and minimum load bids under the bid-based option, which will limit such bids in a LCA to 200% of costs. These will sufficiently mitigate any local market power that may exist in any RUC local areas. Therefore, the

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<sup>100</sup> See MRTU Tariff Section 31.5.3.7.1.

<sup>101</sup> September 21 Order at P 137.

CAISO fails to see what additional beneficial measures any study of market power in newly defined RUC Zones would provide.

SCE also argues that although the CAISO must have the ability to forecast Demand in order to create a RUC Zone, the tariff has no mitigation measures that would prevent the CAISO from excessively committing RUC units as a result of an artificially high load forecast within the RUC Zones. SCE therefore requests that the Commission not permit the CAISO to RUC units in a specific area “unless and until the CAISO can demonstrate that it can accurately forecast load in that area.”<sup>102</sup> SCE’s concern with respecting to load forecasting again reflects a misunderstanding of the use of RUC Zones. Unduly high load forecasts, and the resulting overprocurement of RUC, can occur regardless of whether the CAISO uses RUC Zones. Under MRTU, the CAISO will not be committing specific units in specific areas through RUC, but rather as discussed above, the CAISO commitment of resources through RUC will be made on a system-wide basis. With respect to forecasting errors, the CAISO will observe load forecasting trends and will act accordingly to correct any such errors, and will make any modifications necessary to the RUC Zones as a result. Also, it should be recognized that the CAISO’s list of RUC Zones will be based on its ability to forecast in specific regions in the first place.<sup>103</sup> For all of these reasons, SCE’s concerns are misplaced, and the Commission should not require any additional limitations on the CAISO’s ability to define RUC Zones.

SCE also maintains that the CAISO does not propose any changes in RUC cost allocation even if commitments are done for very small or specific areas. SCE argues

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<sup>102</sup> *Id.* at 4.

<sup>103</sup> As of MRTU Day 1, the only RUC Zones that the CAISO will use are those based on the Utility Distribution Company (“UDC”) service territories.

that if it has no ability to mitigate the necessity for RUC in a particular area, it is inequitable for SCE customers to bear that cost.<sup>104</sup> SCE's argument is flawed for several reasons. First, the fact that an LSE such as SCE does not schedule load in a local area does not mean that the CAISO will not necessarily procure RUC for that area. Nevertheless, because of the manner in which RUC costs are allocated, if LSEs such as SCE fully schedule their load, they will not be liable for tier 1 RUC Uplift costs. With respect to tier 2 RUC Uplift costs, because these costs are not attributable to any particular entities or specific locational needs, but rather benefit the grid as a whole, it is reasonable that all Market Participant bear a share of these costs.

Moreover, any allocation of RUC costs on at a RUC Zonal level as implied by SCE's comments would require the adoption of sophisticated, complicated and therefore costly settlements design changes for which the CAISO does not believe there are any added benefits since parties may already mitigate their exposure to RUC uplift costs by scheduling in the Day-Ahead Market. In addition, there is no guarantee that any more granular allocation of such costs would result in achieving SCE's suggested goal of allocating the costs to entities that cause any additional procurement since as explained above RUC is not procured at the RUC Zone level.

SCE contends that some of the proposed language on RUC Zones is overly vague and ambiguous, and should be modified to indicate exactly what the CAISO intends, and to provide necessary certainty to market participants. SCE points to the proposed language that allows the CAISO to form a RUC Zone based on "any other collection of Nodes" and states that the CAISO has failed to define what constitutes "sufficient"

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<sup>104</sup> SCE at 4.

demand and weather data.<sup>105</sup> Consistent with the rule of reason, the CAISO has included sufficient implementing language in the tariff. The CAISO believes that this requirement in the tariff is sufficiently clear to provide the basis for developing any RUC Zone, that is, its ability to actually forecast and the availability of adequate data at that level. Further details on the process for developing RUC Zones will be contained in the BPM. The CAISO also proposes to include the actual RUC Zones it will utilize in any given time in its BPM, which will be subject to the BPM change management process in the event any such zones are to change. To this end the CAISO proposes to also amend the last sentence of Section 31.5.3.7.2 as follows: “The actual RUC Zones used by the CAISO in its operation of RUC are listed in the Business Practice Manual.”

WPTF argues that the meaning of “pooling” in Section 31.5.3.7.1 is unclear. WPTF contends that the CAISO should be directed to clearly describe the concept of pooling costs in the context of RUC Compensation and to provide any other details that may be required to understand how RUC Compensation Costs are calculated.<sup>106</sup> The term “pooling” as used in Section 31.5.3.7.1 merely refers to the fact that the costs of RUC procurement are allocated on a system-wide, rather than zonal basis. The CAISO included this language to demonstrate that there is not zonal allocation of RUC Compensation Costs. No further clarification in the tariff is necessary. WPTF states that the additional sentence in Section 31.5.1.1 has no practical impact because there is nothing a Scheduling Coordinator can do after the IFM to participate in RUC if its unit is not committed in the IFM. WPTF states that all RUC-related bids or proxy bids are submitted before IFM is run and therefore to avoid confusion, the CAISO should be

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<sup>105</sup> SCE at 4-5.  
<sup>106</sup> WPTF at 15.

directed to remove this sentence.<sup>107</sup> The CAISO is not certain exactly what WPTF's issue with the addition of the sentence that specifies that RUC participation of Resource Adequacy Capacity is required to the extent that it is not committed in the IFM. This sentence was added to clarify that only to the extent Resource Adequacy Capacity is not committed in the IFM will that capacity be required to participate in the RUC process. The CAISO believes this is an accurate statement and was added to satisfy requests by participants that this be explicit in the tariff. WPTF also notes that the CAISO has added the following sentence to Section 31.5.3.7.1, "As described in Section 11.8.3, Settlement of RUC Compensation Costs will not be on a RUC Zone basis." WPTF asserts that Section 11.8.3 does not support this sentence and that if this sentence simply repeats other settlement provisions, then the CAISO should delete it. WPTF asserts that if this sentence is supposed to provide further clarification, then the CAISO should either explain the point of this statement in Section 31.5.3.7.2 or explain which subsection of 11.8.3 it is referencing.<sup>108</sup> The CAISO added this sentence to reflect its practice discussed above to settle RUC Compensation Costs across the Control Area and not by RUC Zone. The CAISO agrees to modify that sentence as follows: "As described in Sections 11.8.6.1, Settlement of RUC Compensation Costs will not be on a RUC Zone basis." The CAISO notes Section 11.8.6.1 specifies that "The RUC Bid Cost Uplift shall be the net of the RUC Bid Cost Shortfalls and RUC Bid Cost Surpluses for a Settlement Interval of *all* Bid Cost Recovery Eligible Resources with Unrecovered Bid Cost Uplift." (emphasis added). The CAISO proposes that this concept be further clarified by adding

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<sup>107</sup> WPTF at 15.

<sup>108</sup> *Id.*

the phrase “in the CAISO Control Area” after “all Bid Cost Recovery Eligible Resources” in that section, and agrees to make this change in a compliance filing.

WPTF protests that the use of the term “static” in Section 31.5.3.7.2 is ambiguous and unnecessary, especially since the specific purpose of this section is to discuss how RUC Zones are designated and changed. The CAISO should be directed to revise this sentence to read, “The mapping of RUC Zones to Nodes shall be maintained in the Master File.”<sup>109</sup> The CAISO believes the term static is necessary to include the concept that once the RUC Zones are established as listed in the BPM, the mapping of the RUC Zones to Nodes will not change and will be maintained in the Master File. Rather than remove that concept, the CAISO agrees to clarify that sentence as follows: “The CAISO shall define RUC Zones as areas that represent UDC or MSS Service Areas, Local Capacity Areas, or any other collection of Nodes. RUC Zones will be designated by the CAISO as necessary and to the extent that the CAISO has developed sufficient data on historical CAISO Demand and weather conditions to allow it to perform Demand Forecasts. Once the CAISO has established RUC Zones, the mapping of RUC Zones to Nodes shall be static data and shall be maintained in the Master File.”

#### **4. Metered Subsystems**

NCPA protests several of the CAISO’s proposals regarding the allocation of BCR costs to MSS entities. First, NCPA takes issue with the CAISO’s proposal to depart from the existing arrangement for allocating BCR costs to MSS Entities. NCPA suggests that the CAISO has done so because the current arrangement is inconsistent with MRTU’s methodology for determining the Unrecovered Bid Cost Uplift Payment under MRTU BCR, in part because Start-Up and Minimum Load Costs will be embedded within an

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<sup>109</sup> WPTF at 15.

aggregate three-part bid, and not separately stated. NCPA contends that the fact that the CAISO's MRTU software makes the segregation of these charge types more difficult "does not override the principle of cost causation or the CAISO's obligation to reasonably accommodate load-following entities, as embodied in the MSS Agreement."<sup>110</sup>

In the first instance, it is not clear to the CAISO what existing arrangement for allocating BCR costs to MSS Entities NCPA is referring to. The CAISO believes that NCPA refers to requirements in Section 4.9.14.3 of the current ISO Tariff, which NCPA appears to believe translates into a requirement under MRTU that MSS entities be exempt from BCR uplift in its entirety. Section 4.9.14.3 of the current ISO Tariff provides MSSs an option to pay their own Start-Up and Minimum Load costs and if so to be subject to uplift associated with these requirements for the whole system on a net MSS Demand basis. While the BCR uplift under MRTU includes the costs for compensating resources for Start-Up and Minimum Load costs committed by the CAISO markets, BCR under MRTU is substantially different than compensation for Start-Up and Minimum Load under the current market. NCPA has failed to demonstrate how Section 4.9.14.3 in the current tariff is tantamount to an opt-out from the BCR uplift in MRTU.

