

124 FERC ¶ 61,271
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Suedeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

California Independent System
Operator, Corp.

Docket No. ER08-1113-000

**ORDER CONDITIONALLY ACCEPTING TARIFF CHANGES AND DIRECTING
COMPLIANCE FILING**

(Issued September 19, 2008)

1. In this order, we conditionally accept, subject to modification, proposed tariff revisions submitted by the California Independent System Operator Corporation (CAISO) to establish an Integrated Balancing Authority Area (IBAA). The CAISO proposes to apply the IBAA to model and price export and import transactions with the Sacramento Municipal Utility District (SMUD) and Turlock Irrigation District (Turlock) balancing authority areas, effective on the start date of the CAISO's Market Redesign and Technology Upgrade (MRTU) Tariff. In addition, we accept the CAISO's proposed tariff revisions addressing the impact of the IBAA proposal on Congestion Revenue Rights (CRRs), effective September 26, 2008.¹

2. The CAISO's proposal establishes modeling and pricing proxy points for import and export transactions and is consistent with the conversion to the CAISO's new MRTU market design. We believe the CAISO's proposal supports the implementation of the new market design under MRTU, which the Commission found ensured physically feasible day-ahead schedules and helped communicate the true market value of electricity at each location and the cost of congestion between any two locations.² The Commission accepts the CAISO's proposal, subject to modification, as just and reasonable, to be effective as requested by the CAISO.

¹ The CAISO originally requested an effective date of August 16, with respect to the CRRs. The CAISO amended its requested effective date concerning CRRs to September 26, 2008. See CAISO August 8, 2008 Answer at 2.

² *Cal. Independ. Sys. Operator Corp.*, 116 FERC ¶ 61,274, at P 5 (2006) (September 2006 Order).

3. Flaws in the CAISO markets contributed to the 2000-2001 energy crisis in California. For example, in the past, CAISO energy markets have been hampered by significant differences between day-ahead scheduled flows that do not reflect actual, real-time transmission flows and constraints and operating limitations of generators.³ These infeasible day-ahead schedules require the CAISO to scramble in real time to redispatch its system to accommodate the actual flows and to allocate the costs of the re-dispatch as uplift. In addition, given its existing zonal pricing approach, CAISO markets have lacked clear price signals that accurately reflect costs at specific locations. Similarly, limitations in system and market modeling have restricted the CAISO from dispatching its system in a more efficient manner.⁴

4. To remedy these and several other market problems, the CAISO is comprehensively restructuring its markets through its MRTU Tariff. Significant elements in the MRTU Tariff include: (1) day-ahead and real-time energy markets; (2) ensuring that day-ahead schedules are physically feasible; (3) implementing locational marginal pricing (LMP); and (4) implementing a full network model of the transmission system to improve dispatch efficiency.⁵

5. While the current MRTU Tariff eliminates flaws and implements numerous market enhancements, some flaws persist, in part due to preexisting seams between the CAISO and external balancing authority areas. One such flaw stems from the fact that the CAISO does not have the information necessary to calculate correct LMPs for interchange transactions. This results in a mismatch between the day-ahead schedules and the real-time, actual grid operations and imprecise modeling. To support the goals of MRTU, it is critical for the CAISO to be able to predict the effect these interchange transactions will actually have on its markets. The Commission finds in this order that the CAISO's IBAA proposal addresses these market flaws consistent with the goals of MRTU. For example, by using a more accurate representation of the locations of external resources used to implement interchange transactions in the CAISO's full network model, the IBAA proposal will help to ensure that interchange transactions from the SMUD and Turlock balancing authority areas are appropriately valued for purposes of managing congestion on the CAISO-controlled grid, and reduce the likelihood of significant differences between scheduled flows and actual flows.

6. Further the Commission finds that the alternative pricing arrangement offered by the CAISO in exchange for the sharing of information is an integral part of the CAISO's

³ *Id.*

⁴ *Id.* P 10.

⁵ *Id.*

proposal. This will allow an entity to receive a more favorable pricing structure if it is willing to provide the CAISO with information allowing the CAISO to verify the location and operation of the resources used to implement interchange transactions between the CAISO-controlled grid and the IBAA.⁶ Therefore, the Commission finds that the IBAA proposal is just and reasonable, as discussed in more detail below.

7. The SMUD-Turlock IBAA is highly integrated with the CAISO, and its major 500 kV transmission line, the California Oregon Transmission Project (COTP), extends deep into northern and central California. Because the COTP and the SMUD-Turlock IBAA, which has numerous interconnections with the CAISO, are integrated with the CAISO to a degree unmatched by any other adjacent balancing authority area, we do not find application of the CAISO's proposal to be unduly discriminatory. These unique characteristics associated with SMUD and Turlock are critical to our finding that their designation as an IBAA is appropriate at this time. Of course, not all adjacent balancing authority areas share these unique characteristics or have the same impacts on the CAISO system. Although we do not expect the CAISO to seek IBAAAs for every adjacent balancing authority area, we emphasize that if the CAISO proposes additional IBAAAs for adjacent balancing authority areas, it should fully justify its proposal based on the characteristics of the relevant balancing authority area and may not simply rely on our decision here.

8. However, we direct the CAISO to modify its proposal in several ways. The first is to address a potential over-collection for losses due to modeling of parallel flows. The second is to clarify that the CAISO must file any changes to the IBAA, including changes to the default pricing points, or any new IBAA proposal with the Commission. In addition, the CAISO is to include the default pricing points in its filed tariff. Also, the CAISO is to change its tariff to remove the stakeholder process requirement for developing individual Market Efficiency Enhancement Agreements (MEEA). These improvements will ensure that the IBAA proposal does not devalue external resources and provides market participants greater certainty with regard to default pricing points by defining the CAISO's discretion to change those points.

⁶ The Commission notes that the CAISO has not clearly specified what information is necessary to support proper modeling and pricing, nor has it provided any assurances with respect to maintaining the confidentiality of the information. Therefore, as discussed more fully *infra*, the Commission is requiring the CAISO to specify the information it seeks in its tariff and requires the CAISO to treat such information as confidential.

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I. Background

9. The IBAA proposal is the product of a lengthy process that began in 2002 with the CAISO's decision to move to a LMP system and the related desire to have a full network model⁷ that includes a network representation of the Western Electricity Coordinating Council (WECC) interconnection. The CAISO contends that it has consistently voiced its desire for a more detailed exchange of data between itself and external balancing authorities.

10. The CAISO states that an internal process to develop the design and implementation details for modeling and pricing IBAAAs began in early 2007 for SMUD and Turlock.

⁷ The CAISO's full network model is a mathematical representation of the CAISO's physical transmission system that aims to accurately depict resources available and transmission constraints on the CAISO's grid across all market time frames to ensure that market outcomes are consistent with real-time operation of the transmission grid.

II. The IBAA Proposal

11. The CAISO proposes to establish a single IBAA comprised of the SMUD and Turlock balancing authority areas. The proposed IBAA is configured as a single hub with default modeling and pricing points for all interchange transactions. This is in lieu of modeling and pricing interchange transactions based on an assumption that the associated energy injections or withdrawals were located at one of the 12 interconnection points between the CAISO and the SMUD and Turlock balancing authority areas (i.e., a simple radial model such as that currently used by the CAISO).

12. The CAISO contends that by using a single hub approach with one default pricing point for all imports and one default pricing point for all exports, the IBAA proposal avoids creating unjust and unreasonable scheduling and pricing results caused by: (1) multiple price locations for transactions between the IBAA and the CAISO-controlled grid; and (2) the incentive for sellers into the CAISO markets to schedule at the most favorably priced interchange locations irrespective of the location of the resources actually dispatched to implement the transaction.

13. The CAISO also argues that by having a more accurate representation of the location and operation of external resources used to implement interchange transactions in the CAISO's full network model, the IBAA proposal will help to ensure that there will not be significant differences between day-ahead scheduled flows and actual flows in real-time. This will increase reliability of service on its grid. The CAISO indicates that reducing the possibility of large differences between scheduled and actual flows will eliminate the infeasible schedule problem that is prevalent in the pre-MRTU zonal market design. The CAISO also notes that the eastern regional transmission organizations (RTOs) all use similar "proxy bus" mechanisms to model and price interchange transactions.⁸

14. The CAISO proposes to offer alternative pricing arrangements, or MEEAs, with any market participant owning or controlling resources who believes that the default rules will not appropriately price or reflect the value of its interchange transactions. Under the MEEA, a market participant will provide the CAISO with additional information sufficient to allow the CAISO to verify the location and operation of the external resource that is actually used to implement interchange transactions. In addition, in response to stakeholder comments, the CAISO agreed to provide a stakeholder process before finalizing any MEEA and filing it with the Commission.

⁸ The term, "proxy bus," is used within the eastern RTOs, and is for purposes of this discussion synonymous with the term, "pricing point."

15. The CAISO's IBAA proposal relates to the operation of the three 500 kV alternating current (AC) lines that together form the California-Oregon Intertie, which is highly integrated and serves to transfer electricity from the Pacific Northwest into central California.⁹ The first line, the COTP, is located within the SMUD balancing authority area. On its northern end is the Captain Jack substation, which is located in Oregon in the Bonneville Power Administration balancing authority area. The COTP runs south for 345 miles from Captain Jack to the Tracy/Tesla substations. The other two lines, which are part of the California-Oregon Intertie, are commonly known as the Pacific AC Intertie (PACI) and extend generally from the Malin substation in the north to the Tesla substation in central California. The PACI in California is generally located within the CAISO balancing authority area, and has major substations at Malin and Tesla that are electrically connected to Captain Jack and Tracy, respectively.

III. Notice and Responsive Pleadings

16. Notice of the CAISO's filing was published in the *Federal Register*, 73 Fed. Reg. 36,311 (2008), with interventions and protests due on or before July 8, 2008.¹⁰ The City of Santa Clara, California (Santa Clara); SMUD; Turlock; the City of Los Angeles Department of Water and Power (LADWP); Transmission Agency of Northern California (TANC); the United States Department of Energy: Berkeley Site Office (DOE-Berkeley); the City of Redding, California (Redding); Imperial Irrigation District (Imperial); Powerex Corp. (Powerex); Metropolitan Water District of Southern California (Metropolitan); Western Area Power Administration (Western); the City and County of San Francisco (San Francisco); Modesto Irrigation District (Modesto); Pacific Gas & Electric Company (PG&E); California Department of Water Resources: State Water Project (State Water Project); WestConnect;¹¹ Southern California Edison Company

⁹ See *Cal. Energy Comm'n v. Bonneville Power Admin.*, 902 F.2d 1298, 1302 (9th Cir. 1990); *Pacific Gas and Elec. Co. v. FERC*, 746 F.2d 1383, 1384 n.1 (9th Cir. 1984). See also *PacifiCorp.*, 121 FERC ¶ 61,278, at P 2 (2007).

¹⁰ On June 20, 2008, TANC, SMUD, and Western filed a joint motion for extension of time to file protests and motions to intervene from July 8, 2008 until August 1, 2008. The Commission denied this request in a notice issued June 26, 2008.

¹¹ WestConnect Members are: Arizona Public Service Company (Arizona Public Service), El Paso Electric Company, Imperial Irrigation District, Public Service Company of New Mexico, Public Service Company of Colorado, Sacramento Municipal Utility District, Salt River Agricultural Improvement and Power District, Sierra Pacific Power Company/Nevada Power Company, Southwest Transmission Cooperative, Inc., Transmission Agency of Northern California, Tri-State Generation and Transmission

(continued)

(SoCal Edison); and California Municipal Utilities Association (CMUA) filed timely motions to intervene and comments or protests. The Public Utilities Commission of the State of California (California PUC) filed a notice of intervention and comments.

17. Alliance for Retail Energy Markets; American Public Power Association (APPA); City of Burbank, California; Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California; City of Roseville, CA; Nevada Power Company and Sierra Pacific Power Company; Pacificorp; Salt River Project Agricultural Improvement and Power District; Northern California Power Agency (NCPA); Western Power Trading Forum; and Xcel Energy Services, on behalf of Public Service Company of Colorado, filed timely motions to intervene.

18. San Diego Gas & Electric Company (SDG&E) filed a motion to intervene out-of-time and comments. APPA filed comments out-of-time.

19. Modesto filed an answer supporting San Francisco's protest. The CAISO filed an answer to all the protestors. TANC, SMUD, Modesto, Santa Clara, NCPA, San Francisco, Western and DOE-Berkeley filed responses to the CAISO's answer. The CAISO filed an answer to the responses. Indicated Parties,¹² Santa Clara, San Francisco, Western and the CAISO filed further answers.

IV. Discussion

A. Procedural Matters

20. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2008), the notices of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

21. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(d) (2008), the Commission will grant SDG&E's late-filed motion to intervene given its interest in the proceeding, the early stage of the proceeding, and the absence of undue prejudice or delay.

22. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2008), prohibits an answer to a protest unless otherwise ordered by the

Association, Inc., Tucson Electric Power Company and Western Area Power Administration.

¹² Indicated Parties include the Redding, Modesto, SMUD, TANC, and Turlock.

decisional authority. We will accept the answers and subsequent responses because they have provided information that assisted us in our decision-making process.

B. Operational and Pricing Issues

23. Several commenters raise operational and pricing concerns resulting from the IBAA proposal, including: the single hub approach as compared to the current approach or a multiple hub approach; choice of default pricing for imports and exports; the method for pricing losses and congestion on the COTP; impacts of the proposal on incentives to import power to the CAISO; effects of the proposal on value and use of COTP transmission; influence of the proposal on transmission and generation investment; consequences of the proposal for the real-time and day-ahead markets; pre-implementation studies of the proposal; and relation to eastern RTOs. We address each of these topics separately below.

1. Single Hub Approach vs. Current Approach

24. The CAISO explains that under its current zonal market regime, interchange transactions are radially modeled as if each external resource was located at an intertie scheduling point selected by the entity outside the CAISO. The CAISO states that this works reasonably well given the limited congestion management functionality and network model of the current forward zonal market design where all interchange transactions with an adjacent balancing authority area typically receive the same zonal price. With the introduction of LMPs under MRTU, there will be prices on each intertie scheduling point. To the extent that these prices diverge, sellers will have an incentive to schedule via contract to the intertie scheduling point with the most favorable LMP, irrespective of the actual power flows. If the actual flows do not match the scheduled flows, the CAISO may be forced to redispatch its system in real-time to alleviate constraints that were not anticipated based on its day-ahead schedules. These unanticipated constraints may compromise the effectiveness of the CAISO's congestion management in ensuring feasible schedules and the related redispatch may have adverse economic impacts. The CAISO states that the IBAA is intended to mitigate this problem.

25. According to the CAISO witness Dr. Harvey:

[t]here is no question that if presented with different prices at alternative scheduling points with a single Balancing Authority Area, market participants will schedule transactions along a contract path external to the Balancing Authority Area to the scheduling point with the most favorable price. This kind of behavior has been repeatedly observed and

continues to be observed in other markets. There is no need to wait to see what happens in California.^[13]

26. The CAISO argues that, because of the incentive of an LMP market and the lack of transaction-specific data, it cannot ensure that an interchange transaction scheduled day-ahead at any particular intertie scheduling point is consistent with the location of the generation and loads actually dispatched to implement the interchange transaction in real time. Thus, instead of modeling and pricing interchange transactions with the SMUD and Turlock balancing authority areas as if the associated energy injections or withdrawals were located at one of their 12 interconnection points, the proposed SMUD-Turlock IBAA is configured as a single hub external to the CAISO with default modeling and pricing points for all interchange transactions.

a. **Comments and Answers**

27. The California PUC, PG&E, SDG&E and SoCal Edison generally support the CAISO's IBAA proposal. The California PUC supports a long-term IBAA solution with more accurate pricing points and believes that there should be an effective exchange of detailed information on day-ahead schedules (not just settlement prices) on all generation units and interties that have an impact on power flows in adjacent balancing authority areas. The California PUC generally supports a solution that would alleviate the possible negative consequences to the CAISO-controlled grid and the CAISO's market participants that could result if adjacent balancing authority areas do not identify certain resources supporting their scheduled interchange transactions.

28. PG&E agrees with the CAISO that using contract path schedules to determine prices – as opposed to actual physical power flows – leads to adverse economic and reliability impacts. According to PG&E, failure to reflect, as accurately as possible, the location of resources used to implement interchanges between neighboring control areas can result in less consistency between scheduled transactions in CAISO markets and the physical operations of the CAISO grid, which can create adverse reliability impacts.

29. Several entities protest that the CAISO's proposal will result in incorrect LMPs. Western is concerned that CAISO has not performed or provided any compelling numerical analysis in support of the proposal. Western and LADWP claim that the IBAA proposal fails to properly assign LMPs at intertie scheduling points that reflect either the actual value of energy or congestion. TANC asserts that the CAISO already receives WECC and NERC required reliability data which allows the CAISO to operate the grid in a reliable manner. Santa Clara claims that the LMPs under the IBAA proposal will be inaccurate because the proposed modeling approach ignores schedules on the COTP that

¹³ See *id.*, Ex. No. ISO-3 at 7 (Harvey Affidavit).

will deliver energy into the SMUD-Western control area, thus the IBAA proposal will lead to inaccurate modeling that does not realistically approximate actual flows.

30. SMUD disagrees with the CAISO assertion that the CAISO's proposal is an improvement over both the current scheduling and pricing mechanism, arguing that the CAISO has offered no information supporting such a claim. SMUD asserts that it is possible that the CAISO's proposal, in practice, could actually do more harm than good. SMUD and Modesto question the CAISO's failure to study potential "ripple" effects of its proposal on other parts of the CAISO. SMUD argues that, because changing LMPs at the SMUD-Turlock IBAA pricing points will affect pricing elsewhere, any inaccuracies in LMPs at that interface would create inaccurate pricing at other balancing authority interconnections as well.¹⁴

31. SMUD contends that the data the CAISO uses to support its claim that significant discrepancies exist between scheduled and actual flows pertaining to the SMUD balancing authority is inaccurate. SMUD cites three major flaws in the CAISO's data. First, the data covers a period with a record system peak which is not representative of the actual pattern of divergence between scheduled and actual flows.¹⁵ Second, SMUD's own evaluation of actual flow data for the date the CAISO selected indicated that in fact there was not one hour where the actual flows were reversed in the CAISO to SMUD direction.¹⁶ Furthermore, the CAISO's use of a bare, unweighted percentage of flow reversals says nothing of the magnitude of individual reversals. SMUD argues that, unless the CAISO can prove that flow reversal were both persistent and significant, the evidence is meaningless.¹⁷

32. In its answer, the CAISO recognizes that the single hub approach is a compromise, and asserts that absent more specific information that will allow accurate modeling of physical flows, it is a reasonable approach. The CAISO asserts that external entities scheduling interchange transactions with the CAISO are not the same as internal entities where the CAISO knows the location of the resources that are dispatched. The CAISO also maintains that in order to get locational prices, like CAISO market participants, external entities must provide sufficient data about their transactions similar to the data provided by market participants. The CAISO further explains that in an LMP market, the

¹⁴ SMUD July 8, 2008 Protest at 19.

¹⁵ *Id.*, Ex. SMUD-3 at 24.

¹⁶ *Id.*, Ex. SMUD-3 at 40.

¹⁷ *Id.* at 43.

specific location of resources is important and not just the net scheduled interchange of an adjacent area.¹⁸

33. In response to Santa Clara's concern regarding COTP schedules, the CAISO contends that for transactions that are not scheduled into the CAISO system, the CAISO will not receive market or any other information regarding the use of the COTP in the timeframe of either the CAISO's day-ahead market or hour-ahead scheduling process, which are the primary tools for scheduling interties in a reliable manner. The CAISO concludes that it will not model full COTP schedules in its market systems and applications.

b. Commission Determination

34. As discussed below, we find the CAISO's proposed single hub method for modeling and pricing interchange transactions with the SMUD/Turlock IBAA to be just and reasonable. Given the level of information available to the CAISO to accurately model the power flows associated with interchange transactions, we find that a single hub approach is consistent with the goals of MRTU in ensuring feasible schedules and establishing accurate LMPs for effective congestion management on a reliable, least cost basis.

35. One of the primary goals of MRTU is to ensure that day-ahead schedules are physically feasible by having the full network model consider all transmission constraints and generator operating limitations.¹⁹ The CAISO will use the full network model to calculate LMPs, which are intended to communicate the market value of electricity at each location and the cost associated with congestion between any two locations. This will create financial incentives to dispatch the lowest cost energy, while considering all transmission bottlenecks.²⁰ Interchange transactions between the CAISO and neighboring systems may have a significant effect on the real-time flows and transmission constraints on the CAISO-controlled grid and therefore will affect LMPs. We therefore agree with the CAISO that it is necessary to accurately predict and

¹⁸ An LMP market bases prices on generation and load at specific points in a balancing authority area. Net scheduled interchange is the sum of load, generation, losses, and interchange transactions for a balancing authority area. Thus, net scheduled interchange is an aggregation of information that may not support an accurate implementation of LMP, which requires disaggregated data from points throughout the system.