In developing the BCR rules under MRTU, the CAISO has followed cost causation principles to the greatest extent possible. These principles of cost causation are embedded in the CAISO's design and afford MSS entities an opportunity to use their resources efficiently without imposing costs to the rest of the system which they themselves would be exempt.

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<sup>110</sup> NCPA at 3-6.

First, while NCPA complains that the explicit election of opt-in or opt-out of BCR is no longer available to them under MRTU, such flexibility is actually embedded within the design of the Integrated Forward Market (“IFM”) tier 1 uplift allocation. The IFM tier 1 uplift allocation is based on the portion of the IFM scheduled Demand in excess of the total of IFM self-scheduled generation and IFM scheduled imports. If an MSS entity, such as NCPA, has its scheduled Demand fully met by its self-scheduled generation and scheduled imports, the MSS entity will not be allocated IFM tier 1 uplift charges. Only the portion of MSS Demand served by bid-in generation that will receive BCR will also be allocated IFM tier 1 uplift costs. This allocation methodology is consistent cost causation principles as any self-scheduled Supply will not receive Bid Cost Recovery and the MSS demand that is served by this Self-Scheduled supply will not be allocated. This flexibility is afforded to all Scheduling Coordinators and eliminates the need to treat MSS entities differently from other market participants by providing an opt-in/opt-out option for IFM tier 1 BCR allocations.

NCPA also protests the CAISO’s proposal to allocate IFM tier 2 Bid Cost Uplift costs in a “socialized” fashion. NCPA contends that this proposal fails to recognize that a Load-following MSS operates on an integrated, aggregate portfolio basis that is not limited to MSS internal generation, and that allocating tier 2 IFM Bid Cost Uplift costs to a Load-following MSS is not consistent with the basic purpose of establishing a Load-following entity in the first place.<sup>111</sup> While MSSs should not be penalized for following its Load by paying for service it does not receive from the CAISO Grid, MSSs should not be exempt from costs associated with their ability to use a CAISO controlled grid that is operated reliably. The two tiered allocation of IFM uplift will first allocated IFM Uplift

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<sup>111</sup> *Id.* at 6-9.

costs to entities that do not schedule sufficient generation and are therefore taking Energy from the market. What remains for the second tier, however, are those uplift costs associated with CAISO actions such as committing generating resources to resolve congestion and ensure the reliability of the entire CAISO Grid which benefit all users of the CAISO Controlled Grid. Moreover, because the costs associated within the tier 2 uplift are incurred on system-wide basis, these costs cannot be clearly attributed to any particular entity or entities' behavior. Therefore, allocation of such costs to all users of the grid on a system-wide basis is appropriate and necessary.

NCPA argues that the proposal for allocating BCR uplift costs associated with the RTM to Load-following MSSs based on net Measured Demand fails to recognize the unique characteristics of a Load-following MSS, and effectively seeks to allocate to a Load-following MSS such as NCPA a share of charges that the MSS arrangement is specifically structured to avoid.<sup>112</sup> Because under MRTU Release 1 RTM Bid Cost Uplifts will be allocated on a single tiered basis, the CAISO has agreed to allocate the RTM Uplift to Load-following MSSs on the basis of Net Negative Uninstructed Deviation with Load-following Energy including in the netting. However, should the CAISO in the future be able to develop a two-tier methodology for allocating for RTM Uplifts, the CAISO shall treat Load-following MSSs under this methodology in the same manner as with the IFM Uplift for the same reasons the CAISO has explained above it is necessary to allocated such costs to all users of the grid.

NCPA also contends that several of the new definitions proposed by the CAISO concerning MSSs require clarification. First, with regard to the definition of MSS Aggregation Net Measured Demand, NCPA argues that it is unclear whether the term

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<sup>112</sup> *Id.* at 9-10.

“CAISO Demand” in the definition refers to gross or net Demand. NCPA submits that Gross Demand is the appropriate reference, and that the definition should state that Net Metered CAISO Demand of an MSS is defined as “the algebraic difference between the *gross* CAISO Demand and Generation internal to the MSS.”<sup>113</sup> The CAISO believes that its proposed definition for Net Metered CAISO Demand of an MSS is clear as the term CAISO Demand already implies that it is gross CAISO Demand. The CAISO however does not object to the inclusion of the term “*gross*” in the definition.

Second, NCPA argues that the term “MSS Deviation Band” should be defined as “equal to three percent (3%) of an MSS Operator’s *gross* metered Demand in the MSS and exports from the MSS.”<sup>114</sup> Again, the CAISO does not believe that the term “*gross*” needs to be added to this definition as the term metered Demand already implies that it is gross metered Demand. The CAISO however does not object to the inclusion of the term “*gross*” in this definition.

NCPA notes that the CAISO changed the treatment of Load-following Energy, now classifying it as a form of Instructed Imbalance Energy, and contends that this change creates an unintended consequence because it causes the calculation of portfolio imbalance energy for a load-following MSS to be done incorrectly. NCPA states that the CAISO has recognized this problem with respect to one settlements calculation in the August 3 Filing and incorporated a fix in MRTU Tariff Section 11.7.4. NCPA proposes that the CAISO include, in Appendix A to the MRTU Tariff, a separate definition for Net Negative Uninstructed Deviation for a Load-following MSS that is similar to the Section

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<sup>113</sup> NCPA at 10-11.

<sup>114</sup> *Id.* at 11.

11.7.4 fix.<sup>115</sup> The CAISO does not believe that such a definition is necessary as section 11.7.4 already specifies that the MSS's NNUD includes Load Following Energy included in the netting and the concept is not used frequently elsewhere in the tariff. However, the CAISO does not object to creating a new definition for MSS NNUD as characterized in Section 11.7.4.

## **5. Demand Response and Participating Load**

SWP proposes modifications to the definitions of Participating Load and Aggregated Participating Load to clarify that (1) Aggregated Participating Load is in fact still Participating Load for purposes of the numerous tariff provisions that reference only Participating Load and (2) Aggregated Participating Load treatment is available to more than one Pumping Load unit at the same location.<sup>116</sup> These proposed changes are consistent with the CAISO's proposal to schedule and settle Aggregated Participating Load at a Custom Load Aggregation Point. Therefore, the CAISO would have no objection to making this modification.

SWP proposes changes to Sections 11.2.1.3, 30.5.3.1, and 30.5.3.2 to make clear that Aggregated Participating Load, whether or not offering Curtailable Demand in any given hour, will be settled using the Custom Load Aggregation Points applicable to that Aggregated Participating Load.<sup>117</sup> The CAISO does not object to this modification.

SWP suggests modifications to Section 30.5.2.6.3 to clarify the rules concerning Supply bids for Participating Loads.<sup>118</sup> The CAISO would not object to making this change.

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<sup>115</sup> *Id.* at 11-12.

<sup>116</sup> SWP at 6-8.

<sup>117</sup> *Id.* at 8-11.

<sup>118</sup> *Id.* at 11-12.

SWP proposes changes to Section 30.5.2.3 to clarify the differing requirements applicable to ordinary Participating Load, Aggregated Participating Load, and Pumping Load associated with pump storage hydro.<sup>119</sup> The CAISO does not object to making this change.

SWP proposes modifications to the definitions of Minimum Load and Minimum Load Costs to align those defined terms with how they are used in Section 30.13.<sup>120</sup> The CAISO would not object to making this change.

SWP suggests that the CAISO amend Section 11.8.6.5.3 to expressly state that Aggregated Participating Load is not subject to Tier 1 RUC costs.<sup>121</sup> This change is unnecessary. As described above, the CAISO has no objection to revising the definition of Participating Load to state that the definition includes Aggregated Participating Load. Therefore, since Section 11.8.6.5.3 already states that Participating Load is not subject to Tier 1 RUC costs, it is clearly the case that Aggregated Participating Load is not subject to Tier 1 RUC costs either.

SWP asserts that Participating Load, which is settled nodally or at Custom Load Aggregation Points, should not be charged or paid costs associated with LAP neutrality, and SWP suggests changes to Section 11.5.2.3 to reflect this.<sup>122</sup> SWP ignores the fact that in the August 3 Filing the CAISO did propose any new revisions to Section 11.5.2.3. Therefore, SWP's suggested changes are outside the scope of that filing and should be rejected.

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<sup>119</sup> *Id.* at 12.

<sup>120</sup> *Id.* at 12-13.

<sup>121</sup> *Id.* at 13-14.

<sup>122</sup> *Id.* at 14-15.

WPTF argues that the CAISO should be directed to explain in the MRTU Tariff how it will create Load Distribution Factors for Aggregated Participating Loads.<sup>123</sup> There is no need to provide such an explanation. Section 27.5.5 states that “[t]he Load Distribution Factor[s] are also maintained for use for Demand scheduled at Custom LAPs. These custom Load Distribution Factors are not generated from the State Estimator and are fixed quantities representing the characteristics of the Custom LAP.” Because, as explained above, the CAISO proposes to schedule and settle Aggregated Participating Load at a Custom Load Aggregation Point, Section 27.5.5 already states how the CAISO will create Load Distribution Factors for Aggregated Participating Loads.

## **6. Congestion Revenue Rights**

As a general matter, the CAISO reiterates that in its August 3, 2007 filing the only changes that were made to the MRTU Tariff with regards to CRRs rules were the changes that were previously filed and approved in its March 9, 2007 and May 7, 2007 filings. In addition, the CAISO included changes that were filed on July 20, 2007, which are still pending in this proceeding, but for which the comment period has terminated. The Commission should resolve issues related to the filed CRR rules in those proceedings and according to the procedural schedules set therein.

As IID notes, it “again protests” the CAISO’s supply source verification requirement for external LSEs, which IID has already protested on August 10 in response to the CAISO’s July 20 compliance filing. In its answer to IID’s August 10 protest, the CAISO explained that IID’s arguments are focused entirely on the source verification requirements approved in the July 6 Order, and that the tariff provisions of which IID

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<sup>123</sup> WPTF at 13.

complains are in compliance with Commission determinations in the July 6 Order. Consequently, IID's arguments are better addressed as rehearing requests of the July 6 Order.<sup>124</sup> The same is true of the arguments that IID repeats in the instant proceeding. Therefore, the Commission should address those same arguments in its order on the request for rehearing of the July 6 Order that IID filed on August 6, in which IID raised its CRR supply source verification issue.

IID states that the Commission should require the CAISO to clarify why it will not allow both internal and external LSEs to nominate trading hubs in the Priority Nomination Process ("PNP") post CRR Year One.<sup>125</sup> The CAISO provided the explanation that IID requests in its May 7 MRTU Tariff amendment filing. The CAISO explained as follows:

In the Tier LT process for CRR Year Two and beyond, the principle that only the CRRs awarded in Tiers 1 and 2 can be nominated in Tier LT is restored. In other words, in the Priority Nomination Process ("PNP") that takes place each year after CRR Year One, LSEs can nominate only CRRs they were awarded in the previous year's annual allocation process. *Since the allocated or awarded CRRs are Point-to-Point CRRs (not Trading Hub CRRs), LSEs are not able to submit CRR nominations with sources at Trading Hubs in the PNP.* However, LSEs would be able to make new Trading Hub nominations in tiers 2 and 3 of the annual allocation process and tiers 1 and 2 of the monthly allocation process for CRR Year Two and beyond, because these are free choice tiers and are not limited to previous CRR awards.<sup>126</sup>

The Commission did not discuss this explanation in the July 6 Order. Therefore, not only did the CAISO provide it, but it also appears to have been sufficient to the

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<sup>124</sup> CAISO Answer, Docket Nos. ER07-869-000, *et al.*, at 26-27 (Aug. 27, 2007).

<sup>125</sup> IID at 7.

<sup>126</sup> MRTU Tariff Amendment Filing, Docket Nos. ER07-475-000, *et al.* (May 7, 2007), Transmittal Letter at 9 (emphasis added).

Commission in approving the CAISO proposal. For these reasons, the Commission should disregard IID's request in the instant proceeding.

PG&E notes that in its proposed changes to Section 36.7.2 the CAISO proposes to delete a sentence that requires the CAISO's Secondary Registration System to automatically post on the CAISO Website the bilateral CRR transactions entered into by Market Participants. However, PG&E argues that the better approach, and the one more consistent with the general guidance that has been provided to the CAISO, is to post the bilateral transactions.<sup>127</sup> The CAISO proposed the deletion of this sentence from Section 36.7.2 in its May 7 MRTU Tariff amendment filing.<sup>128</sup> In the July 6 Order, the Commission did not reject or require modifications to the proposed change, and therefore it was accepted as filed.<sup>129</sup> Further, PG&E failed to raise any issue concerning Section 36.7.2 in its August 2 request for rehearing of the July 6 Order. Therefore, PG&E's request that the CAISO restore the deleted sentence in Section 36.7.2 should be rejected as a collateral attack on the July 6 Order.

PGE also raises the concern that in order for CRRs to be treated properly, it is essential that the source and sink nodes that the CAISO uses in connection with CRRs be up to date. Therefore, PG&E proposes to add language to Sections 36.8.2 to require that the list of allowable CRR Sinks referenced in that section be consistent with the current full network model. Similarly, PG&E proposes to add language to Sections 36.8.3.4.1 to require that the list of allowable CRR Sources referenced in that section be consistent

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<sup>127</sup> PG&E at 8-9.

<sup>128</sup> MRTU Tariff Amendment Filing, Docket Nos. ER07-475-000, *et al.* (May 7, 2007), at Attachment C (modifications to Section 36.7.2).

<sup>129</sup> *See* July 6 Order at Ordering Paragraph (A).

with the current full network model.<sup>130</sup> The CAISO agrees with this principle as it is the practice it follows and is not opposed to including clarified language in the tariff with regards to this issue.

## **7. Transmission Ownership Rights and Existing Transmission Contracts**

IID argues that the CAISO must provide further details on proposed Section 17.3.3, specifically as to how and at what price the CAISO will settle losses when there is a bilateral agreement between the CAISO and the TOR holder, particularly if there is a fixed transmission loss percentage indicated in the agreement. IID at 8. IID is referring to the CAISO's proposed revisions to Section 17.3.3(2). No further changes to this section are required. In the June 25 Order, the Commission stated that it agreed with MWD that Section 17.3.3(2) should be further modified to reflect the CAISO's commitment to honor loss provisions in bilateral agreements concerning TORs.<sup>131</sup> To comply with this directive, the CAISO modified Section 17.3.3(2) to largely track MWD's proposed language while providing even more detail than MWD had proposed.<sup>132</sup>

Moreover, the introduction of Section 17 already specifies that where there is a bilateral agreement between the CAISO and a TOR holder the provisions of the agreement will govern. Consequently, if the terms of the agreement specify the manner

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<sup>130</sup> PG&E at 9.

<sup>131</sup> June 25 Order at P 314.

<sup>132</sup> Compare Protest and Comments of The Metropolitan Water District of Southern California on CAISO's MRTU Compliance Filing, Docket No. ER06-615-003 (Dec. 22, 2006), at Appendix (proposing that Section 17.3.3(2) be modified to include the phrase "provided, however, that if a specific loss percentage pursuant to any applicable agreement pertaining to the TOR is provided in the TRTC, the CAISO shall use the specified loss percentage in lieu of Marginal Cost of Losses"), with the relevant proposed changes in the CAISO's August 3 compliance filing (proposing that Section 17.3.3(2) be modified to include the phrase "provided, however, that if a specific loss percentage exists in applicable agreement between the TOR holder and the CAISO, the CAISO will apply the IFM and RTM Marginal Cost of Losses Credit as provided in Sections 11.2.1.7 and 11.5.7.2").

in which the CAISO will settle losses, including any fixed loss percentage specified in the agreement, the CAISO will be obligated by the agreement to settle losses in accordance with the terms of the agreement, and any terms the CAISO has set forth in the CAISO Tariff cannot supersede this obligation. Only if the agreement specifies that losses will be settled in accordance the term of the CAISO Tariff would the provisions of Section 17.3.3(2) be relevant, and they are fully sufficient for that purpose. Therefore, the Commission should find that the CAISO has already provided sufficient detail in the section.

PG&E argues that additional language should be added to Sections 16.6.4 and 17.3.4 to make it clear that the CAISO's automated validation notice of the validity or invalidity of a chain of ETC or TOR Self-Schedules will provide the information necessary for the Scheduling Coordinators to correct any invalid Self-Schedule. PG&E's proposed language is in Attachment A to its comments.<sup>133</sup>

The CAISO should not be required to add the additional language that PG&E suggests. In the June 25 Order, the Commission accepted the CAISO's commitment to revise Sections 16.6.4 and 17.3.4 as described in the CAISO's January 16 answer in the MRTU proceeding.<sup>134</sup> Accordingly, the CAISO revised these sections in accordance with the January 16 answer.<sup>135</sup> Therefore, there is no need to add PG&E's proposed language and the addition of that language would be outside the scope of the compliance requirements of the June 25 Order.

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<sup>133</sup> PG&E at 3.

<sup>134</sup> June 25 Order at P 256.

<sup>135</sup> Compare the August 3 compliance filing (Sections 16.6.4 and 17.3.4) with the January 16 answer at page 47. In the August 3 compliance filing, the CAISO added the phrase "as further described in the applicable Business Practice Manual" to the end of each of these sections, but did so to provide further clarification to the language in the January 16 answer.