¹⁹ September 2006 Order at P 5.

²⁰ *Id.*

recognize actual physical flows associated with interchange transactions to avoid real-time congestion that results from infeasible schedules and to ensure that accurate LMPs are developed, which will in turn provide accurate signals to market participants to operate in a manner consistent with reliable grid operation and economic efficiency.

36. The CAISO has the authority under the MRTU Tariff to model external transmission systems in order to help accurately model power flows and manage congestion.²¹ But without the IBAA proposal, the CAISO will continue to model interchange transactions with adjacent balancing authority areas as if the external resource supporting the transaction is located at the intertie scheduling point selected by the seller.²² This radial model approach may be adequate if the interchange schedules have similar impacts on transmission constraints regardless of which intertie line actually carries the flow. However, radial modeling will tend to be inaccurate for interchange transactions with an IBAA that contains a high degree of parallel transmission and a large number of interconnections with the CAISO. For such an IBAA, the real time flow may diverge significantly from the flows predicted in the schedules. For example, as external participants respond to incentives to schedule transactions via the contract path having the most favorable LMP, irrespective of the actual power flows, differences between scheduled and actual flows will occur.

37. The CAISO's analysis shows that there are already substantial differences between scheduled and actual flows that occur between the CAISO and the SMUD/Turlock IBAA. The CAISO compared actual flows on interties with final intertie schedules for the week that contained the system peak recorded on July 24, 2006. Differences between scheduled contractual use of transmission and actual physical flows between the CAISO and the SMUD and Turlock balancing authority areas at times frequently amounted to hundreds of megawatts.²³ For the southern interties to the Western, Modesto and Turlock networks, scheduled exports from the CAISO averaged 345 MW, while actual flows out of the CAISO averaged 817 MW, with the maximum difference reaching 1,035 MW.²⁴

38. The CAISO also analyzed the number of hours in which actual direction of flows is reversed from scheduled directions on the SMUD-Turlock intertie scheduling points for the period from December 1, 2006 through November 30, 2007. The CAISO indicates that for two of the interties, the direction of flows reversed during 67 and 73

²¹ *Id.* P 45-46; *see also* MRTU tariff section 27.5.3.

²² CAISO June 17, 2008 Filing, Ex. ISO-1 at 12 (Rothleider and Price Testimony)

²³ *Id.*, Ex. ISO-1 at 21-24.

²⁴ *Id.* at 23.

percent of the hours. On four other interties, the flows were reversed from 33 to 45 percent of the hours.²⁵

39. SMUD asserts that actual flow data published in figures 1 and 2 of exhibit ISO-1 is significantly different than the actual metered flow data measured by SMUD. We have reviewed the data presented by SMUD and find that there were still hundreds of megawatts in differences between scheduled and actual flows at the Cottonwood and at the combined Rancho Seco/Lake substations.²⁶ We also disagree with SMUD that analyzing peak periods is inappropriate: it is during such times that effective congestion management is particularly important and unjust and unreasonable prices are more likely to occur. Further, the CAISO has provided data demonstrating that differences between scheduled and actual flows for the week covering the system peak as well as for a full year.²⁷ The Commission disagrees with SMUD that the CAISO's data on flow reversals says nothing of the magnitude of individual reversals. We find that the system peak data addresses the magnitude of such reversals, while the full year data addresses persistence of the reversals. Therefore, we find that the CAISO has demonstrated that these differences are significant and persistent and will reject SMUD's arguments.

40. Under the existing radial modeling approach, such differences between scheduled flows in the day-ahead market and actual flows in real time will cause adverse operational and market impacts on the CAISO in at least three ways. First, the CAISO's model may not identify or may mask congestion in the day-ahead market that would be present in real time, or may result in unit commitment and dispatch decisions in the day-ahead market that are not feasible in real time. The CAISO must then scramble in real time to re-dispatch generation so as to relieve the constraint and allocate the costs of this re-dispatch as uplift to CAISO load. Second, the day-ahead market may model congestion that does not ultimately occur in real time. This "phantom" congestion leads to market inefficiencies as sellers receive artificially high payments to relieve congestion that does not exist. Third, external sellers may receive an artificially high payment for relieving congestion that their interchange transactions cannot actually resolve, while the CAISO must dispatch high cost internal generation to solve the transmission constraint in real time.²⁸

²⁵ *Id.*, Ex. ISO-1 at 37.

²⁶ See SMUD July 8, 2008 Protest, Ex. SMUD-3 at 38-41.

²⁷ See CAISO June 17, 2008 Filing, Ex. ISO-1 at 37, Attachment A.

²⁸ *Id.*, Ex. ISO-3 at 18-20.

41. Under the proposed single hub approach, the CAISO would establish proxy buses at a location on the external IBAA grid to calculate the likely impact on the CAISO-controlled grid of the combined changes in resources in the external IBAA that would occur to support a change in the level of scheduled net interchange. Stated differently, the proxy bus would be used to represent the “electrical center” of the neighboring balancing authority area that would reflect how that system would increase or decrease generation to support an interchange transaction. Accordingly, we find that the CAISO’s single hub approach is an appropriate method to model and price interchange transactions that will help minimize the difference between scheduled and actual flows so that the CAISO can operate its system on a reliable, least cost basis.

42. As the CAISO explains, location is a key input to the calculation of LMPs.²⁹ Absent more specific information, such as that provided in an alternative pricing arrangement under an MEEA, the CAISO must make an assumption about the location of an external resource. Since external entities do not bear all of the costs and responsibilities of RTO or ISO membership, they are not entitled to receive all of the benefits.³⁰ In Order No. 2000, the Commission expressed concern that non-participating transmission owners may receive the benefits of an RTO without accepting any of the burdens of participation in the RTO. The Commission allowed RTOs to propose rates, terms, and conditions of transmission service that recognize the participatory status of the customer.³¹ In this case, if external entities do not submit sufficient information about the location of specific resources supporting their transactions to enable accurate price modeling by the RTO, they cannot be considered comparable to market participants, and are not entitled to receive the benefit of a location-specific price, particularly where their failure to supply such information may raise costs to other participants in the CAISO in the form of uplift.

43. We agree with the California PUC that a more effective exchange of detailed information on day-ahead schedules could improve operations between the CAISO and adjacent areas, and we encourage the California PUC to raise these comments in the event an MEEA is filed with the Commission. We discuss this below in the section on MEEAs.

²⁹ See *id.*, Ex. ISO-1 at 8; Ex. ISO-2 at 10-11; Ex. ISO-3 at 12.

³⁰ *Regional Transmission Organizations*, Order No. 2000, FERC Stats. & Regs. ¶ 31,089, at 31,180 (1999), *order on reh’g*, Order No. 2000-A, FERC Stats. & Regs. ¶ 31,092 (2000), *aff’d sub nom. Pub. Util. Dist. No. 1 of Snohomish County, Washington v. FERC*, 272 F.3d 607 (D.C. Cir. 2001).

³¹ *Id.* at 31,180.

44. In response to commenters who claim that the proposal will result in incorrect LMPs, we recognize that absent specific locational information of resources supporting an external transaction, the CAISO must make assumptions in its modeling and pricing calculations. We find that it is reasonable that the CAISO make assumptions that more accurately model actual power flows in order to calculate prices according to its LMP methodology rather than use unverifiable data that it knows to be incorrect. Santa Clara further argues that the CAISO should model all COTP schedules, not just COTP schedules that ultimately sink in the CAISO. While we agree that more information would be helpful to produce a more accurate model of the effects on the CAISO-controlled grid, modeling all COTP schedules is not necessary for purposes of modeling and pricing interchange transactions.

45. SMUD and other commenters argue that the CAISO has not performed a sufficient analysis to ensure that the IBAA proposal will not do more harm than good, including the possibility that the IBAA proposal will create inaccurate pricing elsewhere. Once the CAISO incorporates the IBAA functionality into the MRTU market systems, the CAISO will have at least several months of market simulation testing before the start of MRTU. Furthermore, the September 2006 Order requires the CAISO to file monthly status reports on MRTU implementation, including the status of LMP testing and production and market simulation.³² The CAISO must also file with the Commission a certification of market readiness 60 days before MRTU start-up and then file quarterly status reports post-implementation.³³ Accordingly, we believe the CAISO has sufficient time and testing in place to ensure that the IBAA proposal will result in more accurate modeling and pricing overall.

46. In response to commenters' concerns about the effects of the proposal on prices outside of the CAISO markets, we reiterate that the CAISO pricing is calculated by the CAISO according to its methodology. Any pricing system in an interconnected network has impacts on neighboring systems. The CAISO has explained that it will use external data to calculate accurate LMPs for transactions on its system, but will not impose LMPs on outside areas.

³² September 2006 Order at P 1415. *See also, e.g.*, MRTU Readiness Criteria Dashboard at 1, 10-16 (Jul. 31 2008) (“These readiness criteria will help the CAISO to determine the status of design elements and processes that must be in place to ensure implementation of MRTU Release 1 without undue risk to the CAISO or its Market Participants”).

³³ *Id.* P 1414, 1417.

47. Similarly, we disagree with commenters who argue that the IBAA proposal improperly empowers the CAISO to apply LMPs to facilities external to and independent of the CAISO. Consistent with NERC and WECC scheduling practices, entities will continue to schedule transactions at intertie scheduling points. The IBAA proposal will only change the price available at the relevant intertie scheduling point for CAISO markets.

48. In response to TANC's assertion that the CAISO already gets required reliability information, we agree that the CAISO already has access to the necessary data to reliably operate the system. However, these data cannot be used to determine the appropriate pricing for external transactions because the CAISO does not receive transactional and scheduling information that would affect the price of the transaction. Further, the CAISO cannot use the data it receives pursuant to reliability standards for market purposes. The IBAA proposal addresses use of generator-specific data in the calculation of accurate prices with the new MRTU LMP methodology. As the CAISO states in its answer, the IBAA proposal addresses information to verify the real-time dispatch of external resources used to implement interchange transactions, which is different from electric topology information.³⁴

2. Single Hub Approach vs. Multiple Hub Approach

49. The CAISO states that prior to developing its single hub proposal, it had contemplated a multiple hub proposal, which would have established six pricing points or sub-hubs³⁵ for the SMUD/Turlock IBAA. The CAISO explains that, without detailed information from market participants verifying the location and operation of resources supporting interchange transactions, a single hub approach provides a more accurate model than a multiple hub approach.³⁶ The CAISO maintains that the benefits of a multiple hub approach are dependent on an accurate representation of the marginal resources actually supporting the import and export schedules and bids.³⁷ The CAISO states that the single hub proposal protects its ratepayers from unreasonable charges, addresses the CAISO's lack of information regarding location and operation of external

³⁴ CAISO August 8, 2008 Answer at 48.

³⁵ These pricing points were: (1) a SMUD hub; (2) a Western hub; (3) a Modesto hub; (4) a City of Roseville hub; (5) a Captain Jack hub; and (6) a Turlock hub.

³⁶ CAISO June 17, 2008 Filing at 20.

³⁷ *Id.* at 21 and Ex. ISO-2 at 8.

resources supporting interchange transactions, eliminates poor scheduling incentives, and improves modeling accuracy as compared to radial modeling.³⁸

a. **Comments and Answers**

50. PG&E agrees with the CAISO that its limited knowledge of the IBAA systems will lead to infeasible schedules and could result in gaming. PG&E contends that in the absence of specific information, market participants have the ability to manipulate energy schedules for the purposes of inappropriate arbitrage. It argues that the CAISO's IBAA proposal helps protect consumers being served through the CAISO's grid.

51. Commenters contend that the type of scheduling activities cited by the CAISO amount to gaming and are not likely to occur. Western states that its transmission system is almost fully utilized, therefore, it would not expect financial marketers to be able to game the system from Western's sub-balancing authorities in the ways the CAISO represents. SMUD asserts that the probability of gaming is low because it uses network service to purchase power from sources in the Northwest primarily to serve native load and operates under an open access tariff modeled in large part on the Commission's *pro forma* open access tariff. Santa Clara argues that gaming would not be economical because the cost of the type of circular schedules identified by the CAISO would be about \$36.00 for a one-MW schedule. Santa Clara argues that the potential gain is much less than the transaction cost it estimates to be in the range of \$2.50 to \$4.00 per MWh.³⁹ Modesto adds that the transmission interface points between Turlock, SMUD and the CAISO are geographically close and thus the LMP should not be grossly different between the CAISO and the other IBAA entities.

52. TANC argues that a price differential is a market signal that the higher priced point has a greater need for the energy and therefore is willing to pay a premium to receive that energy. TANC adds that responding to market signals is not alone evidence of anomalous behavior but rather evidence of sound business practice. TANC concludes that market participants should not be punished for deficiencies in the CAISO's modeling.

53. Other commenters argue that the CAISO's alleged concern is theoretical as no evidence has been presented that there is an actual problem. They assert that implementation of a solution should be delayed until the CAISO can provide evidence of

³⁸ The CAISO provides two examples to illustrate the incentives that would have manifested themselves under the multiple hub proposal. CAISO June 17, 2008 Filing at 24 (citing Ex. ISO-1 at 9-11; Ex. ISO-2 at 7-10).

³⁹ Santa Clara July 8, 2008 Protest at 36, Ex. SVP-1 at 18.

actual market manipulation. According to SMUD, Commission precedent suggests that initiatives made to address market behavior should be reserved for addressing actual, rather than theoretical, problems.⁴⁰ Imperial asserts that, similar to the approach it took in addressing the CAISO's proposed tariff amendments on uninstructed deviation penalties, should the Commission accept the CAISO's proposal, that proposal should not be allowed to take effect until 30 days after the CAISO has demonstrated that actual market manipulation occurred resulting in unjust and unreasonable rates to CAISO ratepayers.⁴¹ Santa Clara claims that the eastern RTOs waited to determine if a problem existed before implementing proxy hubs.

54. Commenters suggest that gaming or manipulation concerns can be addressed by clear rules of the road and active market monitoring. Santa Clara and Imperial contend that there are already numerous tools in place to deter individual market participants from engaging in market manipulation. Imperial points to Commission rules and CAISO Tariff provisions that prohibit false and deceptive scheduling practices and establish sanctions for proven violations, arguing that additional speculative and preemptive measures such as the IBAA's proposal are unnecessary.⁴² Santa Clara maintains that there are severe financial penalties of \$1 million per day per violation if a utility is found to have violated a Commission rule or order. Western contends that it is receptive to working with the CAISO and others to develop a market monitoring committee to identify and report suspected gaming activities. Imperial asserts that the CAISO could use NERC tagging data to determine when day-ahead schedules do not match real-time and actual flow and then contact the neighboring balancing authority to request further assistance in resolving the issue.

55. Santa Clara and SMUD argue that the CAISO should address the issue on a system-wide basis rather than singling out SMUD and Turlock. Santa Clara contends that, based on the CAISO's LMP study data, gaming is more likely to take place between

⁴⁰ SMUD July 8, 2008 Protest at 36 and July 29, 2008 Answer at 9 (citing *Standards of Conduct for Transmission Providers*, 122 FERC ¶ 61,263, at P 37 (2008) (refusing to adopt rules aimed at "theoretical instances of abuse" in the absence of "actual abuse") (citing *National Fuel Supply Corp. v FERC*, 468 F.3d 831 (D.C. Cir. 2006)); *The Electric and Water Plant Board of the City of Frankfort, Ky. v. Ky. Utilities Co.*, 20 FERC ¶ 61,173, at 61,346 (1982) ("We must be concerned with reasonable probabilities not ephemeral probabilities")).

⁴¹ Imperial July 8, 2008 Protest at 55.

⁴² *Id.* at 32 (citing 18 C.F.R. § 1c.2 (2007); 16 U.S.C. § 823b (2006); CAISO Fourth Replacement Tariff, Vol. No. 1 §§ 37.5.1, 37.7, 37.5.1.2, 37.9).

southern California interties and adjacent balancing authority areas in the south where price spreads were considerably larger than between northern California interties and adjacent balancing authority areas.⁴³ SMUD argues that following the CAISO's logic, it would make sense for the CAISO to create proxy hubs at all of the CAISO's interfaces with adjacent balancing authorities to prevent gaming incentives from shifting from one area to another.

56. According to Western, single hub pricing is a step backwards in terms of moving from zonal to nodal markets.

57. In its answer, the CAISO asserts that monitoring alone may not prevent inappropriate scheduling. It contends that improper incentives have been identified and therefore should be addressed. It adds that the need to address these inappropriate scheduling incentives is reinforced a recent filing by the New York ISO, which seeks to obtain new authority to preclude the "scheduling of certain external transactions over circuitous scheduling paths around Lake Erie to take advantage of a 'seam' between the methods that are used by the organized markets in the Eastern Interconnection to price External transactions."⁴⁴

b. Commission Determination

58. Contrary to certain commenters' assertions, the CAISO is not barred from addressing concerns regarding artificial scheduling absent evidence of actual manipulation. Regarding protests that the CAISO's artificial scheduling concerns are purely theoretical and unlikely to occur, we believe the experience from the eastern RTOs provides compelling evidence that, as a general matter, organized markets with LMPs create opportunities through artificial scheduling to arbitrage price differences at intertie scheduling points. We believe that evidence from the eastern RTOs is clear that the concern is not theoretical. We find that the "wait and see" approach advocated by several parties could result in unjust and unreasonable prices for CAISO customers.

59. Further, the Commission denies SMUD's protests regarding the alleged theoretical nature of the problem. In approving the IBAA proposal, the Commission is relying on record evidence of the operational effects the current scheduling practices have on real-time operations because of the artificial day-ahead schedules. This evidence, in

⁴³ Santa Clara July 8, 2008 Protest at 26-27, Ex. SVP-1at 15-25, Ex.SVP-2 at 47-48, 50-51.

⁴⁴ CAISO August 8, 2008 Answer at 7 (citing New York ISO July 21, 2008 filing in Docket No. ER08-1281-000 at 3-4).

conjunction with the evidence from the eastern RTOs, is sufficient to show that the CAISO's concern is not theoretical.⁴⁵

60. Western argues that the single hub approach is a step backwards when moving from zonal to nodal markets. With sufficient information from neighboring entities, a multiple hub approach would provide more accurate prices than a single hub approach. However, without detailed information from neighboring entities to verify that schedules are a reasonable representation of actual flows, a multiple hub approach will result in less accurate pricing than a single hub approach. Since the CAISO does not currently have the detailed information it needs to verify transactions, a default single hub approach is appropriate.

61. Finally, Santa Clara and SMUD argue that, given the CAISO's concerns with gaming, the CAISO should establish proxy buses on a system-wide basis.⁴⁶ We agree that a solution that accurately models the transmission system and power flows for the entire Western Interconnection would be preferable. However, such a solution does not appear feasible in the near term, and we therefore agree that it is not unreasonable for the CAISO to focus its efforts on the neighboring balancing authority areas which have the greatest impact on the CAISO. Further, while the particular characteristics of the SMUD and Turlock balancing authority areas warrant the establishment of an IBAA at this time, as discussed above, the tariff language we are conditionally approving in this order enables the CAISO to establish, subject to Commission approval, additional IBAAAs should transmission congestion patterns change or the CAISO identify problems caused by interchange transactions with other neighboring balancing authority areas.

62. We find that there is insufficient information in the record to clearly assess whether the artificial scheduling examples provided by the CAISO amount to gaming or market manipulation. The CAISO's transition to MRTU is in part to ensure appropriate modeling and pricing of the transmission system and CAISO's markets. This proposal furthers that goal, and the CAISO need not show that the artificial scheduling practices discussed would constitute gaming or market manipulation.

63. Further, we agree with the CAISO that relying on behavioral market rules would require extensive market monitoring and investigation, and potential violations would need to be referred to the Commission's Office of Enforcement for investigation and enforcement.⁴⁷ And as the CAISO witnesses Hildebrandt and Harvey explain, even if

⁴⁵ See, e.g., CAISO June 17, 2008 Filing, Ex. ISO-1 at 21-27, 37.

⁴⁶ The Commission discusses concerns regarding discrimination in section IV.D, below.

⁴⁷ CAISO June 17, 2008 Filing, Ex. ISO-2 at 14; see also *New York Independent* (continued)

market participants do not intentionally misrepresent the actual location of resources supporting intertie schedules, differences in sub-hub prices create an incentive for bilateral trading between different participants that could produce the same result as an intentional misrepresentation of the location of resources. For example, Dr. Harvey points to events in PJM in which one participant would purchase an export at a low priced sub-hub while making a sale at a higher priced sub-hub to a second participant. This transaction would then enable the second participant to sell additional imports from the higher priced sub-hub into PJM.⁴⁸ Dr. Harvey explains that similar scheduling could occur in the CAISO without the IBAA proposal. Accordingly, we find that, while helpful, behavioral rules and active market monitoring may not be the only part of the solution to the infeasible schedule problems and related issues.⁴⁹ The CAISO IBAA proposal addresses the issue directly.