However, if the Commission disagrees with the CAISO that PG&E's proposed language is outside the scope of a filing on compliance, the CAISO needs to emphasize that the CAISO would only be able to accommodate the portion of PG&E's requested revisions to Sections 16.6.4 and 17.3.4 that would require the CAISO to provide the reason that a chain of TOR or ETC Self-Schedules was determined to be invalid. With regard to PG&E's proposal that the CAISO provide the invalidation notice to Scheduling Coordinators other than those registered as associated with the chain of TOR or ETC Self-Schedules, the process of registration in association with a TOR or ETC is the only basis on which the CAISO would have the necessary information by which to make this notification. PG&E's request that the CAISO notify other Scheduling Coordinators that have not registered with the CAISO is unreasonable. In addition, regarding PG&E's proposed revision that the CAISO must specify in which Scheduling Coordinator's portfolio a TOR or ETC Self-Schedule failed to meet validation criteria for the Self-Schedule chain, because the cause of invalidation of a chain of ETC or TOR Self-Schedules is likely to involve more than one Scheduling Coordinator the CAISO will typically be unable to identify a particular Scheduling Coordinator as the cause of the invalidation -- and the CAISO will certainly not be able to automate that identification in order to provide the information on an expeditious basis. The CAISO submits that its process of providing automated notice of the invalidation of the chain of Self-Schedules available to all Scheduling Coordinators registered as associated with the chain is reasonable and fully sufficient to provide the relevant Scheduling Coordinators the information necessary to permit expeditious correction of the error in the submittal of the chain of Self-Schedules.

PG&E asserts that it is not clear that the proposed language added to Sections 16.9.1 and 33.3 makes clear that a change in schedule by an ETC will not affect the Settlement treatment otherwise applicable to the ETC covers all necessary circumstances. PG&E asserts that it is unclear, for example, whether demand can be scheduled in the HASP under these provisions.<sup>136</sup> The changes to Sections 16.9.1 and 33.3 were made to indicate that in the event of a schedule change after the close of the HASP, if the contract permits such change, the schedule will not be deemed to be unbalanced, as clearly stipulated in Section 33.3. In addition, Section 11.5.7 provides that the perfect hedge is afforded in the HASP and RTM based on the minimum of either the metered CAISO Demand, the ETC or TOR Self-Schedule submitted in the HASP, or the contract maximum as specified in the TRTC Instructions. This ensures that if the actual metered CAISO Demand is within the contractual rights, the perfect hedge will apply without the need to schedule demand in the RTM. The CAISO believes that the combination of Sections 11.5.7, 16.9.1, and 33.3 sufficiently address PG&E's concern and that no additional changes are required. The CAISO has previously addressed this issue in response to the same concern raised by SWP and notes that SWP has stipulated that it appreciates the clarification of these provisions.

SWP notes that the CAISO's proposed revisions to Sections 16.5.1 and 17.2.1 concerning the duty to honor ETCs and TORs provide that all Market Participants "must comply fully and promptly with CAISO Dispatch Instructions and operating orders, unless such operation would impair public health or safety." SWP would like to confirm that these provisions are in no way intended to restrict or impair the protections provided under Section 22.13 to ensure that water and environmental requirements will be

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<sup>136</sup> PG&E at 7.

observed, and that CAISO dispatch will not compromise such mandates.<sup>137</sup> The CAISO confirms that the revisions to Sections 16.5.1 and 17.2.1 were made with language expressly directed by the Commission and are in no way intended to restrict the application of the provisions of Section 22.13.

CCSF contends that the Commission should order replacement of the definition for “Applicable Reliability Criteria” with a more comprehensive definition that includes all relevant NERC/WECC standards as well as more stringent standards that the CAISO intends to apply, specifically because CCSF asserts that term is used in "Sections 16.2.1 and 17.2.1."<sup>138</sup> As there is no Section 16.2.1, and the term "Applicable Reliability Criteria" is not used in Section 16 at all, it is difficult to decipher the scope of CCSF's concerns. CCSF also states that the Commission should require the tariff language to include a public process to review the reliability criteria with stakeholders.<sup>139</sup> In the June 25 Order, the Commission directed the CAISO to define the term Applicable Reliability Criteria,<sup>140</sup> but the Commission did not direct the CAISO to include the adopted Reliability Standards in the MRTU Tariff. Further, CCSF is incorrect in asserting that “[t]he Definitions Supplement . . . has not changed.” The CAISO has modified the existing definition of Applicable Reliability Criteria to reference the new defined term Reliability Standards, which are those “requirement[s] approved by FERC under Section 215 of the Federal Power Act to provide for reliable operation of the bulk power system.” This definition of Reliability Standards tracks the definition of that term contained in Section 39.1 of the Commission’s regulations, 18 C.F.R. § 39.1. Since the definition is

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<sup>137</sup> SWP at 4-5.  
<sup>138</sup> CCSF at 1-2.  
<sup>139</sup> CCSF at 2-3.  
<sup>140</sup> June 25 Order at P 291.

sufficiently precise for the Commission's purposes it is also precise enough for the MRTU Tariff. It would, in any event, be impracticable to include the specific Reliability Standards in the MRTU Tariff as CCSF proposes, because those standards are extensive and are subject to change. In Order No. 693, the Commission approved (in some cases, subject to modifications) 83 of 107 Reliability Standards proposed by NERC in its capacity as the Commission-approved Electric Reliability Organization ("ERO"), and did not rule on 24 of the 107 proposed Reliability Standards.<sup>141</sup>

There is also no reason to grant CCSF's request that the Commission direct the CAISO to include any more stringent criteria the CAISO intends to apply in the MRTU Tariff and should provide a stakeholder review process for these criteria. The provisions of the MRTU Tariff and the Business Practice Manuals concerning such criteria have already been subject to a stakeholder review process and must be approved by the Commission. Therefore, no further action is required.

In conjunction with its concern about the definition of "Applicable Reliability Criteria," CCSF states that the Commission should order removal of Sections 16.2.1 [sic] and 17.2.1, apparently because of the use of the term "Applicable Reliability Criteria" within these sections.<sup>142</sup> First, as noted above, there is no Section 16.2.1. The CAISO presumes that CCSF is referring to Section 16.5.1, which incorporates similar provisions to Section 17.2.1. However, the term "Applicable Reliability Criteria" is not used in Section 16.5.1, so there doesn't appear to be any basis for a concern by CCSF regarding its use in this section. Moreover, as discussed above, the use of the term "Applicable

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<sup>141</sup> See *Mandatory Reliability Standards for the Bulk-Power System*, Order No. 693, 72 Fed. Reg. 16416-01 (Apr. 4, 2007), FERC Stats. & Regs., Regs. Preambles ¶ 31,242, at P 1 ("Order No. 693"), *order on reh'g*, Order No. 693-A, 120 FERC ¶ 61,053 (2007).

<sup>142</sup> CCSF at 2.

Reliability Criteria" in Section 17.2.1 is fully appropriate and consistent with the Commission's orders. Consequently, there is no basis for the removal of Section 17.2.1 or any other provision from the MRTU Tariff in response to CCSF's confused assertions.

CCSF further requests that the Commission reject the proposal to impose tariff emergency exemptions of Section 4.2.1 if the CAISO has entered into a bilateral agreement with Non-PTO Transmission Owners in the same manner in which agreements between the CAISO and adjacent Control Area Operators are honored.<sup>143</sup> The Commission should accept the proposed MRTU Tariff language as being in compliance with its directives. As the CAISO explained in the August 3 Filing, the Commission required the CAISO to clarify MRTU Tariff Sections 16.5.1 and 17.2.1 by incorporating provisions of MRTU Tariff section 4.2.1 that govern actions by *all* Market Participants during a System Emergency and made clear that, in the event of a conflict between the MRTU Tariff and a control area operating agreement, the agreement prevails.<sup>144</sup> Accordingly, the CAISO made the clarifications required by the Commission. CCSF's request represents an untimely collateral attack on the Commission's directive.

CCSF states that the Commission should order a correction to Section 17.1.4(5)(c) to remove the words "under the Existing Contract," because the physical capability of San Francisco's transmission system determines the maximum capacity that can be scheduled.<sup>145</sup> While this language has already been accepted by the Commission in its order on the CAISO's March 9, 2007 filing of provisions of Appendix BB to the currently-effective version of the CAISO Tariff, CCSF is correct that the phrase "under

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<sup>143</sup> CCSF at 3-4.

<sup>144</sup> August 3 compliance filing, Attachment C, at pages 6-7 and 21-22 (citing April 20 Order at PP 463-64 and June 25 Order at P 288)

<sup>145</sup> CCSF at 4.

the Existing Contract" is inappropriate in this provision relating to TORs. Consequently, the CAISO would be willing to make this change in a filing in compliance with a Commission order or in the comprehensive "clean-up" of the MRTU Tariff to be submitted prior to MRTU implementation. CCSF states that the Commission should order removal of the phrase "[w]hether or not the TOR provides the right to self-provide Ancillary Services" from Section 17.1.4(12) as being unnecessary and potentially discriminatory.<sup>146</sup> This same language was filed by the CAISO on May 23, 2007 as a revision to Appendix BB of the currently-effective version of the CAISO Tariff in direct compliance with the Commission's order of May 8, 2007 on the CAISO's March 9, 2007 filing of Appendix BB. In the August 3 Filing, the CAISO has simply incorporated this same Commission-ordered provision into the MRTU Tariff without change. CCSF's request represents an untimely collateral attack on the Commission's directive in that May 8, 2007 order.

In any event, the provisions of Section 17.1.4(12) are used to confirm whether or not a particular TOR provides the right to self-provide Ancillary Services. If, as CCSF asserts, the MRTU Tariff allows generally for all Market Participants to self-provide AS without exception, confirmation under Section 17.1.4(12) will be easy. Further, there is nothing unduly discriminatory about the requirements of Section 17.1.4(12). All TRTC Instructions, with regard to both TORs and Existing Contracts (see Section 16.4.5(13)), are subject to the same requirements.

CCSF requests that the Commission direct the CAISO to clarify that Non-Participating Transmission Owners will set the price of losses when using their own

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<sup>146</sup> CCSF at 4-5.

facilities that are interconnected but not part of the CAISO Controlled Grid.<sup>147</sup> The essence of CCSF's request is a blatant collateral attack on the Commission's September 21, 2006 order resolving the issue of the assessment of losses to the use of TORs, in which the Commission clearly determined that Marginal Losses should be assessed to TORs in the absence of a specified loss percentage in a pre-existing contract that the CAISO must honor, stating: "Where there are no specified loss percentages in prior agreements, consistent with our finding above regarding the assessment of marginal losses for ETCs, we find it just and reasonable for the CAISO to assess marginal losses to TOR holder's Scheduling Coordinators." September 21 Order at P 1003.

The underlying provisions of Section 17.3.3 specifying the assessment of Marginal Losses to TOR Self-Schedules are not proposed to be revised in the August 3 Filing. In this filing, the CAISO has simply added provisions to Section 17.3.3(2) in compliance with Paragraph 314 of the Commission's June 25 Order explicitly acknowledging that the CAISO will credit back the application of the Marginal Cost of Losses in the event the CAISO must honor a specific loss percentage in an applicable agreement between a TOR holder and the CAISO. As the provisions of Section 17.3.3(2) are filed in compliance with Commission orders, there is no basis for CCSF's objection to these provisions at this time. The Commission should reject this collateral attack on the Commission orders directing the CAISO's compliance filing regarding this matter.

MWD states that a non-jurisdictional TOR holder should not be required to submit a bilateral agreement to FERC for the agreement's provisions to have precedence over CAISO Tariff Section 17.<sup>148</sup> The CAISO disagrees. The additional set of

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<sup>147</sup> CCSF at 5-6.

<sup>148</sup> MWD at 2-4.

agreements that the Commission directed the CAISO to honor are only between a TOR holder and a Participating TO. It is the CAISO's understanding that the Commission only intended to provide that agreements that it had previously determined to be just and reasonable would be determined to prevail over the Commission-accepted CAISO Tariff. Otherwise, there would be little check on the creativity of TOR holders to claim any number of non-Commission jurisdictional agreements should supersede the Commission-accepted CAISO Tariff. Consequently, to ensure this understanding is clearly expressed in the CAISO Tariff, the CAISO has included the express requirement that any agreement between a TOR holder and a Participating TO that trumps the CAISO Tariff must have previously been accepted by the Commission as just and reasonable. The CAISO submits that the Commission would be ceding a substantial aspect of its own jurisdiction if it were to accept MWD's proposed revision.

MWD also requests that the Commission direct the CAISO to modify Sections 11.2.1.7 and 11.5.7.2, and 17.3.3(2) to specify that the CAISO will honor *any* bilateral agreement to which the TOR holder is a party that specifies transmission loss percentages, not just those agreements to which the CAISO is a party.<sup>149</sup> The CAISO disagrees that this was the intent of the Commission's order and disagrees that this would be a reasonable provision.

The June 25 Order specifically states that "we direct the CAISO to further modify section 17.3.3 to reflect *its* commitment to honor loss provisions in bilateral agreements concerning TORs." June 25 Order at P 314 (emphasis added). The CAISO's prior commitment to honor such loss provisions was first expressed in the testimony of

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<sup>149</sup> MWD at 4-8.

Lorenzo Kristov, submitted as Exhibit ISO-1 to the CAISO's filing of the original version of the MRTU Tariff. In his testimony, Mr. Kristov stated:

The proposed policy [the CAISO's general policy for the treatment of TORs] will apply to all TORs, except to the extent that a provision in a FERC-accepted and existing settlement agreement or operations agreement expressly provides for different treatment of a TOR than specified in the policy. The CAISO does not intend that the proposed policy would supersede the requirements of those agreements. An example of such an agreement would be the Settlement Agreement and SWPL Operations Agreement the CAISO entered into with SDG&E with respect to the Southwest Powerlink. (See Docket Nos. ER04-115-002, et al., and ER05-1013-000). When those or any similar agreements expire, or otherwise terminate, the CAISO would apply the policy described above to the associated TORs. (MRTU Filing, Docket No. ER06-615-000 (Feb. 9, 2006), at Attachment F (Prepared Direct Testimony of Lorenzo Kristov, pp. 107-108).)

In the CAISO's clarification of its own policy regarding honoring the treatment of losses in existing agreements, contained in its January 16, 2007, answer to protests of its November 20, 2006 compliance filing, the CAISO stated the following on page 52 (emphasis added):

Other than the foregoing correction, the CAISO submits that no other changes to the provisions of Section 17.3.3 regarding applicable charges are necessary or appropriate. [Footnote omitted.] The CAISO's incorporation of a "default" requirement that a TOR holder be assessed charges applicable to Ancillary Services, Imbalance Energy, Transmission Losses, and Grid Management Charges is both appropriate for a "default" provision of this sort and consistent with provisions of other agreements the CAISO has filed with and had accepted by the Commission. While some of the agreements the CAISO has negotiated and which have been accepted by the Commission have incorporated alternative means by which the TOR holder was able to meet its obligations regarding these charges, the CAISO submits that the terms in Section 17.3.3 (with the modification described above) comply with the September 21 Order and are the reasonable and proper basis for the initiation of any negotiations between the CAISO and a TOR holder regarding the ultimate responsibility for these costs of operating in the CAISO Control Area.

It is apparent from these prior statements of the CAISO's own policy for the treatment of specified loss percentages in bilateral agreements that the CAISO only

intended to commit to honor those provisions in agreements that the CAISO had negotiated itself -- and which necessarily would have been filed with and determined to be just and reasonable by the Commission. The CAISO certainly did not intend to specify its own policy in this regard as deferring to any "bilateral agreement" that a TOR holder might be able to create to circumvent the Commission-accepted provisions of the CAISO Tariff that would otherwise apply to the losses for TORs.

It is the CAISO's understanding of the Commission's June 25 Order that the CAISO was to implement the CAISO's own policy in its August 3 Filing in this regard, and the CAISO has done so in full compliance with the Commission's order. It would be illogical for the Commission to find that the CAISO has erred in the specification of its own policy. It would also be unreasonable for the Commission to direct that the CAISO honor specified loss provisions in any bilateral agreement that a TOR holder might be able to create. Such a directive again would cede a substantial aspect of the Commission's own jurisdiction to agreements over which it would be able to exercise no authority. The CAISO urges the Commission to reject MWD's proposed revisions to the provisions of the MRTU Tariff in this regard.

MWD suggests various tariff modifications based on its argument that Section 17.2(5) unnecessarily limits the availability of the "perfect hedge" for changes to a TOR Self-Schedule where the Self-Schedule is the subject of an existing agreement between the CAISO and the TOR holder.<sup>150</sup> Although the CAISO agrees that Section 17.2(5) was not intended to alter the rights of TOR holders to schedule changes in Real-Time, it is not clear that the particular tariff changes that MWD suggests are necessary. The CAISO

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<sup>150</sup> MWD at 9.

commits to propose changes in a future compliance filing in this proceeding to clarify that Section 17.2(5) was not intended to limit the rights of TOR holders.

In order to avoid conflict with Section 17.1.1 and its requirement that TRTC Instructions for TORs be prepared and submitted to the CAISO by the TOR holder, MWD recommends that the definition of TRTC Instructions be revised as suggested in its filing.<sup>151</sup> MWD has correctly identified an inconsistency in the CAISO's proposed revision to the definition for TRTC Instructions in the August 3 Filing. The CAISO would be willing to make a clarification to this definition consistent with MWD's proposal in a filing in compliance with a Commission order or in the comprehensive "clean-up" of the MRTU Tariff to be submitted prior to MRTU implementation.

MWD urges the Commission to direct the CAISO to limit the terms "Existing Contracts" and "Existing Rights" to transmission service provided over the CAISO Controlled Grid by a Participating TO.<sup>152</sup> The Commission should reject MWD's proposal that the definition of Existing Contracts be modified. MWD explains that it previously requested that the Commission require modification to the definition of Existing Contracts, but that the Commission did not respond to that request in the June 25 Order. MWD states that it now renews the request. However, MWD failed to raise the issue in its July 25 request for rehearing of the June 25 Order. Therefore, MWD's renewal of its request constitutes an impermissible collateral attack on the June 25 Order.

MWD suggests modifications to Section 17.2.1 where a TOR holder is not also a control area operator on the premise that the CAISO may inadvertently agree to terms with an adjacent control area operator that are unduly harmful to the TOR holder and in

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<sup>151</sup> *Id.* at 10-11.