3. Default pricing of imports and exports

64. The CAISO proposes to use Captain Jack as the default pricing point for imports and SMUD hub as the default pricing point for exports. The CAISO contends that by choosing the Captain Jack and the SMUD hub default locations, the CAISO reduces the likelihood that market participants will take advantage of potential artificial price differences between the Captain Jack and Malin scheduling points⁵⁰ that could occur if a different and higher-priced default location were used for imports to the CAISO from the SMUD-Turlock IBAA.

65. The CAISO explains that as part of its obligation to ensure that prices on its system are just and reasonable and that it manages congestion in a cost-effective manner, the CAISO must establish an appropriate price and appropriate terms for sales and purchases. The CAISO states that it must eliminate inappropriate price incentives and

System Operator Inc., 124 FERC ¶ 61,174 at P 32 (NYISO)(indicating that the Commission's Office of Enforcement began a non-public investigation under Part 1b of the Commission's regulations into the scheduling of flows over circuitous routes around Lake Erie to take advantage of differences in the way RTOs price transactions that exit their systems).

⁴⁸ *Id.*, Ex. ISO-2 at 11-12; Ex. ISO-3 at 31-37.

⁴⁹ See NYISO at P 28 (noting the NYISO's suggestion that market monitoring rules may preclude prompt identification and resolution of possible market manipulation).

⁵⁰ CAISO June 17, 2008 Filing, Ex. ISO-1 at 58. The CAISO expects that the prices at the Captain Jack and the Malin substations will typically be the same because a low-impedance transmission line that is not usually congested separates the two points.

reduce the risk to its market participants of paying prices that are too high and paying for real-time redispatch when the CAISO procures power that is not representative of its value for managing congestion.⁵¹ In the absence of information verifying that SMUD and Turlock dispatch their own internal resources to support scheduled imports to the CAISO, the CAISO believes that the Captain Jack pricing point reasonably approximates the resources likely to support imports into the CAISO from the SMUD-Turlock IBAA. Likewise, the CAISO contends that the SMUD hub is a reasonable approximation for exports, arguing the SMUD-Turlock IBAA has the greatest amount of load and therefore it is reasonable to assume that exports from the CAISO would serve load in the SMUD-Turlock IBAA.

a. Comments and Answers

66. According to PG&E, the default pricing points under the IBAA proposal appear to be reasonable approximations of the marginal resources likely to support imports and exports. PG&E states that the CAISO has determined that these injection and withdrawal locations reflect the impacts of actual power flows on the CAISO-controlled grid as accurately as possible given the information currently available to the CAISO.

67. Several commenters disagree with the selection of Captain Jack and SMUD hub as the import and export pricing points and the assumptions behind the CAISO's choice of those points. SMUD argues that CAISO has not demonstrated that the proposed IBAA pricing mechanism is reasonable, and the CAISO has all but admitted that the default pricing is unreasonable. SMUD maintains that the CAISO's own admission that the IBAA proposal will result in inaccuracies so frequent and severe that it anticipates revising the proposal soon after implementation provides further proof that the CAISO recognizes the unreasonableness of the proposal.⁵²

⁵¹ *Id.*, Ex. ISO-1 at 60.

⁵² SMUD July 8, 2008 Protest at 25 (citing April 18 Draft Final IBAA Proposal at 8), available at <http://www.caiso.com/1fad/1fad12f244a990.pdf>. "The CAISO recognizes that both the Multiple or Sub-Hub and Single- Hub based IBAA modeling approaches have limitations with respect to modeling accuracy. Both approaches ignore the potential effects of unscheduled loop flows from both within the IBAA systems (base load schedules of internal IBAA generation on-line to serve native load) as well as from regional schedules/transactions....the Single-Hub modeling approach will model all import and export intertie transactions scheduled between the CAISO and IBAA as originating at specific points when in fact we know that not all intertie transactions (import or export) are sourced from one location....To address these deficiencies, the CAISO proposes to implement future enhancements to the IBAA methodology. Based

(continued)

68. TANC and Turlock argue that the pricing proposal is unjust, unreasonable and anti-competitive. TANC maintains that by setting the lowest priced LMP for imports, the CAISO's default pricing reflects an exercise of market power and is not just and reasonable. DOE-Berkeley contends that the IBAA proposal would place the CAISO in a position to manipulate markets between itself and adjacent balancing authority areas in such fashion as to favor itself or such other entities as it chooses.

69. TANC and Turlock dispute the choice of Captain Jack for pricing imports since it is over 300 miles away from those control areas, in Oregon, and not in the CAISO or SMUD balancing authority areas, regardless of the source of energy. Turlock states that it is inappropriate to use Captain Jack as the hub price since it is neither the interconnection nor generation point for imports. Turlock claims that this inappropriately extends the CAISO's authority over non-CAISO-controlled grid facilities and bases prices off an interconnection point between two balancing authority areas that are not part of the CAISO. Turlock further argues that pricing marginal losses and congestion at Captain Jack is inappropriate and violates the principle of cost causation.⁵³ Santa Clara maintains that CAISO's argument that it is inappropriate to price imports at Tracy because no generation exists there is equally true at Captain Jack. Thus, according to Santa Clara, the CAISO's justification for modeling COTP and Western base resources at Captain Jack is contrary to its justification for declining to model these same resources at Tracy. Santa Clara maintains that the result of this arbitrary, selective process ultimately increases the costs of delivering power to Santa Clara, and devalues the COTP and Western resources.

70. Turlock contends that the CAISO proposal is not the same as the "proxy bus" mechanism used by the eastern ISOs and RTOs. Turlock points out that the NYISO has multiple scheduling interfaces between two control areas, and cites the example of the New York/New England AC Proxy Bus and Cross Sound Cable Proxy Bus, where each is separately scheduled and priced.

71. TANC argues that, although the COTP and PACI lines are fungible high voltage transmission lines, the pricing of COTP imports into the CAISO at Captain Jack treats COTP transactions differently and accords preferential treatment to the portions of the

on the frequency and severity of the inaccuracies resulting from the implementation of CAISO's initial IBAA methodology (Single Hub), the CAISO may elect to implement these enhancements as soon as several months after MRTU start up."

⁵³ Turlock July 8, 2008 Protest at 25 (citing *New England Power Pool, New England Indep. Sys. Operator*, 105 FERC ¶ 61,317, at P 22 (2003); *New York Indep. Sys. Operator, Inc.*, 102 FERC ¶ 61,284, at P 14 (2003)).

PACI facilities under the CAISO's operational control. It states that the COTP schedule will pay for 345 miles of transmission but will be priced as if it never left the Pacific Northwest. TANC and Turlock conclude that this provides the CAISO-controlled facilities with an undue pricing preference.

72. According to SMUD and WestConnect,⁵⁴ the CAISO's IBAA pricing proposal is predicated on the false assumption that all imports into the CAISO from the IBAA entities are sourced from the Pacific Northwest at the Captain Jack substation. SMUD contends that the CAISO itself essentially admitted to stakeholders that it knows this assumption to be untrue in an earlier draft of the IBAA proposal.⁵⁵ SMUD and WestConnect argue that if the CAISO assumes for CAISO exports that SMUD has the greatest amount of load in the IBAA and "any export would reduce higher cost generation within the SMUD-Turlock balancing authority area," then it would be illogical to assume that Northwest exports would not also be used to reduce high cost generation to the IBAA. SMUD and WestConnect assert that the CAISO's claim that Northwest resources would be used to supply CAISO markets rather than SMUD load is at odds with the very rationale it provides for choosing the single price hubs.

73. Santa Clara and WestConnect disagree with the contention that COTP imports of Northwest resources are marginal. According to Santa Clara, the COTP provides access to the lowest cost source of supply to meet base supply needs and these supplies are imported using facilities constructed by TANC members for this precise use. Santa Clara maintains that the CAISO applies faulty logic in assuming that imports to the CAISO would result from the neighboring balancing authority area incrementing the lowest cost unit (i.e., energy from the Northwest).⁵⁶ Santa Clara argues that the actual marginal resources are usually gas-fired resources located in California, not resources from the Pacific Northwest. Therefore, Santa Clara states that, because the Northwest resources are likely to be the first dispatched, as opposed to units dispatched on the margin when price opportunities appear, it is unnecessary to create artificially low LMPs for their imports at Tracy to prevent gaming opportunities.

74. Western and TANC argue that, under the CAISO's IBAA proposal, a generator from the SMUD balancing authority area will receive the same LMP as a generator from the Pacific Northwest, which ignores the generator's significant congestion management

⁵⁴ State Water Project shares the concerns of SMUD and WestConnect regarding the CAISO's default pricing proposal. *See State Water Project July 8, 2008 Comments.*

⁵⁵ SMUD July 8, 2008 Protest at 24 (citing April 18 Draft Final IBAA Proposal at 8).

⁵⁶ Santa Clara July 8, 2008 Protest at 41, Ex. SVP-2 at 51.

benefits. Western maintains that, if the generator could provide significant congestion management relief, under an economic model, it should have a higher value to provide the market signals necessary for the generator to sell energy into the CAISO balancing authority area.

75. Santa Clara argues that the hypothetical gaming opportunities identified by the CAISO will not be resolved by the CAISO's proposal. Santa Clara theorizes that the price disparity between Captain Jack and Malin will enable an entity to buy from Malin and sell to Captain Jack. While the price spread between Malin and Captain Jack will typically be small, Santa Clara maintains that the same is true of all of the interchange points addressed by CAISO's proposal.

76. Santa Clara maintains that the CAISO's arguments that COTP schedules cause congestion on the CAISO's 230 kV system do not justify a COTP price at Captain Jack. It argues that the COTP does not significantly impact congestion on the CAISO's 230 kV system.⁵⁷ Santa Clara also notes that the CAISO admits that there will be minimal congestion on the 500 kV system between Malin and Tesla and between Captain Jack and Tracy.

77. DOE-Berkeley argues that unilateral authority to change a purchaser's settlement point would amount to *de facto* authority to unilaterally change the purchaser's costs. DOE-Berkeley explains that, because much of the energy which it purchases under long-term agreements is sourced from the Pacific Northwest using its COTP transmission rights, it is adversely affected by the IBAA proposal. DOE-Berkeley argues that the identification of the node at which energy it purchases from remote sources is assumed to enter the grid is crucially important because DOE-Berkeley will pay the CAISO the difference between: (1) the hourly LMP at the node at which the energy enters the CAISO grid from the adjacent balancing authority area; and (2) the hourly LMP at the node at which the energy leaves the grid, i.e., where DOE-Berkeley is located. DOE-Berkeley contends that the IBAA proposal would depart radically from the traditional practice of identifying the nodes at which energy is transmitted from one balancing authority to another at the actual physical boundary points. NCPA states that it owns resources in the CAISO balancing authority, which it exports to NCPA members outside the CAISO balancing authority and that such exports would be adversely affected by the CAISO proposal. NCPA contends that it has members with contracts to import power to Tracy from Western and that if those imports are priced lower at Captain Jack, NCPA will incur the additional charges associated with the cost differential between Captain Jack and Tracy, even though they are contractually entitled to delivery at Tracy.

⁵⁷ Santa Clara submits results of power flow studies in Ex. SVP-3 of its July 16, 2008 Protest.

78. DOE-Berkeley further points out that the CAISO has indicated that its present plan to price imports entering its system at Captain Jack is only temporary and that it will make further changes in the settlement point as it sees fit. DOE-Berkeley argues that, due to differences in congestion and loss charges at LMPs at Captain Jack that average approximately \$4 to \$5 less than LMPs at Tracy, it estimates that it will incur additional costs of approximately \$2 million annually for continuing use of its statutory COTP rights.⁵⁸ DOE-Berkeley argues that if the Commission does not reject the CAISO's proposal for unilateral authority to change the location of settlement points, the Commission should order the CAISO to develop and implement guidelines and criteria that the CAISO must use to make any changes in settlement points, and include these guidelines and criteria in the tariff. The CAISO states in its second answer that it is not changing the settlement location for imports to the CAISO and that billing determinants for DOE-Berkeley's import transactions at Tracy will be measured at Tracy.⁵⁹

79. In its answer, the CAISO asserts that it does not have the unilateral ability to change the scope of existing IBAs or add additional IBAs since the IBAA change process is subject to Commission review.⁶⁰ In its answer, DOE-Berkeley points out that the change process proposed by the CAISO is insufficiently defined and allows the CAISO too much discretion.⁶¹

80. Santa Clara argues that the import pricing node should be Tracy, as it provides a reasonable alternative and achieves the objectives of the CAISO without the unreasonable consequences. Santa Clara maintains that pricing imports at Tracy sends appropriate price signals and avoids the problems associated with mapping imports to Captain Jack, including increasing cost of losses for Santa Clara, increasing risk of counter-flow congestion charges to Santa Clara, and exposing Santa Clara to new congestion costs. Santa Clara states that since the Western transmission facilities are highly integrated with PG&E's transmission facilities and provide reciprocal benefits within the Sacramento Valley similar to the benefits of the COTP and PACI integration, prices would be more appropriately settled at Tracy. Santa Clara disagrees with CAISO's assertion that pricing COTP injections at Tracy would lead to market uplifts. Instead, Santa Clara argues that CAISO will fully recover its marginal costs (with no uplifts) if it

⁵⁸ DOE-Berkeley July 8, 2008 Protest at 12-14 (basing its estimates on an hourly average COTP schedule of 50 MWs and a \$4.50/MWh price differential).

⁵⁹ CAISO August 8, 2008 Answer at 48.

⁶⁰ *Id.* at 17.

⁶¹ DOE-Berkeley August 7, 2008 Answer at 3-4.

correctly models total California-Oregon Intertie injections.⁶² Santa Clara further maintains that pricing at Captain Jack creates an uplift on COTP participants that leads to over-recovery by the CAISO.⁶³

81. Regarding the choice of Captain Jack and the SMUD hub as the default import and export pricing locations, the CAISO explains in its answer that absent information about whether the SMUD-Turlock IBAA is dispatching its own internal generation to support a scheduled import, the CAISO must make an assumption. The CAISO explains that it is a reasonable assumption that entities within the SMUD-Turlock IBAA have less expensive power available from the Pacific Northwest, and that this is the power likely to be used to support a transaction into the CAISO. Similarly for exports, the CAISO notes that the SMUD-Turlock IBAA has the greatest amount of load, and therefore it is reasonable to assume that exports from the CAISO would serve load in the SMUD-Turlock IBAA.⁶⁴

b. Commission Determination

82. We agree with the CAISO and PG&E that the use of default import and export pricing points in the single hub approach is reasonable. We find that the CAISO's assumptions are reasonable given the available information on interchange transactions. As described in the CAISO filing, the CAISO has appropriately chosen to make an assumption that imports are likely to flow through Captain Jack and exports are likely to flow through the SMUD hub.⁶⁵ The CAISO explains that, based on its experience in running the market, it anticipates that its proposal is needed to address unscheduled flows and effectively manage congestion, for example, the impact of modeling imports at Tracy or Captain Jack on congestion on the Table Mountain-Rio-Oso constraint.⁶⁶ We agree that the CAISO's experience as applied here is reasonable.

83. The Commission does not agree with SMUD and WestConnect that the Commission should reject the CAISO's IBAA pricing proposal because it assumes that imports into the CAISO are likely to be sourced from the Pacific Northwest at the Captain Jack substation. First, the CAISO's proposal represents a proxy price, which is an assumption about the location of a resource used to support an interchange transaction.

⁶² Santa Clara July 8, 2008 Protest at 28, Ex. SVP-2 at 28-29.

⁶³ *Id.*, citing Ex. SVP-2 at 28, 31 and 34.

⁶⁴ CAISO July 23, 2008 Answer at 53.

⁶⁵ CAISO June 17, 2008 Filing, Ex. ISO-1 at 58-60.

⁶⁶ *See id.* at 34.

The CAISO does not assert that *all* interchange transactions are sourced at Captain Jack. Rather, in the absence of additional information, it asserts that Pacific Northwest resources are likely to support interchange transactions since they are generally less expensive. Further, the CAISO has demonstrated that transactions that flow through Captain Jack have a different impact on congestion on the CAISO system than transactions that source at Tracy.⁶⁷ The CAISO will favorably model and price interchange transactions for relieving congestion when in fact such transactions can be verified as providing a positive impact on congestion in the CAISO's system. To more effectively manage congestion on the CAISO system and reduce the need for uplift charges, if the CAISO does not have information verifying an interchange transaction's source or sink, the CAISO will model and price the interchange transaction with the assumption that it increases congestion on the CAISO system, i.e., using the Captain Jack proxy point. Otherwise, the CAISO market may pay more than it should for transactions assumed to relieve congestion that actually increase congestion and also bear additional uplift charges for internal generation dispatched in real time to relieve the congestion. While a default pricing and modeling mechanism may not reflect the actual sourcing location of an interchange transaction, as the parties contend, it does reflect a conservative proxy that allows the CAISO to better manage congestion on its system and will reduce incentives for artificial scheduling. Parties have the ability to avoid any potential negative consequences through signing an MEEA with the CAISO.

84. SMUD points out the CAISO's statements that it may have to change the IBAA proposal default pricing as evidence that the proposal is unreasonable. We disagree. The IBAA proposal's default pricing is a reasonable way for the CAISO to manage congestion absent more specific information about resources supporting interchange transactions.

85. There seems to be confusion about use of the term "marginal." Santa Clara and WestConnect state that they disagree that Northwest resources are marginal. In its answer, CAISO clearly explains that by marginal resources, it means the resource that

⁶⁷ The CAISO conducted power flow studies of the impact of different transactions. For a 100 MW transaction at Captain Jack, only 15.3 percent of the power flowed through the Tracy 500 kV substation (the other 75.9 percent of the power flowed over other paths). In contrast, for a 100 MW injection at Tracy, 71 percent of the transaction flowed directly through Tracy into the CAISO. *Id.*, Ex. ISO-1 at 66. Transactions that source from the Pacific Northwest (i.e. near Captain Jack) have very little flow through Tracy. Modeling these transactions as if they source at Tracy will result in an inaccurate model of congestion, since the transaction's actual flows will not match the scheduled flows. The CAISO will have to redispatch resources in real-time, leading to uplift costs, to resolve this inaccuracy.

would be incremented to support a transaction.⁶⁸ When Santa Clara and WestConnect refer to gas-fired resources in California as marginal resources, they seem to use the term marginal resource as the last resource dispatched by CAISO to meet its load.⁶⁹ This is inherently different from the resource used by an external entity to support a specific transaction. We recognize that it can be difficult to identify a specific resource supporting an interchange transaction, especially if a balancing authority area dispatches a fleet of resources together to meet the aggregation of its load and interchange transactions. However, without additional information, the CAISO must make an assumption and we find that the assumption made was reasonable.

86. TANC and Turlock dispute the choice of Captain Jack for the import pricing point. Absent detailed information from external entities, as the CAISO has explained, the CAISO must make an assumption as to the location of external resources. The CAISO has explained that assuming Captain Jack as the import pricing point for entities that do not have an MEEA is the most reasonable assumption to capture the different scenarios.⁷⁰ The CAISO states in its answer, that consistent with the Commission-approved LMP methodology, it must be able to make a reasonable assumption regarding the location of the resources supporting the scheduled interchange transaction.⁷¹ As the CAISO explains in its answer, for a party to take advantage of locational price differences in the CAISO markets, it must demonstrate that it is delivering power at the specific location.⁷² We agree with the CAISO that it is reasonable to assume that the resources supporting specific import transactions come from the Northwest, and that this assumption will help the CAISO better manage congestion in its market.

87. We agree with Western that, for pricing purposes, a generator that is capable of providing significant congestion management relief should have a higher value to provide necessary market signals for that generator to sell into the CAISO market and relieve the constraint. However, if the CAISO cannot verify the location of a resource supporting a

⁶⁸ CAISO Answer July 23, 2008 Answer at 50.

⁶⁹ In an economic dispatch, the least-cost resources are dispatched first, and resources with increasing costs are dispatched in cost order until enough resources are dispatched to serve load. The marginal resource is generally the most expensive resource dispatched for a given load condition.

⁷⁰ CAISO June 17, 2008 Filing, Ex. ISO-1 at 34, 58-60.

⁷¹ CAISO July 23, 2008 Answer at 9. *See also* September 26 Order at P 5, 10; MRTU Tariff Section 27.1.

⁷² CAISO July 23, 2008 Answer at 9.

transaction, it cannot accurately model its impact on congestion. Entering into MEEAs, as discussed below, and sharing information with the CAISO will allow the CAISO to more accurately model congestion and will reflect the higher value of generators that relieve congestion.

88. Turlock points out that New England and New York have multiple scheduling interfaces between two control areas. We note that in the specific case Turlock cites, the New York/New England AC proxy bus and Cross Sound Cable proxy bus, one scheduling interface is dedicated to a controllable DC line (the Cross Sound Cable), while the other represents the aggregation of alternating current connections between New York and New England. The CAISO witness Harvey states, “there is no instance in which the NYISO uses more than one proxy bus to model and price scheduled interchange over the free flowing ties with a single balancing authority area.”⁷³ In the case of SMUD and Turlock, none of the interconnections are direct current where flows are directly controllable. Since all of the interconnections between SMUD/Turlock and the CAISO are alternating current and flows are interdependent, we are not convinced that there should be separate scheduling interfaces.