<sup>152</sup> *Id.* at 11.

conflict with the CAISO Tariff.<sup>153</sup> First, MWD's proposal is unnecessarily limiting on the CAISO and unnecessary for the CAISO's obligation to operate the Control Area reliably. Moreover, the CAISO has added this provision in direct response to the provisions of Paragraph 288 of the Commission's June 25 Order, in which the Commission ordered the CAISO to make these changes to Section 17.2.1 to mirror the same changes ordered by the Commission to Section 16.5.1 in Paragraph 464 of the Commission's April 20 Order. In compliance with these two orders, the CAISO has made the same revisions to Sections 17.2.1 and 16.5.1 in the August 3 Filing. MWD's request represents an untimely collateral attack on the Commission's directive in the April 20 and June 25 Orders.

WPTF argues that the CAISO should be directed to correct the language in Sections 4.2.1, 16.5.1, 17.2.1 so that the list of entities that are obligated to respond to CAISO Dispatch Instructions includes only those entities that are directly responsible for and reasonably capable of doing so.<sup>154</sup> WPTF reasons that Market Participants that do not have physical assets should not be held accountable for following Dispatch Instructions. First, as discussed above in response to comments of CCSF, the revisions to Sections 16.5.1 and 17.2.1 were made with language that the Commission expressly directed the CAISO to copy from Section 4.2.1, which has previously been accepted by the Commission. Not only have these provisions already been accepted by the Commission in Section 4.2.1 of the MRTU Tariff, but they are also incorporated in Section 4.2.1 of the currently-effective version of the CAISO Tariff. The CAISO's filing of revisions in direct compliance with the Commission's order should not serve as the

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<sup>153</sup> MWD at 12-13.

<sup>154</sup> WPTF at 10.

vehicle for WPTF to protest provisions that have long ago been accepted by the Commission. Moreover, there is no need to revise these sections as WPTF proposes. The CAISO will not issue Dispatch Instructions to Market Participants that do not have physical assets, for the simple reason that they lack the ability to respond to such instructions. The CAISO will only issue Dispatch Instructions to those Market Participants that are capable of responding.

## **8. Market Power Mitigation**

PG&E and SCE contend that subsection (i) of Section 39.3.1(4) should be deleted. PG&E contends that this provision is too imprecise, and the terms “unjustifiably low” and “significantly below” are subjective and provide no clear guidance to either market participants or the CAISO.<sup>155</sup> SCE contends that this provision is unnecessary because there will be a specific proposal in place before MRTU implementation to address underscheduling with more precision than the proposed language.<sup>156</sup> The CAISO does not agree that Section 39.3.1(4) should be deleted. The terms objected to by PG&E and SCE are simply guidelines for defining behavior that might warrant mitigation and that help define the scope of the CAISO’s Department of Market Monitoring market monitoring activities. Any actual mitigation action (*i.e.* a market rule change) would still have to be justified by the CAISO based on the merits of the concern, be approved by the CAISO Board of Governors following a stakeholder process and then filed with the Commission. The CAISO also does not agree that the underscheduling tariff provisions filed by the CAISO on September 28, 2007 in compliance with the September 21 Order adequately address these concerns. Even with implementation of provisions to address

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<sup>155</sup> PG&E at 10.

<sup>156</sup> SCE at 6-7.

underscheduling, the CAISO would want to retain this language to ensure that any measures that are employed to prevent underscheduling (such as convergence bidding) do not “distort prices or uplifts away from what would be expected under a competitive market.” Finally, PG&E also maintains that the reference to the “other new options” in Section 39.7.1.5 is confusing and should be deleted.<sup>157</sup> The CAISO agrees that the word “new” is confusing, and commits to remove the word “new” from this phrase.

PG&E contends that Demand Bids submitted in the IFM should not necessarily be compared against DAM prices or “competitive levels” in the DAM, because it is possible that potentially less expensive resources are available in HASP in which case this tariff driven comparison is misguided.<sup>158</sup> The language proposed by the CAISO is “bids below the marginal cost of meeting expected demand,” which should address PG&E’s concern because bids available in HASP will be considered in determining the marginal cost of meeting demand.

SCE contends that the proposed language in Section 39.3.1(4) has an error, specifically, the word “resulting” is missing from the last sentence. SCE requests that the CAISO modify the proposed language to include this missing word.<sup>159</sup> The CAISO agrees with SCE, and commits to modify this section to add the word “resulting” as suggested by SCE.

## **9. Improvements in the MRTU Tariff Defined Terms and Definitions**

AreM asserts that the lack of a comprehensive set of definitions has hampered review of the CAISO’s August 3 Filing, and requests that the Commission order the CAISO to file a complete list of defined terms used in the MRTU Tariff with its next

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<sup>157</sup> PG&E at 10.

<sup>158</sup> *Id.*

<sup>159</sup> SCE at 6.

compliance filing. AReM at 3-4. First, the CAISO notes that the examples of purportedly missing defined terms as listed by AReM consist solely of five terms that have been defined since the original filing of the MRTU Tariff and which the CAISO has not proposed to change in any respect in the August 3 Filing (which may be the reason AReM did not realize they are already defined) plus one term that the CAISO defined in the currently-effective version of the CAISO Tariff in conjunction with the CAISO's new "credit policy" provisions and which will be incorporated into the MRTU Tariff in conjunction with the incorporation of the other Commission-accepted "credit policy" provisions. Moreover, as described in the filing letter for the August 3 Filing, the CAISO has already filed a complete list of defined terms in this filing in compliance with prior Commission orders. To the extent there remain any additional defined terms used in the MRTU Tariff without definitions (e.g., terms related to the CAISO's new "credit policy" provisions), there is still no need for the Commission to make such an affirmative order, as the CAISO is committed to making a comprehensive review and correction of any inaccurate use of defined terms in the course of preparing the "clean up" filing that it will make to the MRTU Tariff prior to MRTU implementation.

WPTF claims that Section 11.8.5 uses the terms "Bid Cost Shortfall" and "Surplus" neither of which is defined in Appendix A, and asserts that the CAISO should include definitions for these terms in Appendix A.<sup>160</sup> WPTF's argument is misleading. The actual terms used in 11.8.5 are "IFM Bid Cost Shortfall" and "IFM Bid Cost Surplus," "RUC Bid Cost Shortfall" and "RUC Bid Cost Surplus," and "RTM Bid Cost Shortfall" and "RTM Bid Cost Surplus." Definitions for all of these terms are included in Appendix A. Therefore, there is no need to define "Bid Cost Shortfall" generically.

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<sup>160</sup> WPTF at 7.

WPTF asserts that the term “Congestion Charge” should be defined in Appendix A.<sup>161</sup> However, “Congestion Charge” is already a defined term in Appendix A. WPTF raises no issue regarding the existing definition of “Congestion Charge” and thus no revision is necessary.

WPTF contends that the CAISO should define “Upward” as used in Section 11.10.6 or otherwise explain what upward Ancillary Services are as used in this Section. Section 11.10.6 refers to “upward” Ancillary Services in the context of “upward Ancillary Service costs,” which that section clearly explains are the “sum of the Regulation Up, Spinning Reserve and Non-Spinning Reserve cost described in Sections 11.10.2.2.1, 11.10.3.1 and 11.10.4.1.” No further definitions or explanations are necessary.

WPTF states that the CAISO should change the definition of Candidate CRR Holders to make it clear that they do not hold CRRs.<sup>162</sup> The CAISO does not believe such a change is necessary, as the definition of Candidate CRR Holder makes clear that it refers to an “entity that is registered and qualified by the CAISO to participate in the CRR Allocation.” Moreover, the Commission has already accepted this definition of “Candidate CRR Holder” in its order accepting the CAISO's March 9, 2007 amendments to the currently-effective version of the CAISO Tariff. This definition was included in Appendix BB of the currently-effective CAISO Tariff, and the CAISO provided for informational purposes a “blackline” of the same definition in the MRTU Tariff showing how these revisions would be applied in the MRTU Tariff. The CAISO's August 3 Filing simply implements these previously-accepted revisions. The comment by WPTF

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<sup>161</sup> Id. at 8.

<sup>162</sup> WPTF at 10.

provides no basis for the Commission to reconsider its previous acceptance of the definition of "Candidate CRR Holder."

WPTF notes that Section 11.4.1 refers to "HASP Intertie Pre-Dispatch LMP," an undefined term and requests that the CAISO be directed to provide a definition for this term or use the term HASP Intertie LMP as appropriate.<sup>163</sup> The CAISO intends to correct this term in its comprehensive "clean-up" of the MRTU Tariff to be submitted prior to MRTU implementation.

WPTF suggests that the definitions for the following terms would be clearer if rewritten as proposed by WPTF: Administrative Price, Approved Credit Rating, Competitive Constraints Run, IFM Self-Commitment Period, Real-Time Market, Schedule, Scheduled Generation and Scheduled Demand.<sup>164</sup> However, the CAISO has proposed no substantive changes to the definitions of these terms in the August 3 Filing. As the substance of these definitions has already been accepted by the Commission in the current version of the MRTU Tariff, the CAISO submits that there is no basis for revising these definitions in conjunction with this filing. With regard to the term "Approved Credit Rating," the CAISO particularly notes that this term will be deleted entirely from the MRTU Tariff in conjunction with the incorporation of the new "credit policy" provisions that the Commission has accepted as revisions to the currently-effective CAISO Tariff into the MRTU Tariff. The CAISO intends to make this change in its comprehensive "clean-up" of the MRTU Tariff to be submitted prior to MRTU implementation.

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<sup>163</sup> WPTF at 5.

<sup>164</sup> *Id.* at 22, 23, 24.

WPTF proposes that the CAISO should be directed to define “OTC” as used in Section 36.4 and elsewhere in the MRTU Tariff.<sup>165</sup> The CAISO agrees to correct this oversight in a compliance filing or in the comprehensive "clean-up" of the MRTU Tariff to be submitted prior to MRTU implementation.

WPTF suggests that the definition for Alert, Warning or Emergency (AWE) Notice would be clearer if rewritten as proposed by WPTF.<sup>166</sup> The CAISO recognizes that the definition could be improved but notes that it has not proposed any changes to this definition. Nevertheless, the CAISO would be willing to consider WPTF's suggestions in a future tariff amendment filing.

WPTF suggests that the definition for Annual Peak Demand Forecast would be clearer if rewritten as proposed by WPTF.<sup>167</sup> The CAISO submits that WPTF's suggested revision is not necessary or appropriate, as the definition should make clear that the Annual Peak Demand Forecast is a Demand Forecast.

WPTF suggests that the definition for Available Transfer Capacity would be clearer if rewritten as proposed by WPTF.<sup>168</sup> The definition of this term is one of the subjects of the Commission's Order No. 890. The CAISO expects to revise this definition in compliance with that order and submits that it is not appropriate to attempt to anticipate the necessary revisions in this filing.

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<sup>165</sup> *Id.* at 17.

<sup>166</sup> *Id.* at 22.

<sup>167</sup> *Id.*

<sup>168</sup> *Id.*

WPTF suggests that the definition for Black Start would be clearer if rewritten to specify two alternative meanings.<sup>169</sup> The CAISO submits that it is preferable to specify only a single definition for a defined term and opposes WPTF's suggested revision.

WPTF suggests that the definition for Contingency would be clearer if rewritten as proposed by WPTF.<sup>170</sup> While the CAISO proposed only a minor clarification in the August 3 Filing, WPTF would make more substantial changes, including the incorporation of an undefined term "Transmission Lines." The CAISO submits that WPTF's specific revisions are not necessary or appropriate.

WPTF suggests that the definition for Emissions Eligible Generator be modified, since the CAISO defines an Emissions Eligible Generator in terms of bid cost eligibility but WPTF asserts that not all generators that are "Bid Cost Eligible" are also "Emissions Eligible."<sup>171</sup> The CAISO disagrees with WPTF, as the CAISO intends that all Bid Cost Recovery Eligible Resources be eligible for recovery of their Emissions Costs, as appropriate under the terms of the CAISO Tariff.

WPTF suggests that the definition for Financial Security would be clearer if rewritten as proposed by WPTF.<sup>172</sup> However, this definition is adapted from the CAISO's "credit policy" provisions already accepted by the Commission in the currently-effective version of the CAISO Tariff. The CAISO submits that WPTF's suggested revisions are not necessary or appropriate.

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<sup>169</sup> *Id.* at 23.

<sup>170</sup> *Id.*

<sup>171</sup> *Id.*

<sup>172</sup> *Id.*

WPTF suggests that the definition for Generated Bid would be clearer if rewritten as proposed by WPTF.<sup>173</sup> The CAISO submits that WPTF's minor wordsmithing is not necessary for clear understanding of this definition. However, the CAISO would be willing to take WPTF's suggestions for the use of other defined terms in this definition into consideration in the comprehensive "clean-up" of the MRTU Tariff to be submitted prior to MRTU implementation.

WPTF suggests that the definition for RUC Commitment Period would be clearer if rewritten substantially to remove much of the text already accepted by the Commission.<sup>174</sup> The CAISO submits that these suggested revisions to already-accepted provisions are not necessary or appropriate.

WPTF suggests that the definition for Undelivered Capacity would be clearer if rewritten as proposed by WPTF.<sup>175</sup> The CAISO submits that WPTF's suggested revisions are not necessary for clear understanding of this definition and would remove important clarifications proposed by the CAISO in the August 3 Filing. The CAISO urges the Commission to reject WPTF's suggested revisions.

WPTF suggests that the definition for Undispatchable Capacity would be clearer if rewritten proposed by WPTF.<sup>176</sup> The CAISO submits that WPTF's suggested revisions are not necessary for clear understanding of this definition. However, the CAISO would be willing to take WPTF's suggestions for the use of other defined terms in this definition into consideration in the comprehensive "clean-up" of the MRTU Tariff to be submitted prior to MRTU implementation.

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<sup>173</sup> *Id.*

<sup>174</sup> *Id.* at 24.

<sup>175</sup> *Id.*

<sup>176</sup> *Id.*

## 12. Other Tariff Changes

Six Cities express concerns regarding proposed MRTU Tariff modifications relating to metering requirements. With regard to Section 10.3.8, Six Cities argue that because Meter Data “remain the property of that Scheduling Coordinator Metered Entity and shall be made available to third parties only with its express permission,” it is unclear why the Metered Entity’s SC is permitted to authorize the release of the Metered Entity’s Meter Data.<sup>177</sup> It is inherent in the provisions of the CAISO Tariff that the Scheduling Coordinator for a Scheduling Coordinator Metered Entity must have the authority and responsibility to represent the Scheduling Coordinator Metered Entity in complying with the requirements of the CAISO Tariff. It is incumbent on the Scheduling Coordinator and the Scheduling Coordinator Metered Entity to have an agreement between themselves regarding the Scheduling Coordinator's ability to authorize release of the Meter Data of the Scheduling Coordinator Metered Entity to a third party. Moreover, Section 5.1 of the *pro forma* Meter Service Agreement for Scheduling Coordinators (MSA SC) incorporated into Appendix B.7 of the MRTU Tariff specifies that the Scheduling Coordinator shall list in the MSA SC the third parties authorized to have access to the Meter Data of the Scheduling Coordinator Metered Entities it represents, for which the Scheduling Coordinator is required by MSA SC Section 5.1 to have obtained permission from the affected Scheduling Coordinator Metered Entities.

The provisions of MSA SC Section 5.1 have long been part of the CAISO's *pro forma* MSA SC and are not proposed to be changed in the MRTU Tariff version of the MSA SC. In the August 3 Filing, the CAISO simply added a clarification to the provisions of Section 10.3.8 of the MRTU Tariff to make them more consistent with the

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<sup>177</sup> Six Cities at 8-9.

uncontroversial provisions of the MSA SC. As Six Cities do not expressly oppose this clarification in their comments, the CAISO is optimistic this explanation will make the reason for this provision sufficiently clear to alleviate Six Cities' concern.

With regard to Section 10.4.2(a), Six Cities argue that the best way to ensure that the CAISO assesses applications for exemptions from the metering provisions consistently and to provide applicants notice as to the factors that the CAISO will consider is to include the guidelines, if not in the MRTU Tariff itself, in the BPM for Metering rather than on a webpage where the guidelines may be altered at any time and without the input of the affected parties. Six Cities observe that by including this information in the BPM for Metering, the exemption guidelines would be subject to the BPM change management procedures, and affected parties would be permitted to provide input on and receive notice regarding any changes.<sup>178</sup> However, the CAISO has proposed no change to the substance of this provision as part of the August 3 Filing. The prior version of what is now Section 10.4.2(a) provided: "The CAISO will from time to time publish the general guidelines that it may use when considering application for exemptions so as to achieve consistency in its reasoning and decision making and to give prospective applicants an indication of whether an application will be considered favorably." The only change the CAISO has proposed in the August 3 Filing (other than to delete the extraneous phrase "from time to time") is to clarify where the CAISO will "publish" these guidelines -- on the CAISO Website. Moreover, this same requirement to "publish" these guidelines has long been set forth in the currently-effective version of the CAISO Tariff and the CAISO's longstanding practice has been to publish them on the CAISO Website. The CAISO's clarification to Section 10.4.2(a) in the August 3 Filing to

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<sup>178</sup> Six Cities at 9.

specify its longstanding implementation of this requirement should not provide Six Cities license to protest the substance of a provision that is already in the currently-effective version of the CAISO Tariff and has already been accepted by the Commission in the prior version of the MRTU Tariff.

In addition, Six Cities point out that Section 10.4.3, as modified by the CAISO, moves to the applicable BPM the timeline by which the CAISO will now decide whether to grant an exemption from metering requirements. Six Cities argues that the timeline should be incorporated into the MRTU Tariff instead of the BPM.<sup>179</sup> The CAISO disagrees that this detail of the implementation of the CAISO's procedures for acting on requests for exemption from metering requirements significantly affects a material rate, term, or condition of service. The CAISO submits that this type of detail is appropriately included in a BPM and need not be the subject of a CAISO filing with the Commission for an amendment to the CAISO Tariff every time the CAISO proposes to change the number of days by which it will act on a request for a metering exemption.