89. We disagree with TANC and DOE-Berkeley that CAISO’s default pricing reflects an exercise of market power. As the CAISO has explained, without detailed information from neighboring entities to verify the location of resources supporting interchange transactions, the CAISO must make a reasonable assumption. The CAISO has chosen an import pricing point based on the likely physical flows. The default pricing in the IBAA proposal is a necessary assumption to improve the accuracy of congestion modeling in the CAISO LMP system, and does not reflect an exercise of market power. As the Commission has stated previously, in the CAISO LMP system, prices at a given location will reflect the market price of what that power is worth given transmission constraints, and provides a transparent price signal reflecting the marginal cost to supply energy at specific locations.⁷⁴ In response to TANC’s argument that the CAISO treats COTP transactions differently from transactions over the PACI lines, we find that this is appropriate. Transactions over the PACI lines will already be subject to LMPs under the MRTU Tariff. Further, the CAISO has the information required to accurately model and price such transactions. In contrast, the CAISO does not have information necessary to verify the location of resources supporting interchange transactions that might flow over the COTP. Parties that do not want the default pricing can enter into MEEAs with the CAISO to get more specific pricing.

⁷³ CAISO June 17, 2008 Filing, Ex. ISO-3 at 32.

⁷⁴ September 2006 Order at P 62.

90. Santa Clara argues that neither Captain Jack nor Tracy are generation nodes, and therefore the CAISO's argument for Captain Jack is inappropriate. We disagree. The default pricing points in a single hub approach are proxy points representing the aggregated flows from a neighboring area into the CAISO. In choosing an import pricing point, the CAISO's objective was to choose a point that reflects the location of resources that support import transactions. The CAISO determined that many of these resources are located north of Captain Jack, and demonstrated through power flow studies that assuming imports at Tracy resulted in less accurate modeling than assuming imports at Captain Jack.⁷⁵ An import pricing point does not need to be a generation bus; it needs to be a point through which power from imports is likely to flow. Captain Jack meets this criterion. Flows through Tracy only reflect imports from specific resources, and absent information that import transactions are supported by these resources, the CAISO cannot assume that imports will flow through Tracy. Santa Clara also disagrees with the CAISO's arguments that the COTP schedules cause congestion on the CAISO's 230 kV system, citing its own study that shows minimal impacts on congestion.⁷⁶ The CAISO has demonstrated that modeling of COTP schedules can impact congestion on the CAISO system.⁷⁷ The CAISO witness Harvey explains that the IBAA proposal is important to more accurately model the effects of interchange transactions on transmission constraints and improve the accuracy of congestion management on the CAISO-controlled grid.⁷⁸ The example provided by the CAISO demonstrates that without more specific information, the default modeling in the IBAA proposal improves the model accuracy of the impact of interchange transactions on CAISO constraints.

91. As Santa Clara notes, the CAISO admits that there will be minimal congestion on the 500 kV system between Malin and Tesla and between Captain Jack and Tracy. This means that in periods of no congestion, the prices at Captain Jack and Tracy will be similar. However, during periods of congestion, resources actually located near Tracy are more effective in reducing congestion in the CAISO system than resources north of Captain Jack. The CAISO discusses the different dispatch costs and uplift costs for redispatch of assuming an interchange transaction flows through Tracy when it actually flows through Captain Jack.⁷⁹ If the CAISO cannot verify that resources are actually located near Tracy, the CAISO must make an assumption, and assuming that interchange

⁷⁵ CAISO June 17, 2008 Filing, Ex. ISO-1 at 66.

⁷⁶ Santa Clara July 8, 2008 Protest, Ex. SVP-3.

⁷⁷ CAISO June 17, 2008 Filing, Ex. ISO-1 at 33-34.

⁷⁸ *Id.*, Ex. ISO-3 at 6.

⁷⁹ *Id.*, Ex. ISO-1 at 27.

transactions are supported by resources that flow through Captain Jack is a reasonable assumption.

92. We recognize DOE-Berkeley's concerns that the IBAA proposal may change its costs. However, we find that the IBAA proposal is a just and reasonable methodology to determine the rate for interchange transactions. DOE-Berkeley is not entitled to the lowest rate, so long as the rate charged is just and reasonable. Further, the CAISO does not have the unilateral authority to change a settlement point. We consider a change to the default pricing point to be a fundamental component to any IBAA that has a material effect on the rates, terms and conditions of service. Therefore, the CAISO must put the default pricing points in its tariff, and any change of the default pricing points must be filed with the Commission as a change to the tariff. Accordingly, we direct the CAISO to file to amend the tariff to include the default pricing points and specify that any change to the IBAA, including the pricing points be filed with the Commission. The CAISO should file this change within 60 days of the date of this order.

4. Method for pricing losses and congestion on the COTP

93. The CAISO explains that it will enforce thermal and capacity constraints on the intertie between the CAISO-controlled grid and the IBAA as necessary for reliability, but the IBAA will continue to manage congestion within its own network. The CAISO further states it will remove the marginal loss component from IBAA facilities in its LMP model, and that it will not enforce transmission constraints within the IBAA. The LMPs that CAISO calculates will represent only the value of power injections to the CAISO at those locations, for purposes of managing congestion and losses only on the CAISO-controlled grid.⁸⁰

94. The CAISO states that it will charge for losses on scheduled flows on the CAISO-controlled grid in the day-ahead and real-time markets, but it will not charge for unscheduled flows. The CAISO clarifies that it will not charge for losses on parallel flows, i.e., flows from scheduled transactions on other transmission systems that flow over the CAISO-controlled grid.⁸¹ The CAISO explains that each balancing authority currently addresses the issue of unscheduled flows on its network within its balancing authority area. For the CAISO, the CAISO balancing authority area will generate more to make up for losses associated with unscheduled flows in real time and CAISO demand

⁸⁰ CAISO June 17, 2008 Filing at 22-23.

⁸¹ Parallel flows, unscheduled flows, and loop flows are synonymous terms and refer to power that flows on a path parallel to the contract path where it was scheduled to flow.

will bear these costs through a neutrality charge.⁸² The CAISO states that when COTP schedules are used to deliver an import to, or an export from, the CAISO-controlled grid, the CAISO charges apply only to the service over the CAISO-controlled grid facilities required to deliver the import to, or the export from, the CAISO-controlled grid; charges between the COTP transmission customer and COTP owners occur under either Western's OATT or TANC's transmission tariff.⁸³

95. The CAISO submits that as long as established scheduling limits are maintained on the California-Oregon Intertie, it does not anticipate significant flow-based congestion on the 500 kV COTP and PACI lines. However, the CAISO states that there may be congestion on the underlying (230 kV and below) transmission systems due in part to schedules on the PACI and COTP, as well as other schedules on the CAISO transmission system. The CAISO concludes that it is necessary to evaluate the impact of imports on congestion on the entire CAISO grid and to value such imports that are using the CAISO-controlled grid to service load in the CAISO based on injections at both Malin and Captain Jack.

a. **Comments and Answers**

96. According to Santa Clara, just as the CAISO's schedules on the two PACI lines result in unscheduled, parallel flows on the COTP, the schedules on the COTP will result in flows on the PACI lines.⁸⁴ Santa Clara argues that, by intentionally ignoring the schedules on the COTP that do not sink in the CAISO balancing authority area, the CAISO is intentionally underestimating the flows and resulting congestion and losses on the PACI, thereby overestimating the available capacity on the PACI, which will artificially depress the price for generation (within the CAISO control area) in the day-ahead market and artificially increase the value at Malin relative to internal generation.

97. NCPA, Turlock, Santa Clara and Modesto argue that under the CAISO proposal to price imports at Captain Jack, when TANC members use the COTP to serve their load within the CAISO balancing authority area, they will pay twice for losses and congestion on COTP imports: once under a COTP contract and once for costs the CAISO attributes to interchange transactions. Santa Clara contends that this duplicate charge by the CAISO is tantamount to pancaking, which is prohibited by Order No. 2000.⁸⁵ Santa

⁸² CAISO June 17, 2008 Filing at 50, Ex. ISO-1 at 69.

⁸³ *Id.* at 48.

⁸⁴ Santa Clara July 8, 2008 Protest, Ex. SVP-2 at 25-26.

⁸⁵ *Id.* at 30 (citing *Reg'l Transmission Org.*, Order No. 2000, FERC Stats. & Regs. ¶ 31,089 (1999), *order on reh'g*, Order No. 2000-A, FERC Stats. & Regs. ¶ 31,092

(continued)

Clara maintains that the CAISO's proposal violates the principle that double charges are to be avoided.⁸⁶ According to Santa Clara, the COTP has always been subject to charges for losses and congestion management on one system only, with one set of losses and congestion charges paid to the balancing authority area controlling the COTP, and another set of non-duplicative loss and congestion charges paid to the balancing authority area controlling the transmission from Tracy to Santa Clara's load.⁸⁷ Santa Clara explains that Western customers bear all the costs associated with COTP, including costs associated with unscheduled flows resulting from schedules into the CAISO balancing authority area on the CAISO-controlled PACI at Malin. According to Santa Clara, because COTP participants pay Western the full costs of making up losses and managing congestion on the COTP, the COTP participants pay for all losses and congestion, including the costs associated with the flows from CAISO's Malin schedules, over one-third of which flow on the COTP. In its answer, Santa Clara contends that the CAISO model assumes that Malin schedules using the CAISO grid get free use of the parallel COTP facilities, but that COTP schedules must pay for parallel flows and congestion on the PACI.⁸⁸ NCPA requests that the proposal be reformed so that it does not assess losses or congestion charges for transactions using transmission owned by or contractually committed to entities not part of the CAISO grid as if the resources were delivered to a different location than the owners of the transmission are entitled to use.⁸⁹

98. Santa Clara asserts that the CAISO's proposal would overcollect for PACI congestion and losses, because it would apply the Malin and Captain Jack prices to the total of the Malin and Captain Jack schedules, but CAISO will only incur congestion and

(2000), *petitions for review dismissed sub nom. Pub. Util. Dist. No. 1 of Snohomish County, Washington v. FERC*, 272 F.3d 607 (D.C. Cir. 2001) (“Rate pancaking occurs when a transmission customer is charged separate access charges for each utility service territory the customer’s contract path crosses.”)).

⁸⁶ *Id.* at 31 (citing *Cal. Independ. Sys. Operator Corp.*, 100 FERC ¶ 61,234, at p. 61,835 (2002) (implementing cost allocation to avoid double charging); *Midwest Independent System Operator, Inc.*, 108 FERC ¶ 61,163, at p. 61,947 (2004) (requiring the Midwest ISO “to clarify that power delivered from a non-jurisdictional MISO generation unit with existing firm transmission service at the MISO boundary is not subject to congestion or loss charges to avoid double charging)). See also CAISO FERC Electric Third Replacement Tariff Volume No. II section 16.6.3(4) (CAISO Tariff).

⁸⁷ Santa Clara July 8, 2008 Protest, Ex. SVP-1 at 10-14.

⁸⁸ Santa Clara July 30, 2008 Answer at P 22.

⁸⁹ NCPA July 8, 2008 Protest at 11.

losses in the amount of the Malin schedules.⁹⁰ It argues that the CAISO will fully recover from the PACI schedules all of the costs of congestion and losses for which CAISO is responsible. In addition, Santa Clara maintains that, if CAISO recovers congestion and losses from Tracy schedules to compensate for parallel flows on the PACI, CAISO will over-recover because those costs will already be recovered from Malin schedules. Therefore, according to Santa Clara, the CAISO's proposal would create unjust over-recovery by collecting congestion and losses from the Malin schedules on the CAISO-controlled grid, and then again collect congestion and losses based on the parallel flows on the PACI from COTP imports.

99. According to Santa Clara, the CAISO could approximate the total California-Oregon Intertie schedules into its modeling of scheduled transactions, which would significantly reduce differences between scheduled and actual flows, and thereby improve the accuracy of its LMPs, and addressing the problems the IBAA proposal seeks to address with data the CAISO has readily available.⁹¹ In its second answer, the CAISO asserts that as path operator for the California-Oregon Intertie, it gets aggregate net schedules, but this information is not available when day-ahead and hour-ahead processes run.⁹² The CAISO further notes that it would like to have all the day-ahead schedules on the COTP, but contrary to Santa Clara's claims, the CAISO does not already have the data Santa Clara refers to.

100. DOE-Berkeley contends that while the CAISO argues it ought to be empowered to impose charges for power that flows over the COTP because this power affects levels of congestion within the CAISO's system, this is merely the result of the interconnected nature of the western power grid in general.

101. While Powerex supports the CAISO's general goal of improving the accuracy of its modeling of congestion and losses from interchange transactions on the CAISO grid, Powerex asserts that the CAISO has failed to provide sufficient details of how congestion

⁹⁰ Santa Clara maintains that the overcollection is demonstrated by the modeling examples provided in the accompanying Ex. SVP-2 at 25-28. *See* Santa Clara Protest at 28.

⁹¹ Santa Clara July 8, 2008 Protest at 16, Ex. SVP-2 at 15. Santa Clara provides several options for the CAISO to determine a "reasonable estimate of flows on the COTP," including: (1) Historical COTP scheduling data, if available, and actual historical COI flow data; (2) Actual Malin schedules as proxy for COTP schedules (e.g., Captain Jack schedule equals 50 percent of Malin schedule); or (3) Actual COTP schedules sinking in the CAISO as a proxy for COTP total schedules.).

⁹² CAISO August 8, 2008 Answer at 44-45.

and losses will be modeled at the proxy bus located at the Captain Jack substation. Powerex states that the CAISO has chosen to calculate congestion and prices at Captain Jack based on two separate pricing nodes, one for the CAISO rights on the COTP and one for non-CAISO rights on the COTP. Powerex further explains that, while the CAISO plans to map imports from the SMUD/Turlock IBAA back to the Captain Jack proxy bus and will model these imports on the non-CAISO grid with no losses or congestion, imports at Captain Jack on the CAISO portion of the COTP line will be modeled with marginal losses and congestion. Powerex argues that as a result of the differing treatment of losses and congestion, prices between the two Captain Jack pricing nodes should differ.⁹³ Therefore, Powerex argues that it is imperative that the Commission require the CAISO to provide market participants details on how it will model congestion and losses at Captain Jack and how it will reflect that modeling in its pricing of the two Captain Jack pricing nodes.

102. The CAISO asserts in its filing and answer that while power flow calculations will account for transmission losses within the IBAA, LMP calculations will have the marginal impact of these losses removed.⁹⁴ The CAISO asserts that it will only charge for losses on scheduled flows on the CAISO grid, and not for unscheduled flows. The CAISO states that there is no double-counting for losses and that the CAISO LMPs are just and reasonable.⁹⁵

b. Commission Determination

103. Each LMP consists of an energy, marginal loss and congestion component. Absent congestion and marginal losses, all LMPs would be the same within the system. Thus, without the marginal loss and congestion component, the LMP would only reflect the energy price, which under a single market clearing mechanism will be the same at all nodes within the system. The difference in LMP between Captain Jack and Tracy is based on the congestion and marginal loss charges. The CAISO maps imports on the COTP to Captain Jack, and models imports on the PACI at Malin. Malin and Captain Jack are geographically and electrically close and the CAISO expects them to have similar LMPs. Since the PACI is part of the CAISO-controlled grid, the CAISO charges for losses and congestion over the PACI. PACI schedules cause parallel (or unscheduled) flows on the COTP, and vice versa. The CAISO claims that it is not pricing these unscheduled flows from COTP schedules on the PACI.

⁹³ PowerEx July 8, 2008 Protest at 5.

⁹⁴ CAISO July 23, 2008 Answer at 36 (citing Ex. ISO-1 at 67-68).

⁹⁵ *Id.* at 37; CAISO June 17, 2008 Filing at 50.

104. It is not clear whether the IBAA proposal appropriately accounts for losses and parallel flows from non-CAISO facilities. If the CAISO maps COTP imports to Captain Jack, the power flow models that are an input to the LMP calculation will model the parallel flows from the COTP schedules on the PACI lines. Since the PACI lines have LMP prices calculated, these prices inherently account for parallel flows from the COTP schedules. The CAISO points out in both its filing and answer that it expects prices at Malin and Captain Jack to be nearly identical. It also states that it will remove the marginal loss component of COTP flows from its LMP calculations.⁹⁶ However, it appears that Captain Jack could account for parallel flows from the COTP on the PACI since the COTP schedules that sink in the CAISO are modeled in the full network model.

105. The CAISO has shown that the congestion will not arise due to capacity limitations on the California-Oregon Intertie.⁹⁷ Rather, the congestion will arise due to the capacity limitations of other elements of the CAISO-controlled grid which, under normal operations, will be the limiting factors for scheduling interchange transactions that also use the California-Oregon Intertie.⁹⁸ Said another way, any congestion that is reflected in LMPs applicable to interchange transactions that use the California-Oregon Intertie will be attributable to binding constraints, not on the intertie, but on the other elements of the CAISO-controlled grid. The CAISO's proposal seeks to assign the additional costs for congestion management and uplift to all imports into the CAISO because the interchange transactions are the cause of these additional costs. Absent this proposal, these costs would be socialized to all CAISO ratepayers. The CAISO's proposal further provides an opportunity for parties that can demonstrate the location of their resources to execute an MEEA and receive the LMP where the import actually enters the CAISO's system.

106. However, COTP customers already pay TANC or Western a rate under the TANC or Western tariff for losses. Thus those COTP customers who serve load in the CAISO could be over-charged for losses, since they pay Western or TANC and then in effect pay the CAISO since its LMPs implicitly account for parallel flows. Therefore, COTP users that import to CAISO who demonstrate that they pay for losses to Western or TANC should receive an appropriate adjustment in the marginal cost component of the price paid for their import. We direct the CAISO to allow COTP customers to make this demonstration and, in compliance, to propose what showing will be needed for this treatment.

⁹⁶ CAISO July 23, 2008 Answer at 36-37.

⁹⁷ CAISO June 17, 2008 Filing, Ex. ISO-1 at 88-89.

⁹⁸ *Id.*, Ex. ISO-1 at 88-89.

107. Santa Clara suggests an alternative of pricing imports at Tracy and modeling all California-Oregon Intertie schedules to accurately charge for parallel flows on the CAISO-controlled sections of the California-Oregon Intertie. While we encourage the CAISO to consider the proposal, potentially as part of its future market enhancements, we are not required here to consider alternative proposals. When the utility's proposed filing is determined to be just and reasonable, the Commission need not consider whether alternative proposals may also be just and reasonable.⁹⁹ As we have found herein the CAISO's IBAA proposal to be just and reasonable, we need not consider the alternative proposal.

5. Impact on imports to the CAISO

a. Comments and Answers

108. Several commenters argue that pricing imports at Captain Jack will undervalue imports and cause a disincentive to import power to the CAISO. According to Western, SMUD, Turlock, NCPA and Santa Clara, CAISO's proposal may lead external entities to serve load within CAISO with resources that are already located within the CAISO, rather than import energy into the CAISO, increasing costs to the CAISO. SMUD points out that the CAISO Market Surveillance Committee has acknowledged this possibility, explaining that: “[t]o the extent that the Captain Jack price is lower than the cost of generation within SMUD, for example, customers within the CAISO will not be able to pay an adequate price for power sourced at SMUD and such trading opportunities may be lost.”¹⁰⁰ LADWP argues that the proposal allows CAISO to buy imports at low prices and sell exports at high prices, while precluding importers and exporters from realizing the true value of their generation and transmission when scheduling interchange transactions with the CAISO.

109. LADWP asserts that importers will have less incentive to deliver power at IBAA nodes, which could result in increased transmission congestion, decreased liquidity at higher-priced LMP nodes, or fewer counterparties willing to schedule interchange transactions with the CAISO. California PUC maintains that the proposal threatens to financially disincent the import of needed energy supplies from Pacific Northwest

⁹⁹ *Cal. Indep. Sys. Operator Corp.*, 121 FERC ¶ 61,193, at P 106 (2007), citing *Louisville Gas and Elec. Co.*, 114 FERC ¶ 61,282, at P 29 (2006) (the just and reasonable standard under the FPA is not so rigid as to limit rates to a "best rate" or "most efficient rate" standard; rather, a range of alternative approaches often may be just and reasonable), *reh'g denied*, *E. ON U.S. LLC*, 116 FERC ¶ 61,020 (2006).

¹⁰⁰ SMUD July 8, 2008 Protest at 30 (citing Attachment I to the CAISO Filing at 6).

resources, and that inaccuracies in prices could impede the goals of MRTU implementation. LADWP, Western and Turlock further argue that the IBAA methodology could create an incentive for a market participant to not supply resources to the CAISO where they are most needed, to the detriment of reliability in CAISO and the WECC region. According to Western, based on the CAISO's LMP model, loss of any amount of generation could inevitably have an unforeseen impact on price and congestion elsewhere in the CAISO balancing authority area. Similarly, Imperial contends that, because the CAISO's proposal to price imports low will deter suppliers in neighboring balancing authorities from selling their energy in the CAISO markets, the proposal will undermine one of the fundamental purposes of MRTU – improving resource adequacy.¹⁰¹ Both Western and Santa Clara argue that, instead of portraying actual costs or accurately modeling flow, the IBAA proposal discriminatorily and arbitrarily results in the lowest costs to CAISO ratepayers. In its answer, Santa Clara clarifies that its argument is that cost to serve CAISO load would increase, not that the load would not be served reliably.¹⁰²

110. In its answer, the CAISO points out that the IBAA proposal does not modify the requirements of the resource adequacy program, and that none of the protesting parties allege that they will fail to meet their capacity obligations under state law.¹⁰³ The CAISO also notes that LMPs at Captain Jack and Malin should generally be the same, and allegations that the IBAA proposal will lead to decreased imports are unfounded.¹⁰⁴

b. Commission Determination

111. We are not convinced that the IBAA proposal will cause entities to substantially decrease imports to the CAISO. As stated above, the use of default import and export pricing points in the single hub approach is reasonable and the CAISO has appropriately chosen to make an assumption that imports are likely to flow through Captain Jack and exports are likely to flow through the SMUD hub. In an LMP system, prices at every location change based on demand, supply, congestion and losses. LMP is a pricing system that provides a transparent price signal reflecting the marginal cost to supply

¹⁰¹ Imperial July 8, 2008 Protest at 29 (citing *Cal. Indep. Sys. Operator Corp. Electric Tariff Filing to Reflect Market Redesign and Technology Upgrade*, Docket No. ER06-615-000 (filed Feb. 9, 2006) (Original MRTU filing); September 2006 Order at P 489).

¹⁰² Santa Clara July 30, 2008 Answer at 21.

¹⁰³ CAISO July 23, 2008 Answer at 33-34.

¹⁰⁴ *Id.* at 34.

energy at specific locations.¹⁰⁵ The IBAA proposal may result in imports being priced lower than local transactions because of the difference in location. If a local transaction would relieve congestion better than an import transaction, the LMP associated with the local transaction will reflect the higher value of this transaction relative to an import transaction. Conversely, if an external transaction would better relieve congestion, the LMP for that transaction would be higher, which would increase imports. Accordingly, while there may be different prices, this is unlikely to substantially decrease imports to the CAISO.

112. As CAISO points out in its answer, the IBAA proposal does not change the resource adequacy program.¹⁰⁶ Therefore, we are not convinced by the arguments that the IBAA proposal will lead to reliability or resource adequacy problems for the CAISO.

113. As we discuss further below, neighboring entities that want to schedule import transactions from their local resources into the CAISO can enter into MEEAs to receive a specific pricing point that better reflects the locational value of their resources.

6. Effects of the proposal on value and use of COTP transmission

114. The CAISO states that the IBAA proposal does not value or charge for transmission service over non-CAISO-controlled grid facilities.¹⁰⁷ The CAISO clarifies that system operators within the IBAA will continue to schedule, price and manage transmission service and any constraints within their own IBAA systems.

a. Comments and Answers

115. Several commenters argue that the IBAA proposal will negatively affect their use of the COTP. TANC argues that the effect of the IBAA proposal on the COTP will be to reduce the amount of service it provides. TANC submits that by eliminating or severely curtailing a primary market for COTP transactions the CAISO devalues the COTP which is unjust and unreasonable. Modesto contends that its energy sales are made in part to recover the costs of its investment in transmission and generation resources and optimize marginal costs of plant operation. If those costs cannot be recovered through a power sales transaction due to the CAISO's choice of a depressed pricing point then Modesto has less incentive to sell. Western is concerned that the IBAA proposal's impacts on COTP transactions may be inconsistent with its OATT, since an entity wanting to

¹⁰⁵ September 2006 Order at P 62.

¹⁰⁶ CAISO July 23, 2008 Answer at 33-34.

¹⁰⁷ CAISO June 17, 2008 Filing at 22, Ex. ISO-1 at 76-79.

schedule power from the Pacific Northwest to take advantage of the LMP must obtain transmission service from Western under its OATT. Western states that it has only a limited amount of COTP transmission capacity available and therefore there are only a limited number of entities that could take advantage of the price differential. Western argues that the CAISO's IBAA pricing proposal creates an artificially low price for energy imported into the CAISO from the SMUD balancing authority area, which will create a disincentive to take transmission service from Western, including on the COTP, and may result in an adverse impact on Western's transmission system. Contrary to the CAISO, Western argues that the IBAA proposal would create an incentive for any additional supplies from the Northwest being imported on the COTP to ultimately be scheduled as imports from the SMUD or Western sub-hubs.

116. According to Santa Clara, the IBAA proposal would reduce its share of the COTP entitlement by \$9.8 million per year.¹⁰⁸ Santa Clara states that, even absent congestion, prices at Captain Jack will nearly always be lower than prices at Tracy due to losses, when energy is flowing north to south, which it nearly always is. Santa Clara contends that the CAISO's filing acknowledges that it intentionally selected Captain Jack because it is a lower priced point for imports. Accordingly, Santa Clara argues that, by paying importers, including entities like Santa Clara that are importing to serve load, a Captain Jack price instead of a Tracy price, the CAISO is taking value away from the COTP.

117. TANC and Modesto submit that by assigning COTP imports an unjust and unreasonable price, the IBAA proposal creates market inefficiencies, needlessly increases congestion and raises costs to California electric consumers. They submit that the proposal will force transmission users to shun the COTP and oversubscribe the PACI, resulting in congestion and raising energy prices in California. This will cause available capacity to go un- or under-used, and result in congestion on the CAISO-controlled grid. Modesto identifies this as effectively what has been called "phantom congestion."

118. According to Santa Clara, the CAISO's argument that it created market value for the COTP is overstated. Santa Clara states that it used its COTP rights for trading long before the CAISO was created, and that the CAISO's argument does not justify confiscation of value, duplicative charges, or abrogation of contracts.

119. In its answer, the CAISO contends that TANC and its customers can use the COTP to serve load on their systems without charge from the CAISO, and that their investment in the COTP is not affected by the IBAA proposal.¹⁰⁹ The CAISO also reiterates that prices at Captain Jack (COTP) and Malin (PACI) "will likely be the same

¹⁰⁸ Santa Clara July 8, 2008 Protest at 32, Ex. SVP-1 at 6.

¹⁰⁹ CAISO July 23, 2008 Answer at 31.

most of the time.”¹¹⁰ The CAISO explains that prices will be lower at Captain Jack than at Malin when the scheduling limit binds at Malin or any other intertie scheduling point between the IBAs and the CAISO. The CAISO points out that no party disputed CAISO’s testimony that prices at Captain Jack and Malin will generally be identical. The CAISO argues that its proposal will reflect the value in the locational price of the COTP by providing a more accurate treatment of the location of resources supporting scheduled transactions. The CAISO contends that TANC’s arguments are a collateral attack on the Commission’s previous MRTU orders, since prices for use of the CAISO-controlled transmission system are, under MRTU, established pursuant to the Commission-approved LMP methodology. The CAISO points out that the TANC participants can use existing transmission commitments or pay CAISO charges, and can secure CRRs. The CAISO asserts that TANC participants did not build the COTP to sell into CAISO, and they are not entitled to any fixed amount of off-system revenues or a fixed rate for transmission over the CAISO system (unless they have an existing transmission commitment that states otherwise).

b. Commission Determination

120. As we have stated above, the Commission finds that, absent necessary modeling information, it is reasonable for the CAISO to create assumptions that enable it to compute a proxy price. While the default price may, in limited circumstances, create an artificially low price for energy and decrease the attractiveness of buying transmission service from TANC for the COTP, the IBAA will not result in any out-of-pocket losses or underrecovery of costs over the COTP. The devaluation referred to by TANC, Santa Clara and Modesto is simply the loss of the higher payments they projected by making sales into the CAISO markets. The Commission believes that any price decrease will be partially mitigated by the Commission’s determination above to require the CAISO to allow COTP users that import to CAISO that demonstrate that they pay for losses to Western/TANC to have the marginal loss component of Tracy applied to their import. In addition, further mitigation of this potential effect is available as parties may remedy any further unintended consequences by entering into a MEEA and supplying data to the CAISO. In light of both the limited circumstances of any unintended harm and the offer of the CAISO to avoid these consequences, the CAISO’s application of the IBAA is reasonable.

121. We agree with CAISO that changes in operation of one part of an interconnected system to allow more efficient operation and use of the entire grid may have incremental effects on neighboring systems, and this is a normal part of utility operations.¹¹¹ In this

¹¹⁰ *Id.*

¹¹¹ CAISO June 17, 2008 Filing, Ex. ISO-1, page 79.

case, the CAISO proposes a new pricing model to more accurately account for unscheduled flows and manage congestion. As CAISO witness Harvey explains, improved congestion management benefits the CAISO and its neighbors by increasing market efficiency and reducing infeasible schedules in the real-time market.¹¹²

7. Influence of the proposal on transmission and generation investment

a. Comments and Answers

122. Western maintains that the CAISO's current economic models do precisely what they are supposed to do – send price signals to build transmission and generation, and that the signals may not always be on the CAISO's system. Under its new model, Western contends that, by choosing an arbitrarily low pricing point that is not even on its transmission system, the CAISO will adversely impact these economic signals resulting in unintended and negative results to both Western and the CAISO.

123. CMUA contends that the CAISO Filing is inconsistent with existing rate schedules and would undermine the willingness of entities to invest in capital-intensive transmission.¹¹³ Western, Santa Clara, CMUA and TANC contend that the IBAA proposal could have a devaluing effect on investment in the region and a potential chilling effect on the willingness of entities to make investments in large capital projects.¹¹⁴ For example, Western maintains that if the CAISO settles all transactions from Western to the CAISO at an arbitrary low cost pricing point, entities will not pay for transmission service between Western and the CAISO. Western argues that a properly functioning transmission market would send price signals to build transmission lines; however, the CAISO's proposal does the opposite, it is a disincentive to the construction of transmission lines.

124. TANC argues that the IBAA proposal adversely affects transmission development by competitors, and argues that the proposal will undermine its ability to complete its \$1.2 billion transmission program.¹¹⁵ TANC explains that, together with its members, it has embarked on a major transmission expansion program, the most significant since the completion of the COTP in 1993. TANC contends that the uncertainty engendered by the

¹¹² *Id.*, Ex. ISO-3 at 6.

¹¹³ CMUA July 8, 2008 Protest at section III.A.

¹¹⁴ *Id.*

¹¹⁵ TANC July 8, 2008 Protest at 61, Ex. No. TNC-1 at 30.

IBAA proposal is a serious concern to TANC and other non-CAISO transmission owners that seek to build new transmission. Modesto contends that transmission developers will not know up front how transactions over the proposed lines will be priced, and that this increases the risk to potential lenders and investors that would fund the transmission investment and raise the cost of capital to finance the projects. TANC concludes that the resources will effectively be denied an otherwise viable path to reach the important California market and that the damage to markets and competitors must be considered by the Commission.¹¹⁶

125. Modesto contends that its local generation will be adversely affected by the setting of a default pricing point over 300 miles away from their actual location. Modesto also indicates that its Westley-Tracy transmission rights, jointly owned with Turlock, will be priced at the same Captain Jack pricing point, which is lower than at Tracy. Modesto argues that the IBAA proposal will price its transmission resources in a manner that does not relate to its value.

126. Imperial and Modesto argue that another potential negative impact of the CAISO's default pricing proposal is that it could actually undermine California's Renewable Portfolio Standard. Imperial asserts that, if the proposal results in lower prices for imports to the CAISO from neighboring balancing authorities, neighboring balancing authorities with renewable resources might either fail to develop those resources or may sell renewable energy that is developed to customers in locations outside of the CAISO.

127. DOE-Berkeley argues that the IBAA proposal would harm long-term planning and contracting because the long-term value of contracts would become a matter of speculation rather than certainty. It argues that it has made careful, elaborate and thorough long-term plans for acquisition of reasonably-priced energy, and that the CAISO's proposal unilaterally impairs this price certainty. DOE-Berkeley contends that the CAISO should not be permitted to impose congestion charges, loss charges or any similar charges on facilities that are not within the CAISO balancing authority.

128. NCPA maintains that if CAISO is permitted to charge costs as if ownership rights and contractual rights to deliver to specific locations do not exist, there will be no reason for anyone to invest in such rights.¹¹⁷

¹¹⁶ *Id.* at 62 (citing *FPC v. Conway Corp.*, 426 U.S. 271, 279 (1976); *Conn. Light & Power Co.*; 8 FERC ¶ 61,187, at 61,653 (1979); *Southern Cal. Edison Co.*, 40 FERC ¶ 61,371, at 62,166-67 (1987); *Florida Power & Light*, 8 FERC ¶ 61,121, at 61,457 (1979)).

¹¹⁷ NCPA July 8, 2008 Protest at 8.

129. In its answer, the CAISO contends that the COTP will continue to function as an important link between the CAISO and the Northwest, and that LMPs will appropriately value the use of the energy and transmission capacity.¹¹⁸ The CAISO notes that the parties alleging that the IBAA proposal will harm transmission investment do not cite any concrete actions or cancellations related to the proposal, but instead state that their own transmission expansion plans are directly related to their own reliability needs.

b. Commission Determination

130. The Commission recognizes the importance of transmission infrastructure development. We take seriously any allegations that a proposal has negative impacts on infrastructure development. Here, Western, Santa Clara, CMUA and TANC have failed to provide any evidence that the IBAA proposal will have a significant impact on new transmission investment. If any party's experience demonstrates that the IBAA proposal has negatively impacted its new transmission investment, it can always bring that to the Commission's attention.

131. Parties' assertions that future developers will not know how transactions will be priced are essentially an attack on the market redesign based on congestion and marginal losses previously approved by the Commission in its September 2006 Order. The new LMP market is designed to send the appropriate price signals to ensure that, as long as there is a need for transmission investment to meet reliability needs, load growth, or state renewable portfolio standards, economic incentives exist to promote investment in transmission.

132. We agree with Western that properly functioning transmission markets will send appropriate price signals. The IBAA proposal is designed to send appropriate price signals and for this reason is necessary. Without it, inaccurate price signals and market operations will likely occur. To the extent market participants agree to provide accurate information, accurate prices and market operations will provide information as to where investment is needed.

133. As the CAISO points out, the COTP was built to serve the needs of TANC members, and as Santa Clara states, sales took place on the COTP before the CAISO existed. We are not convinced that the IBAA proposal will change the use of the COTP by TANC members to meet their reliability needs. The IBAA proposal changes pricing of interchange transactions with the CAISO, but it does not change the availability of transmission on the COTP to TANC participants.

¹¹⁸ CAISO July 23, 2008 Answer at 35.

134. Imperial and Modesto contend that the IBAA proposal could undermine California's renewable portfolio standard. We disagree. As we stated in the September 2006 Order, the Commission has repeatedly recognized that an LMP-based market design provides market participants with the information necessary to make cost-effective decisions when using the transmission system, promotes efficient trading, and provides the market with signals on where investment in new generation and transmission are needed.¹¹⁹ The IBAA proposal furthers the CAISO's goal of establishing an LMP-based market consistent with MRTU. The CAISO pricing system is independent of California's policies to meet a renewable portfolio standard. Nothing in this proposal prohibits a resource from entering into a power purchase agreement, including to import power from a renewable resource.

135. DOE-Berkeley argues that the proposal will cause the long-term value of contracts to become a matter of speculation rather than certainty. As we stated in the September 2006 Order, the proposal to use LMP should not come as a surprise to market participants. It has been long in the making and in fact the CAISO has worked over the last several years with market participants to accommodate existing contracts and other pre-existing relationships.¹²⁰ DOE-Berkeley further argues that CAISO has unilateral authority to change the location of settlement points. As we discuss above, we require the CAISO to include the default pricing points in the tariff and to file any changes to the default pricing points under section 205 of the Federal Power Act (FPA).¹²¹

8. Consequences of the proposal for the real-time and day-ahead markets

a. Comments and Answers

136. Western and Modesto contend that the IBAA proposal may contribute to schedule infeasibility because it does not adequately address all contributions to loop flow experienced on the CAISO system. Moreover, Western maintains that the IBAA proposal may lead to unanticipated infeasible schedules if the CAISO's proposal provides disincentives to generators to schedule into the CAISO from the SMUD balancing authority area. The California PUC states that the possibility of infeasible schedules may adversely affect the reliable operation of the transmission system and cause consumers to pay inappropriate costs resulting from inaccurate LMPs.

¹¹⁹ September 2006 Order at P 63.

¹²⁰ *Id.*

¹²¹ 16 U.S.C. § 824d (2006).

137. Santa Clara argues that CAISO's proposal will result in less efficiency and additional cost uplifts in real time. For example, it states that, in real time, the flows from the COTP that the CAISO does not take into account in the day-ahead market will appear, which will cause the CAISO to have greater losses over the PACI (and throughout its system) than it modeled in the day ahead scheduling. According to Santa Clara, this will require the CAISO to dispatch additional generation to cover those losses in real time and will cause greater flows on the CAISO system in real time than it modeled in the day ahead, which may require it to redispatch generation to resolve congestion in the CAISO in scheduling real time, both resulting in additional cost uplifts.¹²² According to Santa Clara, the uplifts will result because the costs of the additional generation dispatched in real-time should have been recovered from day-ahead schedules, and the dispatch likely will be less efficient than it would have been had all the flows and associated constraints been modeled day ahead.

138. Santa Clara asserts that the incorrect pricing signals in the day-ahead market also could lead to market disruptions by motivating generators within the CAISO to not bid into the day-ahead market (or bid high so as to not be selected in the day-ahead market), and wait for the distorted day-ahead market to pass.¹²³

139. Santa Clara asserts that the problem resulting from the CAISO's intentional underestimation of PACI flows is very similar to the problems caused by chronic underscheduling by large load-serving entities that contributed to the CAISO's market problems during the 2000-2001 time period. Santa Clara maintains that chronic underscheduling of load by the three largest load serving utilities during 2000-2001 forced the CAISO to "to meet a larger percentage of the load in real-time, causing serious operational and reliability problems."¹²⁴ According to Santa Clara, the CAISO's IBAA proposal will result in a similar mismatch between day-ahead and real-time generation.

¹²² Santa Clara July 8, 2008 Protest, Ex. SVP-2 at 7-13

¹²³ For example, Santa Clara's panel testimony explains that Northwest suppliers may prefer not to sell at the lower day ahead prices. This would lead to more in-state generation being dispatched day ahead, driving up costs to consumers, since these resources would not have been as efficient as importing the lower-cost Northwest power. See Ex. SVP-2 at 7.

¹²⁴ Santa Clara July 8, 2008 Protest at 14 (citing *American Elec. Power Serv. Corp.*, 103 FERC ¶ 61,345, at P 57 (2003) (Gaming Order); Staff's Final Report on Price Manipulation in Western Markets: Fact Finding Investigation of Potential Manipulation of Electric and Natural Gas Prices, Docket No. PA02-2-000 at I-12, VI-6, and VI-14 (March 2003)).

b. Commission Determination

140. We agree with the CAISO that the IBAA proposal is a reasonable way to improve the CAISO's model of interchange transactions. The IBAA proposal's default pricing points make reasonable assumptions as to the location of external resources with respect to CAISO congestion.¹²⁵ This provides CAISO with information to minimize infeasible schedules. External entities that enter into MEEAs with the CAISO to provide more detailed information about their transactions will improve the CAISO's representation of flows and the reflection of the relative value of different resources in the resulting LMPs.

141. Santa Clara states that cost uplifts will result in real time because the dispatch will be less efficient than it would have been had all flows and associated constraints been modeled in the day ahead scheduling. The CAISO asserts that it does not have the information to accurately model all flows and associated constraints in the day ahead scheduling, and that the IBAA proposal is the best way to model based on the available information. We agree that the dispatch is likely to be more efficient and uplift costs less if the CAISO has information to accurately model external scheduled transactions, and, as we discuss below, we encourage external entities to enter into MEEAs with the CAISO. Regardless of whether such additional information is provided, we find the IBAA proposal's improved modeling provides enhanced congestion benefits that outweigh the increased congestion costs that Santa Clara asserts will be created as a result of the proposal.

142. We are not convinced by Santa Clara's argument that the IBAA proposal will result in a situation similar to the chronic underscheduling of 2000-2001. California has a resource adequacy program in place, and the Commission has approved modified measures to help mitigate any incentives for load-serving entities to underschedule in the day-ahead market.¹²⁶

9. Lack of pre-implementation studies of the proposal/impacts on reliability**a. Comments and Answers**

143. Santa Clara and Western argue that the proposal will cause precisely the reliability problems CAISO seeks to prevent. Western notes that CAISO initially made representations to the Commission that the MRTU Tariff would not adversely impact other balancing authorities and reliability because it reflects the West's use of the

¹²⁵ CAISO June 17, 2008 Filing, Ex. ISO-1 at 60.