This particular case provides a good example of the potential adverse consequences of requiring the CAISO to incorporate additional details of its business practices into the CAISO Tariff. The CAISO has proposed through the process of developing the BPM for Metering to reduce the length of time permitted for its action on a request for a metering exemption from the 45 Business Days previously set forth in Section 10.4.3 to five Business Days. However, it is conceivable that this may be too optimistic a reduction in the amount of time in which the CAISO is able to process these requests, and the CAISO may find it necessary to adjust this timeline. The CAISO

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<sup>179</sup> *Id.* at 9-10.

considers it much preferable to have the flexibility to adjust this timeline through the BPM change management process rather than having to seek a Commission order to do so. Moreover, the additional effort required to process an amendment to the CAISO Tariff and filing with the Commission would serve as a strong disincentive for the CAISO to attempt to shorten the timeline for processing exemption requests at all. If the Commission sees fit to order the CAISO to include this timeline in Section 10.4.3, the CAISO submits that the Commission should permit the CAISO to restore the timeline of 45 Business Days to process an exemption request that the Commission has already accepted in the prior version of Section 10.4.3. The CAISO will revise the BPM for Metering to conform to that already-accepted timeline.

WPTF notes that Section 34.18 has been deleted in its entirety. WPTF proposes that the CAISO be directed to explain why and if not in compliance with a prior order, this section should be added back into the CAISO Tariff.<sup>180</sup> Notwithstanding WPTF's obliviousness to the source of this revision, the CAISO conducted a substantial stakeholder process during the month of July 2007 in which this deletion was considered and agreed to by all participating stakeholders. The CAISO initiated the stakeholder process to address the "deferred maintenance" issues that had previously been raised by representatives of qualifying facilities (QFs) regarding the need for conformance of the CAISO Tariff to the terms of the Commission proceedings on the *pro forma* Qualifying Facility Participating Generator Agreement (QF PGA), incorporated into Appendix B.3 of the CAISO Tariff. The CAISO issued a Market Notice regarding its proposed revisions to the MRTU Tariff to address these "deferred maintenance" issues, posted draft tariff language for stakeholder review and comment, held a conference call with

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<sup>180</sup> WPTF at 17.

stakeholders regarding these revisions, and engaged in further discussions with concerned stakeholders in order to develop tariff provisions acceptable to all participants. The deletion of Section 34.18 was proposed in conjunction with the consolidation and expansion of the primary provisions of the MRTU Tariff applicable to QFs into new Section 4.6.3 and associated new defined terms based on the terms in the QF PGA. As the provisions of Section 34.18 are now addressed in Section 4.6.3 and the associated definitions, it is inappropriate to retain this isolated provision. Moreover, the prior provisions of Section 34.18 are no longer entirely consistent with the comprehensive new set of provisions governing QFs and cannot be restored without reconciling that inconsistency.

Tellingly, no entity that participated in the stakeholder process, particularly including any organizations specifically representing QFs, has raised any objection to the deletion of Section 34.18 in conjunction with the comprehensive set of additions to Section 4.6.3 and other revisions to address QF issues. Absent any indication by WPTF that it represents any QFs adversely affected by the deletion of Section 34.18 or that it considers the provisions of Section 34.18 to address matters not now addressed in the comprehensive provisions of Section 4.6.3 and related provisions, the CAISO sees no reason to undo the results of a stakeholder process that achieved complete consensus of all of the entities that participated.

PG&E points out that there is an outdated reference to the Hunters Point facility remaining in Section 41.1, and that this reference should be removed.<sup>181</sup> The CAISO has agreed to remove references to this plant from the pro forma RMR agreement, and also

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<sup>181</sup> PG&E at 24.

agrees that they should be removed from the MRTU Tariff. The CAISO commits to making this change as part of its deferred maintenance initiative.

**D. Miscellaneous Issues**

The CPUC asks that the Commission and the CAISO ensure that Scheduling Coordinators have ample opportunity to perform testing to assure the MRTU systems perform adequately before start-up.<sup>182</sup> The readiness activities that the CAISO already has planned to take place prior to MRTU implementation will be sufficient to address any testing issues.

The CPUC requests that the CAISO provide progress reports between now and MRTU start-up on the progress of settlements and the metering functionality, and that the CAISO provide more detail in the reporting on the results of MRTU testing of settlements, including the performance of the metering system.<sup>183</sup> These CAISO will be able to address these CPUC concerns in its ongoing MRTU readiness and implementation activities.

The CPUC requests that the Commission require the CAISO to continue to file monthly MRTU reports even after the initial implementation of MRTU, until additional key features are designed and implemented.<sup>184</sup> There is no need for such a requirement, because the CAISO is already subject to a quarterly reporting obligation

PG&E agrees with the CAISO that tariff modifications to reflect start-up and minimum load bid caps are a necessary prerequisite to the implementation of MRTU. PG&E states that these modifications, as well as other provisions that have been developed by the Department of Market Monitoring and Market Participants, should be

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<sup>182</sup> CPUC at 2-3; *see also* NCPA at 20-21.

<sup>183</sup> CPUC at 6-7.

<sup>184</sup> *Id.* at 8.

included in the Tariff prior to the implementation of MRTU.<sup>185</sup> The CAISO agrees and will file them in the near future.

SCE objects to the proposal as outlined in Attachment K and pages 53 to 54 of the Filing Letter, wherein the CAISO concludes that convergence bids (i.e. virtual bids) should not pay the real-time Load Distribution Factor uplift. Because the CAISO has not even proposed a convergence bidding design, it has inappropriately prejudged this issue.<sup>186</sup> SCE's objection is premature. As SCE points out, the CAISO has not yet proposed a convergence bidding design. Therefore, SCE's objection can and should be discussed in the convergence bidding stakeholder process.

CMUA and Six Cities assert that the CAISO should modify the MRTU Tariff where it cites BPM(s) to refer specifically to those BPM(s) by name.<sup>187</sup> There is no need to further modify the MRTU Tariff to provide such citations. The CAISO will implement a mapping table to permit Market Participants to easily identify which BPM is being referred to in the Tariff.

WPTF states that the CAISO should modify Section 30.5.2.2 to read: "A SC for a Physical Scheduling Plant or a System Unit may include Generation Distribution Factors as part of its Supply Bid. If the Scheduling Coordinator does not submit the Generation Distribution Factors applicable for the Bid, the CAISO will use default Generation Distribution Factors stored in the Master File." WPTF also maintains that the CAISO should "provide enough detail in the Tariff for SCs to understand the methods the CAISO will use to adjust the GDFs."<sup>188</sup> The CAISO agrees to make the revision to

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<sup>185</sup> PG&E at 6-7.

<sup>186</sup> SCE at 5-6.

<sup>187</sup> CMUA at 4-5; Six Cities at 6-8.

<sup>188</sup> WPTF at 12-13.

Section 30.5.2.2 suggested by WPTF. With respect to details concerning the CAISO's methodology for adjusting the GDFs, the CAISO believes that pursuant to the Commission's rule of reason, such details can properly reside in a BPM rather than the Tariff proper. The CAISO clarifies, however, that the methodology for determining default GDFs will be based on historical data or on the relative ratio of the Pmax of the individual units to the total aggregate Pmax. This relative ratio calculation would operate as follows: assuming 3 physical units of 20MW, 30MW and 50MW, the GDFs would be 20%, 30% and 50%, respectively.

WPTF criticizes the definition of Market Interruption contained in the August 3 Filing and proposes that revisions be made to the tariff to modify the definition and to clarify the circumstances in which suppliers will be subject to Exceptional Dispatches.<sup>189</sup> No revisions are needed. Exceptional Dispatch is defined in the August 3 Filing as “[a] Dispatch Instruction issued to avoid a Market Interruption *for the purposes specified in Section 34.9.*” (Emphasis added.) Therefore, the purposes for which Exceptional Dispatch will be employed to avoid a Market Interruption are already set forth in Section 34.9. Therefore, WPTF's criticism is unwarranted. Further, the definition of a Market Interruption as “[t]he disruption of the normal operations of a CAISO Market” is already sufficiently clear. WPTF fails to justify its further suggested changes to the definition.

With regard to the CAISO's proposed Exceptional Dispatch changes to Section 34.9.3 concerning Exceptional Dispatch, WPTF argues that it is unclear how the CAISO would actually dispatch a resource prior to Real-Time. WPTF requests that the CAISO

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<sup>189</sup> WPTF at 5, 24.

state what it means by dispatching a unit prior to Real-Time,<sup>190</sup> The CAISO explains for WPTF's benefit that, due to resource parameters, it may at times be necessary for the CAISO to issue an Exceptional Dispatch instruction prior to Real-Time for Energy to be delivered at the time it is required. Each Exceptional Dispatch instruction will identify the time period for the Energy or AS that is required to be delivered.

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<sup>190</sup> WPTF at 16.

### III. CONCLUSION

Wherefore, for all the reasons stated above, the CAISO respectfully requests that the Commission accept the August 3 Filing with the clarifications and revisions that the CAISO agrees to make the instant filing.

Respectfully submitted,

/s/ Sidney M. Davies

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Dated: October 5, 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 5<sup>th</sup> day of October, 2007 at Folsom in the State of California.

*/s/ Sidney M. Davies*

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