¹²⁶ *Cal. Independ. Sys. Operator Corp.*, 124 FERC ¶ 61,043 (2008).

contract path approach through the use of a radial intertie model.¹²⁷ Western states that CAISO's IBAA proposal seems to contradict these statements by stating that the proposal is necessary for reliability. In addition, Western notes that the CAISO will not obtain any additional information to alleviate infeasible schedules.

144. SMUD disagrees that the IBAA proposal is needed to address reliability concerns, arguing that the CAISO has not previously relayed that SMUD's scheduling was producing infeasible schedules causing significant re-dispatch to the CAISO system. Furthermore, SMUD points out that no personnel from the CAISO's grid operations side participated during its discussions.¹²⁸

145. Western asserts that CAISO has not performed any studies to show that its neighbors will not be affected, and without performing such impact studies, the CAISO cannot ensure that its IBAA proposal will not cause any reliability-related impacts on other systems. Western maintains that the CAISO's proposal is not ready to be deployed because the CAISO has not created an adequately controlled test environment to allow market participants to test, analyze, evaluate, and confirm that their systems and rights are accurately modeled and verified.

146. TANC submits that the CAISO has not analyzed: (1) whether the Captain Jack LMP for COTP imports will increase or decrease total costs; (2) the impact on other LMPs; (3) whether the selection of Captain Jack will have impacts on TANC, SMUD, Modesto, Turlock, Western, Roseville, or other CAISO market participants; and (4) the impacts on the SMUD market operations.

147. In its answer and filing letter, the CAISO asserts that it does not have sufficient information regarding the source and location of the external resources used to implement interchange transactions, and without sufficient and verifiable information, it must make assumptions based on reasonable anticipated behavior. The CAISO states that an MEEA may be more appropriate for entities concerned about the impacts of the single proxy bus.¹²⁹

¹²⁷ Western July 8, 2008 Protest at 16-18 (citing CAISO Attachment E at 6 (quoting CAISO's January 16, 2007, Post Technical Conference Comments)).

¹²⁸ SMUD July 8, 2008 Protest, Ex. SMUD-3 at 14.

¹²⁹ CAISO July 23, 2008 Answer at 26.

b. Commission Determination

148. As discussed above, we find that the CAISO has provided sufficient information in support of its proposal. As the California PUC points out, adjacent balancing authority areas may have significant impacts on flows in the CAISO, and without verifiable information from the external entities, the CAISO needs this proposal to protect against unwanted market anomalies. We find that CAISO has identified potential market problems absent the proposal, and that the proposal is a reasonable means to address those problems.

149. In response to TANC and Western, once the CAISO incorporates the IBAA functionality into the MRTU market systems, the CAISO will have at least several months of market simulation testing before the start of MRTU. Furthermore, the September 2006 Order requires the CAISO to file monthly status reports on MRTU implementation, including the status of LMP testing and production and market simulation.¹³⁰ The CAISO must also file with the Commission a certification of market readiness 60 days before MRTU start-up and then file quarterly status reports post-implementation.¹³¹ Accordingly, we believe the CAISO has sufficient time and testing in place to ensure that the IBAA proposal will result in more accurate modeling and pricing overall.

10. The Experience of the Eastern RTOs

150. The CAISO argues that its single-hub IBAA default modeling and pricing approach for interchange transactions with the SMUD-TID IBAA is consistent with practices adopted by eastern ISOs and RTOs. The CAISO submits that mechanisms similar to the IBAA proposal have proven successful in addressing scheduling incentive problems in the east.

151. The CAISO notes that all existing LMP-based pricing systems currently use proxy bus mechanisms for analyzing and pricing the congestion impacts of interchange schedules.¹³² In particular, it asserts that the establishment of a single pricing point

¹³⁰ September 2006 Order at P 1415. *See also, e.g.*, MRTU Readiness Criteria Dashboard at 1, 10-16 (Jul. 31 2008) (“These readiness criteria will help the CAISO to determine the status of design elements and processes that must be in place to ensure implementation of MRTU Release 1 without undue risk to the CAISO or its Market Participants”).

¹³¹ *Id.* P 1414, 1417.

¹³² *See* CAISO June 17, 2008 Filing, Ex. No. ISO-3 at 24-25.

(i.e., the SMUD/Turlock IBAA) to price transactions with the SMUD and Turlock balancing authorities is consistent with the approach PJM has applied since 2003 to price transactions scheduled with balancing authority areas on its southern border.¹³³ The CAISO also argues that there is precedent in the eastern RTOs for the CAISO's proposal to establish default pricing locations at Captain Jack and the SMUD hub, but then allow market participants to have alternative pricing arrangements so long as the CAISO is provided with information regarding the location of external resources dispatched to implement interchange transactions.

a. **Comments and Answers**

152. Many commenters argue that the experience of eastern RTOs is not relevant for the purposes of determining whether the IBAA proposal is just and reasonable. First, they argue that there are significant factual differences between transmission patterns in the East and West that make comparing PJM and the CAISO inappropriate. Santa Clara asserts that, unlike the interchange between western PJM and the eastern PJM hubs, nearly all of the incremental energy from the Northwest scheduled on the California-Oregon Intertie actually physically flows on the California-Oregon Intertie facilities. By contrast, Santa Clara maintains that only about 20 percent of the incremental energy from PJM West is actually delivered to eastern PJM hubs when it is scheduled on parallel contract paths. Santa Clara concludes that, because the COTP is not congested and actually delivers its scheduled energy, CAISO will get the value it anticipated and, therefore, there is no need for a proxy price.¹³⁴

153. Imperial claims that, in the Eastern Interconnection, points are more likely to be located very close together, making consolidation of multiple points for pricing purposes feasible. Imperial also points out that, in the West, large transmission lines and generating facilities are often co-owned and located in other balancing authorities, while PJM limits the circumstances under which its proxy prices are applicable to its neighbors. According to Imperial, 42 percent of transmission lines in the West are owned by government entities, and attempts to unilaterally impose proxy points for their sales into the CAISO would be legally challenged in the U.S. Court of Appeals.¹³⁵

¹³³ *Id.*, Ex. No. ISO-3 at 38.

¹³⁴ Santa Clara July 8, 2008 Protest at 38-40 (citing SVP-2 at 41-48)

¹³⁵ Imperial July 8, 2008 Protest at 22 (citing *Bonneville Power Administration v. FERC*, 422 F.3d 908 (9th Cir. 2005)).

154. TANC contends that the CAISO, as an ISO, lacks the scope of the eastern RTOs of PJM, Midwest ISO and ISO New England.¹³⁶ Santa Clara contends that imposing practices of eastern RTOs onto the CAISO ignores the Commission's principle to defer to regional preferences.¹³⁷ TANC also argues that the eastern RTOs' experience also does not take into account the many agreements that have been negotiated to govern the operation of the western market.

155. Commenters also assert that the CAISO's pre-emptive approach to pricing interchange transactions differs from the eastern RTOs' evolutionary approach. TANC and Santa Clara submit that the IBAA proposal purports to address a hypothetical problem that is unsupported. According to TANC, PJM determined that its northern interface did not exhibit scheduling practices with negative impacts similar to its southern interface, because scheduling entities primarily transferred energy from a single system to a single neighboring system compared to multiple control area links for schedules on the southern interfaces.¹³⁸ TANC and Imperial maintain that in PJM, neighboring entities have been able to negotiate mutually acceptable agreements for the confidential exchange of real time, aggregated information, in contrast with the CAISO's proposal to unilaterally demand detailed, commercially sensitive data.

156. Powerex and TANC argue that PJM, NYISO, and ISO-NE have each sought to address inappropriate scheduling incentives through a single default pricing point methodology, while the CAISO proposes to use two different pricing points.

157. In its answer, Santa Clara notes that the Commission has not ruled on any of the proxy bus mechanisms that are used in the eastern RTOs and which the CAISO is relying on as precedent.

¹³⁶ TANC July 8, 2008 Protest at 123 (citing Order No. 2000).

¹³⁷ Santa Clara July 8, 2008 Protest at 38, citing *PJM Interconnection L.L.C.*, 119 FERC ¶ 61,063 (2007); *PJM Interconnection L.L.C.*, 96 FERC ¶ 61,060 (2001); *Southwest Power Pool, Inc.*, 106 FERC ¶ 61,110 (2004); *Southwest Power Pool, Inc.*, 111 FERC ¶ 61,118, at p. 61,653 (2005); *Cal. Indep. Sys. Operator Corp.*, 109 FERC ¶ 61,301 (2004), *reh'g denied*, 111 FERC ¶ 61,337 (2005); *New England Power Pool and ISO New England, Inc.*, 109 FERC ¶ 61,252 (2004), *order on clarification*, 110 FERC ¶ 61,003 (2005).

¹³⁸ TANC July 8, 2008 Protest at 126 (citing Mayes, Jeffrey W., letter to FERC on PJM's plan to address the problems of external loop flows, *available at* <http://www.pjm.com/documents/ferc/documents/2007/200720402-er06-1218-000.pdf>).

b. Commission Determination

158. There are no doubt many differences between the CAISO and the eastern RTOs, but we are not convinced that the differences that commenters highlight are relevant for the purposes of determining whether the IBAA proposal is just and reasonable. Rather, what is relevant is the degree to which the eastern RTOs are integrated with their neighbors and the extent to which differences between scheduled and actual flows may lead to infeasible schedules as market participants seek the most favorable prices.¹³⁹ As demonstrated in its proposal, the CAISO and the eastern RTOs are very similar in this regard. Accordingly, we reject the protests on this issue. Further, with respect to the Commission's policy to defer to regional practices, we are not requiring the CAISO to adopt PJM's practice. Rather, the CAISO has proposed to adopt the practice of the eastern RTOs, and the Commission finds it just and reasonable as applied in the CAISO region.

159. Several commenters argue that the CAISO should follow the example of the eastern RTOs, who operated and observed their LMP markets for several years before addressing any potential problems. As discussed above, we believe that the CAISO has adequately demonstrated – based on its own analysis and the experience of the eastern RTOs – that the potential for operational problems and unjust and unreasonable prices justifies the need for the IBAA proposal. Further, while the Commission would prefer a mutually acceptable agreement concerning the exchange of information, we cannot wait for such an agreement that may never materialize.

C. Market Efficiency Enhancement Agreements

160. The CAISO states that if any entity controlling generation – either physically or contractually – believes that the default pricing will not appropriately reflect the value of interchange transactions, it may enter into an MEEA. In exchange, the CAISO proposes that the entity must provide the CAISO with detailed information that enables the CAISO to verify the location and operation of the resources within the IBAA dispatched to implement the interchange transaction. The CAISO submits that the IBAA proposal will essentially function as a multiple hub or sub-hub approach to the extent that the relevant market participants enter into MEEAs.

161. The CAISO identifies the type of information needed to verify the location and operation of resources within the IBAA that support an interchange transaction with the CAISO.¹⁴⁰ First, the CAISO requires ownership or control of the resources. The CAISO

¹³⁹ See, e.g., *New York Independent System Operator, Inc.*, 124 FERC ¶ 61,174, at P 3 (2008).

¹⁴⁰ See June 17, 2008 CAISO Filing, Ex. No. ISO-2 at 12-13.

also can request additional information including, but not limited to, metered generation data for any generation resources within the sub-hub and information on bilateral trades to and from other market participants within the SMUD and Turlock balancing authority areas. To monitor circular scheduling, information is needed to verify the source supporting schedules from the various sub-hubs. For example, the CAISO may need to review schedules and e-tags submitted by market participants to the SMUD and Turlock balancing authorities for transactions between the various sub-hubs within the SMUD-Turlock IBAA. Finally, the CAISO reserves the right to quickly switch to a single hub approach if concerns with the multiple hub materialize.

162. The CAISO contends that while the specific details of the pricing agreements will need to be developed on a case-by-case basis, the special agreements between PJM and external entities illustrate three key elements.¹⁴¹ First, the data must include the entire portfolio of the subject entity and its affiliates, including load and generation data, and information regarding all bilateral transactions entered into by the entity. Second, the MEEAs must establish clear conditions that must be met for the entity to receive the special pricing rather than the default price. For example, under the PJM agreements, an entity is not eligible for the special price for sales to PJM if the entity is also making spot market purchases simultaneously. Third, the agreements should provide the CAISO with audit rights to verify the data provided to the CAISO.

163. The CAISO indicates that the criteria for entering into an MEEA include: (1) the arrangement be demonstrated to provide market efficiencies and enhancements; (2) a stakeholder process be held; and (3) the CAISO file the agreement seeking Commission approval.

1. Comments and Answers

164. While the California PUC supports the use of alternative pricing arrangements as a possible compromise, numerous commenters oppose what they characterize as an attempt by the CAISO to strong-arm the IBAA entities into signing agreements to provide data to the CAISO. SMUD cites Commission precedent on natural gas pipelines where sellers who exert control over terms and conditions of service are only permitted to negotiate individual arrangements if customers are offered a just and reasonable tariff-based recourse rate as an alternative to signing an agreement.¹⁴² SMUD contends that, because

¹⁴¹ *Id.* at 17-18.

¹⁴² SMUD July 8, 2008 Protest at 26, citing *Transwestern Pipeline Co.*, 100 FERC ¶ 61,058, at P 37 (2002); *Promotion of a More Efficient Capacity Release Mkt.*, 123 FERC ¶ 61,286, at P 48 (2008); *Northwest Pipeline Corp.*, 116 FERC ¶ 61,151, at P 18 (2006).

of the unreasonableness of the proposed default proxy price, the CAISO has failed to offer the IBAA entities a just and reasonable recourse rate. TANC contends that through the MEEAs the CAISO effectively seeks *de facto* control over non-jurisdictional facilities that have not been turned over to its operational control, which violates prior Commission rulings prohibiting the CAISO from obtaining authority beyond the CAISO-controlled grid.¹⁴³

165. SMUD argues that entities within its balancing authority area do not schedule their resources in the same manner as the CAISO will require within its balancing authority area under MRTU, and therefore the type of data the CAISO described is simply not available.¹⁴⁴

166. Many protestors argue that the nature of the information that the CAISO seeks is proprietary and business sensitive and that could be exploited by the CAISO for commercial gain. TANC submits that the CAISO is not a disinterested or neutral party, but rather has a significant stake in the operation of its markets and advocates for its customers. Modesto contends that the CAISO will use Modesto's day-ahead and generation schedules to reach an outcome that is most beneficial to the CAISO's ratepayers while ignoring harmful or anti-competitive effects on Modesto. Similarly, WestConnect submits that balancing authorities do not share sensitive commercial data, because such information could be used to their competitive disadvantage. SMUD notes that the CAISO's explicit goal is only to protect CAISO ratepayers.

167. WestConnect also asserts that the use of system data requested by the CAISO is contrary to existing WECC agreements, which confine the use of such data only to reliability, not commercial, purposes.¹⁴⁵ Imperial argues that the function of balancing authorities is supposed to be to maintain grid reliability, not to gather data for pricing commercial transactions, and that gathering this type of data is not an appropriate balancing authority function. NCPA submits that the contracts it has with Western contain no mechanism by which it can compel Western to provide the information CAISO seeks.

¹⁴³ TANC July 8, 2008 Protest at 65 (citing *Cal. Independ. Sys. Operator Corp.*, 82 FERC ¶ 61,312 (1998) (rejecting proposal that would "broadly expand ISO control over non-jurisdictional facilities which are not being transferred to the ISO's control")).

¹⁴⁴ SMUD July 8, 2008 Protest, Ex. SMUD-3 at 9.

¹⁴⁵ WestConnect July 8, 2008 Protest at 4 (citing Western Electric Coordinating Council Confidentiality Agreement for Electric System Data (Sep. 27, 2002)).

168. Several commenters contend that the required exchange of data and showing of market efficiencies and enhancements for the MEEAs is burdensome. Imperial argues that these requirements will impose significant additional costs. Turlock asserts that the process will deter entities from trying to justify their sales prices.

169. Commenters argue that the alternative pricing scheme is unreasonably vague and provides the CAISO with too much discretion. Many maintain that the pricing proposal fails to provide defined standards or metrics for how stakeholders could qualify. NCPA contends that market participants must guess what information is necessary and negotiate with CAISO for information they may or may not have. SMUD and LADWP argue that there is no obligation for the CAISO to enter into good faith negotiations with an IBAA. Modesto asserts that the CAISO does not provide a guarantee that if a party enters into an arrangement, the CAISO will not use its default mechanism.

170. Numerous protestors also contend that the proposed tariff language provides no guidance in the definition of the MEEA as to what might constitute a “demonstrable benefit” to CAISO ratepayers. NCPA claims that this ambiguity raises the possibility that a market participant could offer to provide all the information within its control and still not be able to obtain such an agreement. TANC questions whether a demonstrable benefit could ever be shown given that the CAISO would already receive the benefit of the lowest possible price for imports.

171. Protesters also take exception to the stakeholder process for developing MEEAs. Modesto argues that this process incorrectly includes other market participants and leaves many of the procedures for negotiating to the business practice manuals. NCPA notes that an alternative agreement subject to a stakeholder process could delay or prohibit such an agreement.

172. SoCal Edison argues that, based on an unclear definition of the criteria for qualifying, the requirement for the CAISO to conduct a stakeholder process prior to finalizing an MEEA is a critical component in the overall MEEA proposal. According to SoCal Edison, creating agreements that settle at prices other than those calculated by the CAISO’s market software will result in inadequate cost recovery through LMPs. Therefore, it is critical that all market participants impacted by these agreements understand the potential cost impacts that may result.

173. Several protestors point out that the bilateral information sharing agreements in the eastern RTOs, and especially in PJM, reflect a more arms-length relationship than the CAISO is seeking in the IBAA proposal. For example, Modesto claims that these agreements: (1) do not require the provision of day-ahead schedules; (2) are provided on an aggregate level; (3) expressly require confidentiality protection; (4) provide the entity sharing information the right to verify certain factors of the calculation after-the-fact and

audit PJM's calculations; and (5) allow both parties to terminate the agreement upon ninety days written notice.

174. LADWP identifies five commercial terms and conditions missing that would make the MEEA equitable to both parties: (1) identify specific data or information; (2) state the limited purposes for which the CAISO uses the information; (3) specify measures the CAISO must take to preserve the confidentiality of information; (4) provide procedures with which the parties would have to comply in their negotiations; and (5) provide dispute resolution procedures. NCPA adds that the information requirements should be reciprocal and narrowly tailored to what is actually needed to accomplish the desired goal.

175. In its answer, the CAISO disagrees with protests that the CAISO inappropriately retains sole discretion as to whether to enter into an MEEA. The CAISO argues that all MEEAs and any proposed CAISO tariff amendments resulting from such alternative arrangements will be subject to Commission review under section 205 or 206 of the FPA.¹⁴⁶ Parties will also have an opportunity to express concerns during initial negotiations with the CAISO and during the later stakeholder process. The CAISO states that this open and transparent process will give both parties plenty of opportunities for negotiation and compromise. The CAISO adds that the benefits of an MEEA outweigh any concerns with regard to the barrier potentially posed by the stakeholder process.

176. The CAISO argues that it must have the flexibility to address the particular circumstances at issue when negotiating MEEAs. The CAISO therefore does not feel it would be appropriate to list the specific terms and conditions to be included in each MEEA, given the wide scope of potential MEEAs, from one with a specific generating facility to one with multiple balancing authorities.

177. The CAISO states that its market will benefit from the provision of data verifying interchange transactions through improved accuracy of its models and market system solutions. The CAISO therefore contends that this provision of data is a "demonstrable benefit" that can be used to require the CAISO to enter into an MEEA. The CAISO offers that the Commission can so specify to remove any unnecessary concerns.

178. The CAISO also submits that it is possible that the information required would not have to be day-ahead information but instead could be after-the-fact information made available to the CAISO.¹⁴⁷

¹⁴⁶ 16 U.S.C. § 824d, 824e (2006).

¹⁴⁷ CAISO August 8 Answer at 39.

179. In its answer, NCPA states that it has significant loads in the CAISO and cannot stop serving them from the resources it possesses, wherever located. NCPA contends that it fears the worst of both worlds: unfair pricing and nothing to offer the CAISO to obtain better terms, because it does not have the information the CAISO seeks or any contractual means of obtaining it.

180. SMUD disputes the CAISO's contention that the CAISO does not have unfettered discretion whether to enter into an MEEA, because it is subject to Commission review under section 205 or 206 of the FPA. SMUD contends that this assumes that the CAISO has decided to offer an MEEA.

2. Commission Determination

181. We find that the MEEA is an integral component of the CAISO's IBAA proposal. We agree that resources capable of verifiably providing the CAISO with operational benefits should be valued and compensated appropriately. Given the balance of benefits that accrue to both the CAISO and the owners of such resources, we believe the MEEAs must be developed in an open and equitable manner. We will therefore accept the proposed MEEA provisions subject to modification, as discussed below.

182. The CAISO argues in its answer that it is not appropriate to list the specific terms and conditions to be included in each MEEA. We agree that a potential MEEA with a specific generating unit may very well be different from one with multiple balancing authorities. However, we find that the proposed MEEA does not offer a transparent and balanced agreement from which parties may develop an alternative pricing arrangement in a non-discriminatory manner. With respect to the data or information that the CAISO needs to accurately model and price external resources, we will require the CAISO to include tariff provisions that specify the minimum information it requires to accurately model interchange transactions. This information must be specified by the type of entity involved in a potential MEEA. Once it receives this information the CAISO must offer actual pricing to the party signing the MEEA.

183. As noted earlier, it may be difficult to identify a particular resource dispatched by a traditional utility as part of a fleet of resources to meet the aggregation of its load and interchange transactions. We direct the CAISO to explain the information needed from such an entity and how it will identify the resource supporting interchange transactions and include this explanation in the tariff.

184. We will also adopt LADWP's proposed terms and conditions for the MEEA process and direct the CAISO to include tariff provisions that: (1) state the limited purpose for which the CAISO will use the information; (2) specify measures the CAISO must take to preserve the confidentiality of information; (3) provide procedures with which the parties would have to comply in their negotiations; (4) provide dispute resolution procedures; and (5) establish audit rights for both parties.

185. To the extent that entities provide the CAISO the information specified in the tariff, as directed above, we find that it is not necessary to determine whether the MEEA will result in a demonstrable benefit to the CAISO. The accurate provisioning of data will itself provide a demonstrable benefit such that the CAISO will be better able to model its system and scheduled flows will more closely match actual flows. Accordingly, we find that the definition will be just and reasonable only if the CAISO removes the term “demonstrable benefit” from its definition of the MEEA.

186. We find that our modifications above, which direct the CAISO to specify the information required, adopt terms and conditions related to the MEEA process, and strike the need for a demonstrable benefit, should satisfy concerns that the CAISO may have undue discretion.

187. We disagree with protests suggesting that the MEEA process is an attempt to coerce the IBAA entities into providing data to the CAISO. First, the changes directed above make clear the even-handed nature of the MEEAs; by providing the requisite information and satisfying the other terms of the MEEA, entities will be entitled to the MEEA without further showing “demonstrable benefits.”

188. Furthermore, we note that the CAISO states that all MEEAs will be subject to Commission review under section 205 or 206 of the FPA. However, section 27.5.3.2 of the CAISO MRTU Tariff states that it will make “any necessary filings” with the Commission and will submit to the Commission any related MEEAs, “as appropriate.” The Commission does not believe that this is sufficiently clear to indicate that all MEEAs must be filed with the Commission under section 205 of the FPA. Therefore, we direct the CAISO to modify its tariff to make this clear within 60 days of the date of this order.

189. Also, we find that the stakeholder process proposed by the CAISO for developing individual MEEAs is unnecessary because, as discussed above, any such MEEA would be filed with the Commission and thus available for review and comment by CAISO Market Participants. Therefore, we direct the CAISO to modify its tariff to eliminate the stakeholder process requirement within 60 days of the date of this order and to make any necessary changes to its Business Practice Manuals.

190. In accepting the proposed default pricing provisions as just and reasonable, we reject SMUD’s arguments that the CAISO has failed to offer the IBAA entities a just and reasonable recourse rate in the event they are unable to reach agreement on an MEEA. We also disagree with TANC that the CAISO seeks de facto control over non-jurisdictional facilities not under the CAISO’s operational control. The IBAA proposal establishes pricing for imports and exports scheduled at the interties between the CAISO and the SMUD-Turlock IBAA; TANC retains full control of its facilities.

191. We disagree with NCPA that it will not be able to enter into an MEEA for the resources that it possesses. To the extent that NCPA owns or controls resources, it will

be able to enter into an MEEA with the CAISO. To the extent that NCPA purchases power from Western and cannot prove where the power is coming from, the IBAA allows the CAISO to make a reasonable assumption that the power is sourced through Captain Jack or other points pursuant to an MEEA.

192. Finally, we find that the CAISO has not justified the need for authority under the MEEA to enforce network constraints on other transmission systems. We direct the CAISO to remove this tariff provision.

D. Discrimination

193. The CAISO IBAA proposal will apply only to the SMUD and Turlock balancing authority areas at this time. The CAISO explains that, in the stakeholder process, some participants argued that the IBAA proposal is unduly discriminatory to SMUD and Turlock because it singles them out for a novel modeling and pricing methodology that is not being applied to other balancing authority areas. The CAISO offers three justifications to explain why its proposal is not unduly discriminatory, and why it is imperative that the IBAA proposal be applied to the SMUD and Turlock balancing authority areas at the start of MRTU operations. First, the CAISO states that its proposal will not change the interconnections with or interface relationships between the SMUD and Turlock balancing authority areas and the CAISO. Second, the CAISO explains that the IBAA proposal treats all market participants importing to and exporting from the SMUD and Turlock balancing authority areas the same because the default pricing rules will apply to all schedules submitted at the intertie scheduling points between the CAISO, on the one hand, and SMUD and Turlock, on the other. Third, the CAISO states that there are no other balancing authority areas with which it is interconnected that possess the same physical characteristics and operational impacts on the CAISO-controlled grid.

194. The CAISO explains that it has evaluated several factors in determining the need to model SMUD and Turlock as an IBAA. The CAISO has listed the factors in the proposed section 27.5.3.3 of the MRTU Tariff, which the CAISO states include, but are not limited to: 1) the number of interconnection points with the CAISO balancing authority area and the distance between them; 2) whether the transmission system(s) within the balancing authority areas run(s) in parallel to major parts of the CAISO-controlled grid; 3) the frequency and magnitude of unscheduled flows at the interconnection tie-points; 4) the number of hours where the actual direction of flows in real time reversed from day-ahead scheduled directions; 5) the availability of information to the CAISO for modeling accuracy; and 6) the estimated improvement to the CAISO's

power flow modeling and congestion management processes to be achieved through more accurate modeling of the IBAA.¹⁴⁸

1. Comments and Answers

195. Several parties state that by singling out certain balancing authority areas for the IBAA treatment without adequate explanation, CAISO's proposal is unduly discriminatory. Turlock and SMUD contend that the CAISO proposal is discriminatory because it groups Turlock and SMUD into one balancing authority area and then attempts to impose what the CAISO knows to be a disadvantageous, even punitive, pricing methodology that is not being applied to other similarly-situated adjacent balancing authorities.¹⁴⁹ Western argues that it is irresponsible, prejudicial, and harmful to test a proposal on a few entities, and implementation of a proposal on less than a comprehensive basis will result in the affected parties being economically disadvantaged with respect to other market participants. Furthermore, according to Western, if the proposal can be applied to other entities in the future, there is no excuse for only applying it to SMUD and Turlock now.

196. Western and SMUD disagree with the CAISO's reasons for claiming its proposal is not unduly discriminatory. First, SMUD is not asserting that the IBAA proposal will change the interconnections or interface relationships between the IBAA entities and the CAISO. Rather, it argues that the rates it will pay or be paid for imports and exports with the CAISO will be calculated in a different, less favorable, manner than will imports and exports by other similarly-situated balancing authorities.

197. Western, TANC and SMUD assert that the CAISO's claim that it "treats all market participants that import from or export to the SMUD-Turlock IBAA similarly," is equally irrelevant. They contend that the fact that other entities importing or exporting to the SMUD-Turlock IBAA will be subject to the same unreasonable pricing methodology does not answer the question of whether the SMUD-Turlock balancing authority areas are being subject to a pricing methodology that discriminates between those entities and other, similarly-situated, neighboring balancing areas.

¹⁴⁸ CAISO June 17, 2008 Filing at 26.

¹⁴⁹ Turlock July 8, 2008 Protest at 10-11 (citing *Public Service Co. of Indiana, Inc.*, 11 FERC ¶ 63,008, at 65,043 (1980); *Cities of Newark v. FERC*, 763 F.2d 533, 547 (3rd Cir. 1985); *Cities of Bethany v. FERC*, 727 F.2d 1131, 1139 (D.C. Cir. 1984); *City of Frankfort v. FERC*, 678 F.2d 699, 706 (7th Cir. 1982); *St. Michaels Utils. Comm'n v. FPC*, 377 F.2d 912 (4th Cir. 1967)).

198. Various protestors argue that the CAISO has failed to present any evidence that the SMUD and Turlock balancing authority areas are uniquely situated and have a more significant impact on the CAISO as compared to other neighboring control areas.

199. Protestors assert that it is quite possible that other balancing authority areas, with which the CAISO is interconnected in a highly parallel manner, have as great an impact on the CAISO-controlled grid as the IBAA entities. Protestors argue that the CAISO itself has admitted that it does not have the data to determine the degree of impact that other large adjacent balancing authorities have on its market, and thus the CAISO cannot possibly claim to know the market significance of the IBAA entities as they relate to other balancing areas.¹⁵⁰

200. Turlock and SMUD contend that the reason the CAISO has singled out the IBAA entities is because they were once a part of the CAISO balancing area and therefore represent the only balancing authorities for which the CAISO already has the type of data it claims to seek. SMUD further argues that the IBAA proposal seems to have been developed as a means to address what the CAISO has already adopted in its system without prior Commission authorization, the use of information and data that it already possesses for modeling the SMUD and Turlock balancing authorities, rather than to achieve the actual stated purposes identified in the filing.¹⁵¹

201. Turlock points out that it has only two small interconnections with the CAISO. Turlock argues that with only two interconnections, it is in a similar position as other entities, including Imperial, LADWP and Arizona Public Service that will not be subject to the IBAA proposal. TANC argues that, by lumping SMUD and Turlock into one IBAA, the CAISO ignores the fact that LADWP has twice the interconnections with the CAISO as Turlock alone. Turlock further contends that this undue discrimination against Turlock and SMUD forces them to shoulder significant pricing burdens, operational burdens, reliability burdens and costs.

202. TANC argues that the timing difference between the modeling and pricing of other IBAAAs in the future and the proposed SMUD/Turlock IBAA places the IBAA entities at a disadvantage. It contends that without the pressures of rushing to implement an IBAA methodology for future balancing authority areas for MRTU start-up, the future IBAAAs will have an opportunity to negotiate an alternative arrangement before the CAISO makes a tariff revision. TANC claims that the CAISO's stakeholder process cannot be equated with the consultative process the CAISO proposes for other IBAAAs. TANC also submits

¹⁵⁰ SMUD July 8, 2008 Protest at 42.

¹⁵¹ *Id.* at 43.

that potential future IBAs will benefit from having their IBA treatment vetted through a WECC process, which the CAISO indicates it would prefer on a long-term basis.

203. In its answer, the CAISO asserts that the evidence and analysis it has provided demonstrates that not all balancing authority areas are similarly-situated with respect to their physical attributes, their location, and their effect on the operation of the CAISO-controlled grid. For example, the CAISO points out that SMUD and Turlock are the only balancing authority areas that, until a few years ago, were a part of the CAISO balancing authority area and were fully integrated with CAISO grid operations. The CAISO further reiterates that SMUD and Turlock share 12 points of interconnection with the CAISO, are surrounded by the CAISO's balancing authority area, and parallel a major portion of the CAISO-controlled grid for over 300 miles. The CAISO further contends that it should come as no surprise to stakeholders that the CAISO now seeks to model the SMUD and Turlock more accurately as the CAISO claims it concluded early in the MRTU development process that it was important to model these balancing authority areas on an enhanced basis.¹⁵²

204. The CAISO asserts that the criteria it relies on for distinguishing the SMUD and Turlock balancing authority areas from other neighboring balancing authorities represent objective facts and not subjective conclusions, as protestors suggest. The CAISO points to the testimony of Mr. Rothleider and Dr. Price which explains that the number of interconnections is an important criterion because the greater the number of interconnections, the more closely two balancing authority areas are likely to be integrated and the greater the potential for having flows on the other party's system.¹⁵³

205. The CAISO argues that the fact that it has entered into numerous Interconnected Control Area Operating Agreements (ICAOAs) with some of the balancing authority areas with which it is interconnected and that these agreements have required different deviations from the *pro forma* ICAOA for different balancing authority areas shows that each balancing authority area is unique.¹⁵⁴ In fact, the CAISO asserts that the SMUD and Turlock ICAOAs required more "special" deviations from the *pro forma* ICAOA than any other balancing authority area. The CAISO argues that these agreements and their acceptance by the Commission, in addition to the evidence presented in its filing, demonstrates that the SMUD and Turlock balancing authority area are not similarly

¹⁵² CAISO July 23, 2008 Answer at 43 (citing CAISO June 17, 2008 Filing, Ex. ISO-1 at 28).

¹⁵³ *Id.* (citing CAISO June 17, 2008 Filing, Ex. ISO-1 at 30).

¹⁵⁴ *Id.* at 45.

situated to other balancing authority areas in terms of physical attributes, location, and effect on the CAISO-controlled grid.

206. In its answer, the CAISO requests that the Commission reject Turlock's arguments that it is unreasonable for Turlock to be grouped into one IBAA with SMUD. The CAISO contends that Turlock is the only other balancing authority area that shares the same embedded location within the CAISO and extensive parallel transmission alongside the CAISO that SMUD possesses. The CAISO points out that the SMUD and Turlock balancing authority areas are adjacent to each other and share a point of interconnection, meaning that the source of an interchange scheduled from Turlock could come from SMUD or the Pacific Northwest.¹⁵⁵ Furthermore, the CAISO asserts that the magnitude and frequency of flow reversals demonstrated to take place between the CAISO and the SMUD and Turlock balancing authority areas provides additional support for modeling SMUD and Turlock as one IBAA.

207. Finally, the CAISO responds to protestors' concerns regarding its proposed characteristic of an IBAA addressing "the availability of information to the CAISO for modeling accuracy." The CAISO points out that the type of data it has for the SMUD and Turlock balancing authority areas, namely information regarding the topography of their balancing authority areas, differs from the type of data it now seeks – information on real-time dispatch of external resources. The CAISO argues that protestors' conclusions that it first determined that it would apply the IBAA proposal to SMUD and Turlock and then sought criteria to justify that application are untrue.

2. Commission Determination

208. We find the CAISO's IBAA proposal is not unduly discriminatory. The CAISO has fully supported the need to address the large amount of loop flow and inaccurate pricing concerns at its interface with the SMUD and Turlock balancing authority areas in conjunction with the start of MRTU operations. It has shown a high degree of integration between SMUD/Turlock and the CAISO compared to other neighboring balancing authority areas, which supports dissimilar treatment. Further, we find that for the new market design using day-ahead markets to work where IBAA transactions have a high likelihood to affect the market given the integrated nature of the IBAA with the CAISO requires either sufficient data or proxy assumptions. We find here that there are significant differences between the SMUD-Turlock IBAA and other balancing authority areas that neighbor its system that justify applying the CAISO's proposal to these IBAAAs. Last, the parties' arguments of discrimination and harm ignore the CAISO's offer to substitute actual prices for real-time data through execution of an MEEA. We find that

¹⁵⁵ *Id.* at 47 (citing CAISO June 17, 2008 Filing, Ex. ISO-1 at 33).

this non-discriminatory offer mitigates parties' concerns and in totality is just and reasonable.

209. Differences in rates are justified where they are predicated upon differences in facts.¹⁵⁶ A finding of undue discrimination is predicated on whether the record fails to exhibit factual differences to justify differences among the rates charged.¹⁵⁷ Here, we agree with the comments of both the CAISO and numerous protestors that the balancing authority areas at issue represent unique sets of factors in their relationships and interconnections with the CAISO. Because these entities are not similarly situated to other balancing authority areas neighboring the CAISO, it is unlikely that they will present identical scheduling and pricing concerns under MRTU. Therefore, we find it reasonable for the CAISO to consider the individual characteristics and market impacts of its neighboring balancing authority areas in determining whether and how to implement its IBAA proposal and will not require the CAISO to address such concerns on a generic basis.

210. The CAISO's proposal addresses operational and pricing concerns that are presented by two embedded balancing authority areas with which the CAISO is closely interconnected and operates alongside in a highly parallel manner. The CAISO witnesses Rothleider and Price support the need for modeling the SMUD and Turlock balancing authority areas as one IBAA, explaining that, because SMUD and Turlock have an interconnection with each other, interchange transactions between the two balancing authority areas could be scheduled by contract path without scheduling through the CAISO. This would make it possible for a schedule to be made from Turlock to the CAISO for power that is actually being sourced from within the SMUD balancing authority area or the Pacific Northwest.¹⁵⁸

211. Modeling the SMUD and Turlock balancing authority areas differently would undermine the goal of eliminating infeasible schedules and improving modeling accuracy and congestion management. Furthermore, their degree of integration with not just the CAISO, but also each other, provides additional justification for combining the two balancing authority areas for the purposes of the CAISO's proposal because the more highly integrated neighboring balancing authority areas are, the more likely it is that power that flows on one system will impact the operations on the neighboring system.

¹⁵⁶ *St. Michaels Util. Comm'n v. FPC*, 377 F.2d 912, 915 (4th Cir. 1967); *Public Service Co. v. FERC*, 575 F.2d 1204, 1211 (4th Cir. 1978).

¹⁵⁷ *Id.*

¹⁵⁸ CAISO June 17, 2008 Filing, Ex. ISO-1 at 32.

Therefore, we concur that treating the SMUD and Turlock balancing authority areas as a single IBAA is both a necessary and appropriate part of the CAISO's proposal.

212. Furthermore, it is the unique relationship between the combined SMUD and Turlock balancing authority area and the CAISO that make it appropriate for the CAISO to address those entities here. First, the SMUD-Turlock IBAA represents the most highly integrated interface with the CAISO, with respect to the sheer number of interconnections, the extent of parallel flows, and its embedded position within the CAISO-controlled grid.¹⁵⁹ As shown by the CAISO, the SMUD/Turlock IBAA has 12 points of interconnection with the CAISO. The next largest balancing authority area only interconnects with the CAISO at four points. Further, the COTP and PACI are highly integrated, which creates a high level of integration between the SMUD/Turlock balancing authority areas and the CAISO. In response to protestors' arguments that it has placed too much weight on the number of interconnections alone (without consideration of their size), the CAISO has explained that the IBAA does, in fact, have several large interconnection points, including Tracy, which the CAISO claims exceeds 4,000 MW.¹⁶⁰ Therefore, it follows that the SMUD-Turlock IBAA is highly interconnected with the CAISO with respect to the number, size, and distance between its interconnections with the CAISO-controlled grid.

213. Second, the CAISO has provided compelling data that illustrates the significance of unscheduled flows between the SMUD and Turlock balancing authority areas and the CAISO-controlled grid.¹⁶¹ The data, which compares SMUD and Turlock with other neighboring balancing authority areas, documents the amount and frequency of unscheduled flows over a 12-month period. The results clearly demonstrate that SMUD and Turlock both experienced large and, in the case of some interconnection points between SMUD and the CAISO, frequent deviations between scheduled and actual power flows. As we have stated, minimizing the impact of infeasible schedules is a key goal of MRTU, and this data provides another important reason for distinguishing between the SMUD-Turlock IBAA and other neighboring balancing authority areas.

214. As the CAISO notes, until a few years ago, both SMUD and Turlock were an integrated part of the CAISO's balancing authority area.¹⁶² As a result, the CAISO has more detailed knowledge of the SMUD and Turlock balancing authority areas and the

¹⁵⁹ *Id.*, Ex. ISO-1 at 30-43.

¹⁶⁰ CAISO August 8, 2008 Answer at 26.

¹⁶¹ CAISO June 17, 2008 Filing, Ex. ISO-1 Appendix A at 8 and 11.

¹⁶² *Id.*, Ex. ISO-1 at 28.

potential challenges that may arise from import and export interchange transactions with the CAISO under MRTU. We find that protestors appear to misunderstand the nature of the data CAISO claims to possess as evidence of the need for the IBAA proposal.

Contrary to SMUD and Turlock's assertions, it is illogical to conclude that the IBAA proposal is an attempt by the CAISO to justify using data it already possesses for modeling and pricing interchange transactions. First, the information the CAISO has on the physical characteristics of the SMUD and Turlock balancing authority areas is a result of their integrated development as a part of the same single control area and differs materially from the type of day-ahead and real-time data the CAISO is seeking for modeling and pricing purposes. Second, to the extent that the type of granular data the CAISO seeks is already made available to it for reliability purposes, existing confidentiality requirements preclude the CAISO from using the data for modeling and pricing of interchange transactions.

215. As for protestors' arguments that other balancing authority areas may also have significant impacts on the pricing and operations for the CAISO balancing area, the CAISO's proposal includes a mechanism to address how such balancing authority areas shall be identified and treated in the future. We find protestors' requests for the establishment of concrete metrics in determining which control areas might be classified as a new IBAA in the future to be unnecessary. As the CAISO has noted, it is through the consideration of the combined effects of the criteria established by the CAISO and any evidence of potential scheduling and pricing impacts on the CAISO-controlled grid that new IBAAAs may be created. Setting up rigid metrics to specify when and how the CAISO may address future areas of concern would limit the CAISO's ability to respond to the unique characteristics of individual balancing authority areas and its flexibility to propose remedies that reflect those characteristics. However, section 27.5.3.2 of the CAISO MRTU Tariff states that it will make "any necessary filings" with the Commission if it determines that it is necessary to establish a new IBAA. The Commission does not believe that this is sufficiently clear to indicate that any new IBAA must be filed with the Commission under section 205 of the FPA. Therefore, we direct the CAISO to modify its tariff to make this clear within 60 days of the date of this order.

216. In response to TANC's assertion that the IBAA entities are being placed at a disadvantage relative to any future IBAAAs, we find that SMUD and Turlock are being afforded the same opportunity to negotiate alternative pricing arrangements and comment on the tariff modifications being proposed under the current IBAA proposal as future IBAAAs will have. To the extent that the MRTU Tariff would require modification to address future alternative pricing arrangements or the creation of a new IBAA, parties will have the same opportunity to raise concerns about any specific tariff modifications at that time. Of course, we continue to encourage SMUD and Turlock, and all other adjacent balancing authority areas to continue to work with the CAISO and use the stakeholder process, bilateral negotiations or settlement procedures to find cooperative and mutually agreeable solutions to seams issues that arise.

E. Existing Contracts

217. The CAISO asserts that the IBAA proposal does not violate existing contracts. Specifically, the CAISO states that the proposal does not violate the Amended Owners Coordinated Operation Agreement (Coordinated Operation Agreement) or the Amended California-Oregon Intertie Path Operating Agreement (Path Operating Agreement). The Coordinated Operation Agreement and the Path Operating Agreement are the principal agreements concerning coordinated operation, planning and maintenance of the California-Oregon Intertie facilities.

218. Several parties argue that the IBAA proposal violates both the Coordinated Operation Agreement and the Path Operating Agreement. They generally argue that when the CAISO was developed, one of the underlying principles guiding its formation was that contracts would be honored, which has been upheld by the Commission.¹⁶³ Therefore, they argue that the Commission should reject the IBAA proposal because the CAISO is legally precluded from obtaining the relief that it seeks.¹⁶⁴ TANC also asserts that the CAISO violates its tariff and long-standing policy that the CAISO does not interpret contracts to which it is not a party.¹⁶⁵

219. Several parties also state that the CAISO proposal violates other contracts, such as the California-Oregon Intertie Control Area Operating Agreement between the CAISO and both SMUD and Turlock (SMUD ICAOA and Turlock ICAOA, respectively) and Turlock's contract with San Francisco.

1. Coordinated Operation Agreement

220. The Coordinated Operation Agreement is an agreement among the parties that own or control the capacity of the PACI and the COTP. This agreement governs

¹⁶³ Santa Clara July 8, 2008 Protest at 19 (citing *Pacific Gas and Elec. Co.*, 81 FERC ¶ 61,122, at 61,463 (1997), *order on reh'g Pacific Gas and Elec. Co., et al.*, 82 FERC ¶ 61,223 (1998)).

¹⁶⁴ TANC July 8, 2008 Protest at 22 (citing *United Gas Pipe Line Co. v. Mobile Gas Serv. Corp.*, 350 U.S. 332 (1956)).

¹⁶⁵ *Id.* at 36 (citing CAISO Tariff section 16.2.3.1.1; *Cal. Indep. Sys. Operator Corp.* 101 FERC ¶ 61,219, at 61,936 (2002); *Pacific Gas and Elec. Co., et al.*, 81 FERC ¶ 61,122, at 61,473 (1997); CAISO, Docket No. ER06-54-000, Compliance Report at 6 (Mar. 28, 2006); CAISO, Docket No. ER06-1360-000, Motion of the CAISO for Leave to File Answer, and Answer to Comments and Protest at 3 (Sep. 18, 2006).

coordinated operation, maintenance and planning of the lines.¹⁶⁶ The parties to the Coordinated Operation Agreement are PG&E, Western and each COTP participant.¹⁶⁷ The CAISO is not a party to the Coordinated Operation Agreement.

221. The CAISO asserts that, contrary to arguments raised during the stakeholder process, the IBAA proposal does not violate existing contracts by creating charges for parallel flows because the CAISO will not charge for unscheduled or parallel flows under the IBAA proposal. Second, the CAISO maintains that charging for transmission service over the CAISO-controlled grid under the MRTU Tariff (and under the existing CAISO Tariff) does not violate the Coordinated Operation Agreement. The CAISO notes that section 5 of the Coordinated Operation Agreement reads as follows:

This Agreement governs the coordinated operation of the PACI and COTP. It is the intent of the Parties to maintain the System as coordinated facilities to benefit its Transfer Capability. Except as to the use of the Tesla ByPass provided under this Agreement and as necessary to perform curtailment sharing obligations under Section 11 of this Agreement, no Party provides or shall be required to provide any transmission or other electric service to another Party under this Agreement.

222. According to the CAISO, this section provides that no party shall provide (or be required to provide) transmission service or other electric service to another party under the Coordinated Operation Agreement. The CAISO argues that section 5 does not prohibit a party from providing transmission service to another party under other agreements, e.g., Western's OATT, the TANC Transmission Tariff, PG&E's OATT (prior to the existence of the CAISO), the existing CAISO Tariff, or the MRTU Tariff when it goes into effect. The CAISO notes that a similar provision is contained in section 8.4 of the Coordinated Operation Agreement.¹⁶⁸

¹⁶⁶ See *PacifiCorp, et al.*, 121 FERC ¶ 63,016, at P 3 (2007).

¹⁶⁷ The COTP Participants are Western, TANC, Carmichael Water District, the California City of Redding, the California City of Vernon, PG&E, San Juan Suburban Water District and their successors and assigns. Coordinated Operation Agreement at § 4.16.

¹⁶⁸ “Except to the extent necessary for sharing Curtailments, no Party shall have a right *under this Agreement* to have any of its power delivered on or otherwise have the use of transmission facilities owned by another Party.” Coordinated Operation Agreement § 8.4.

223. According to the CAISO, these sections provide that, to the extent of each party's rights in the three-line system (with certain exceptions for curtailments and use of the Tesla ByPass), no party shall be charged for another party's use of the three-line system under the Coordinated Operation Agreement. The parties recognize that the three-line system is operated in a coordinated fashion and that there will be no charges under the Coordinated Operation Agreement for the physical flow effects of scheduling over the three-line system. The CAISO states that, in other words, the flow effects of each party's use of its rights in the three-line system on the transmission systems of the various owners are to be borne by the owners without charge under the Coordinated Operation Agreement.

224. While each party's use of its rights on the California-Oregon Intertie are borne by the owners without charge, the CAISO asserts that when a party to the Coordinated Operation Agreement requests transmission service from another party under an agreement other than the Coordinated Operation Agreement, it must pay for and comply with the provisions of the applicable transmission tariffs.

225. While the CAISO admits that MRTU and the IBAA proposal will change how congestion is managed on the CAISO-controlled grid, it asserts that neither will violate the Coordinated Operation Agreement when they go into effect. When a COTP participant requests transmission service from the CAISO, it will have to comply with the MRTU Tariff, and the CAISO will not charge the COTP participant for unscheduled flow on the CAISO-controlled grid. Similarly, if PG&E, which is a party to the Coordinated Operation Agreement, requests service under TANC's or Western's transmission tariff, it has to comply with the provisions of that tariff, and it will not be charged for unscheduled flow under those tariffs.

a. **Comments and Answers**

226. TANC, SMUD,¹⁶⁹ Western and Santa Clara maintain that the CAISO's IBAA proposal conflicts with the terms of the Coordinated Operation Agreement by charging for parallel flows on other California-Oregon Intertie lines while ignoring parallel flows on the COTP.

227. First, Santa Clara claims that the CAISO's statement that it is not a party to the Coordinated Operation Agreement is irrelevant because the CAISO is bound to honor the terms of the Coordinated Operation Agreement because the agreement is listed as an encumbrance in the Transmission Control Agreement between the CAISO and each of

¹⁶⁹ In its comments and answer, SMUD incorporates by reference TANC's arguments concerning the CAISO's contractual commitments.

PG&E, SoCal Edison and SDG&E.¹⁷⁰ TANC also contends that the CAISO Tariff and the CAISO's position against interpreting existing agreements preclude the Commission from considering the CAISO's legal position interpreting the Coordinated Operation Agreement.¹⁷¹ TANC also notes that the CAISO cannot revise the terms of the Coordinated Operation Agreement without the written consent of all parties.

228. TANC and Santa Clara generally contend that by assigning an economic consequence to COTP schedules from flows on the PACI, the IBAA proposal violates the Coordinated Operation Agreement. TANC and Santa Clara argue that the Coordinated Operation Agreement precludes any charges based upon flows on the three-line California-Oregon Intertie system. Section 8.4 of the Coordinated Operation Agreement states:

The System shall be operated as a coordinated three-line transmission system. No Party shall be charged any rate and PG&E shall not be charged any transmission loss for any power, which flows over the System or over the Tesla ByPass....[¹⁷²]

229. According to TANC, the owners of the three high voltage transmission lines recognized the mutual benefits of coordinated operation.¹⁷³ TANC submits that by agreeing to coordinated operations, the parties agreed to permit power to flow over the three lines without distinction of the entity scheduling the power. The parties further agreed to accept unscheduled flows without cost consequences to the other party.

¹⁷⁰ Santa Clara July 8, 2008 Protest at 20, n.6 (citing *Cal. Independ. Sys. Operator Corp.*, 117 FERC ¶ 61,029 (2006)).

¹⁷¹ TANC July 8, 2008 Protest at 36 (citing CAISO Tariff section 16.2.3.1.1 ("The ISO will have no role in interpreting Existing Contracts.")). *See also, Cal. Independ. Sys. Operator Corp.*, 101 FERC ¶ 61,219, at 61,936 (2002) ("as stated in the ISO Tariff, the ISO will have no role in interpreting Existing Contracts"); *Cal. Independ. Sys. Operator Corp.*, Docket No. ER06-1360-000, Motion of the CAISO for Leave to File Answer, and Answer to Comments and Protest at 3 (Sept. 18, 2006) ("key aspect of the CAISO's role in dealing with Existing Contracts...is that Section 16.2.3.1 of the ISO Tariff specifies that the CAISO will have no role in interpreting Existing Contracts.").

¹⁷² Coordinated Operation Agreement § 8.4

¹⁷³ TANC July 8, 2008 Protest at 31 (citing Amended Coordinated Operation Agreement section 2.11).

Modesto adds that the CAISO's proposal upsets the balance struck by the parties to the settlement concerning the Coordinated Operation Agreement.

230. TANC and Santa Clara argue that the CAISO attempts to evade the terms of the Coordinated Operation Agreement by asserting that it will only charge congestion and losses for *scheduled* flow and that it will not charge for *unscheduled* flow is irrelevant because the Coordinated Operation Agreement prohibits all charges.

231. According to Santa Clara and TANC, the CAISO's claims that it is not charging for parallel flows and that charges are limited to use of the CAISO-controlled grid facilities are incorrect. Santa Clara argues that the CAISO disingenuously blurs the line between scheduled flows and parallel flows. Santa Clara states that PACI parallel flows from COTP result from schedules between SMUD and Bonneville at Captain Jack. According to Santa Clara, the flows are scheduled on the COTP, not on the PACI or any other CAISO-controlled facilities. Santa Clara states that the scheduled flows on the CAISO grid do not begin until after the flows terminate at Tracy. Santa Clara argues that the CAISO is charging for parallel flows on the COTP from Captain Jack to Tracy in its Captain Jack price. However, Santa Clara maintains that the scheduled flows on the CAISO-controlled grid, between Tracy and Santa Clara's load, do not cause the parallel flows that the CAISO is charging in its Captain Jack price for COTP schedules.¹⁷⁴ Santa Clara maintains that the congestion and losses at Captain Jack can only be based on unscheduled flows caused by Santa Clara's COTP schedule from Captain Jack to Tracy. Therefore, according to Santa Clara, the CAISO is doing precisely what the CAISO's filing admits it cannot do and is violating existing contracts.

232. Further, Santa Clara maintains that the CAISO is incorrect in asserting it is not applying charges to transmission service over any non-CAISO-controlled facilities. According to Santa Clara, by applying Captain Jack prices to COTP imports that are scheduled at Tracy, the CAISO is charging for parallel flows.¹⁷⁵ By locating the proxy bus at Captain Jack, the resultant prices reflect the unscheduled flow, and resultant congestion and losses, on the PACI. Therefore, according to Santa Clara, the CAISO is unlawfully imposing losses and congestion charges on schedules that use non-CAISO-controlled grid facilities, the COTP, from Bonneville-Western/SMUD. Santa Clara argues that the CAISO tries to mask this improper charge by limiting the charge to schedules by entities that subsequently schedule the energy into the CAISO. Santa Clara maintains that this limitation only means that the CAISO is proposing unlawful charges

¹⁷⁴ Santa Clara July 8, 2008 Protest at 24, Ex. SVP-2 at 23.

¹⁷⁵ *Id.* at 25, Ex. SVP-2 at 23.

for some customers, it does not change the fact that the CAISO is unlawfully imposing charges for use of non-CAISO Grid facilities.

233. Santa Clara also argues that the CAISO proposal violates the spirit of the agreements, which is to provide increased reliability through coordinated operation without charge for the parallel flows resulting from the coordinated, integrated facilities of the California-Oregon Intertie. Santa Clara characterizes the CAISO's proposal as a unilaterally-imposed tax on the use of parallel facilities that are not part of its balancing authority area. By unilaterally imposing costs on other California-Oregon Intertie facilities, Santa Clara asserts that the CAISO is violating the cooperative spirit of the California-Oregon Intertie agreements.

234. The CAISO reiterates in its answer that the Coordinated Operation Agreement provision on which the protestors rely is limited in scope to the agreement. The CAISO states that the IBAA proposal has no effect on the Coordinated Operation Agreement. The CAISO contends that when a transmission customer schedules service over the COTP, the entire transaction occurs outside of the CAISO's sphere of authority; it involves transmission service over facilities that are not part of the CAISO-controlled grid; it occurs under a transmission tariff (TANC's) over which the CAISO has no control; and the CAISO has no role whatsoever in the financial settlement of COTP transmission service schedules that are arranged under TANC's transmission tariff. All of the effects described by TANC apply only when an entity decides to use, or schedule the use of, the CAISO-controlled grid.

235. The CAISO also asserts that the Coordinated Operation Agreement limits its scope to the terms of the agreement, and the CAISO claims that if a party wants to use the facilities of another party, the Coordinated Operation Agreement creates no right to use those facilities and the request will take place under the providing party's applicable tariff.

236. The CAISO states that under the IBAA proposal the CAISO will not assess COTP transmission customers a charge for the parallel flows that might occur on the CAISO-controlled grid when they are using the COTP. The CAISO deals with the effects of parallel flow in real time and the CAISO demand bears the cost via neutrality charges. The CAISO also states this is the same method currently employed and that the protestors do not claim there is a current violation regarding how parallel flows are handled.

237. The CAISO also maintains, as it has previously, that its role will be to manage congestion and marginal loss on the CAISO-controlled grid. Because this role is not

changed by the IBAA proposal, the CAISO claims it is not violating any tariff provision stating it will not interpret any existing controls as TANC contends.¹⁷⁶

238. SMUD/Turlock maintain that the CAISO chose to devote a handful of pages to arguments that the IBAA proposal violates existing contracts in its transmittal letter and appears to have made a strategic decision to save most of its arguments for an answer to the protests. SMUD/Turlock maintains that it was improper for the CAISO to have waited until a reply to advance arguments that it should have made in its section 205 filing. They argue that the CAISO should not be rewarded for such tactics by having its arguments considered and that the Commission should deny the CAISO's Rule 213 waiver request. In its answer, Santa Clara states that the CAISO answer fails to address its facts and analysis showing that the CAISO is violating the contracts at issue.

239. According to the CAISO's response, prior to the filing of comments by SMUD and others on July 8, 2008, the main written indication of the specific contractual arguments was two bullet points in a March 6, 2008 power point presentation by TANC. Moreover, CAISO reiterates that, the IBAA entities changed their statements regarding the Coordinated Operation Agreement both after the issuance of the April 18, 2008 Draft Final IBAA proposal and during the discussions on the May 8, 2008 proposal by the IBAA Entities.

240. Nonetheless, CAISO notes that its June 17 Filing addressed the two contracts specifically cited in the single bullet point in TANC's March 6, 2008 power point presentation and its discussion was not cursory. Furthermore, CAISO states that, prior to filing the IBAA proposal, the CAISO did not know the specific concerns with its ICAOA with SMUD and the CAISO's Operating Agreement with San Francisco. For all of the above reasons, the CAISO respectfully requests that the Commission reject SMUD's allegation that the CAISO should have been included more detail in the June 17 Filing regarding the contractual claims.

241. In its answer, TANC disagrees with the CAISO's assertion that the prohibition against assessing costs for flows on the California-Oregon Intertie is inapplicable if a Party receives any transmission service from another Party to the Coordinated Operation Agreement. According to TANC in its answer, section 8.4 of the Coordinated Operation Agreement does not provide that use of other, non-California-Oregon Intertie facilities voids the Coordinated Operation Agreement's bar against charges associated with the three-line system. The crucial point to TANC is that the CAISO service from Tracy to load does not involve use of the three-line system, but the CAISO's IBAA proposal selects a price point that is specifically intended to reflect the costs associated with flows

¹⁷⁶ CAISO July 23, 2008 Answer at 70-73 (citing TANC Protest at 35-36).

from the COTP on the three-line system beginning at Captain Jack Substation, on the California-Oregon Border.

242. In its answer, TANC also disagrees with the CAISO that the IBAA proposal will not charge COTP schedules for use of the California-Oregon Intertie. TANC reiterates that were the CAISO to calculate congestion and losses based on the actual schedule and interchange point, at Tracy, the CAISO would not be applying parallel or unscheduled flow costs associated with the California-Oregon Intertie.¹⁷⁷

243. In its August 8, 2008 Answer, the CAISO asserts that TANC's answer acknowledges that there is no conflict between the IBAA proposal and the Coordinated Operation Agreement. According to the CAISO, TANC emphasizes that the Coordinated Operation Agreement bars charges based on flows over the California-Oregon Intertie when a Party uses its own portion of the California-Oregon Intertie. Therefore, the CAISO reiterates that section 8.4 of the Coordinated Operation Agreement only concerns each Party's use of its own facilities.

244. CAISO reiterates that the IBAA proposal deals with scheduled flows and service over the CAISO-controlled grid while the provision in section 8.4 of the Coordinated Operation Agreement deals with unscheduled, parallel flows and service over the COTP (i.e., TANC's or another COTP participant's use of its own facilities under the Coordinated Operation Agreement). Therefore, the CAISO reiterates that there is no conflict between the IBAA proposal and the Coordinated Operation Agreement.

245. The CAISO again states that it applies no charge or rate to either the transmission service over the COTP or on the parallel flow effects on the PACI facilities of transmission service over the COTP; it is not doing either of these activities today under the existing CAISO Tariff and it will not do either of these activities under the MRTU Tariff.

b. Commission Determination

246. The IBAA proposal, as modified by the Commission, recovers the costs the CAISO incurs as a result of congestion and uplift, caused by imports from the SMUD-Turlock IBAA, on the CAISO-controlled grid. Contrary to protestors' assertions, the CAISO's proposal will not charge for congestion that occurs over the California-Oregon Intertie (including the COTP). Rather, the proposal allocates congestion costs associated with the impact of transactions over the COTP and into the CAISO transmission system on the CAISO's own underlying 230 kV transmission system. While scheduling limits

¹⁷⁷ TANC also provides an example to illustrate this point. See also TANC Motion to Reject at 19.

on the California-Oregon Intertie ensure that congestion will not normally arise due to capacity limitations on the California-Oregon Intertie,¹⁷⁸ the congestion will arise due to the capacity limitations of other elements of the CAISO-controlled grid which, under normal operations, will be the limiting factors for scheduling interchange transactions that also utilize the California-Oregon Intertie. Moreover, as discussed earlier, the CAISO will not be charging for unscheduled flows over its system for transactions scheduled over the COTP, and it will not be charging for losses on parallel flows, as directed above.

247. While the CAISO is not a party to the Coordinated Operation Agreement, it is not in dispute that the CAISO should honor existing contracts that have been executed by its transmission-owning members. The question is whether the CAISO's IBAA proposal violates the Coordinated Operation Agreement. We find that it does not. First, as discussed in previous Commission orders, the Coordinated Operation Agreement provides for the shared usage, coordinated operation, maintenance and planning of the California-Oregon Intertie.¹⁷⁹ It does not concern how energy is priced once it enters the CAISO-controlled grid.

248. Section 5 of the Coordinated Operation Agreement denotes the scope of the agreement. That section states that “[the] Agreement governs the coordinated operation of the PACI and COTP. It is the intent of the parties to maintain the System as coordinated facilities to benefit its Transfer Capability.” In addition, the scope of the Coordinated Operation Agreement also states that “no Party provides or shall be required to provide any transmission or other electric service to another Party under this Agreement.”¹⁸⁰ Therefore, the provisions of the Coordinated Operation Agreement specifically apply to operating and maintaining the PACI and COTP. The scope of the agreement does not concern pricing of transactions once they have left the California-Oregon Intertie system. Therefore, how the CAISO prices voluntary interchange transactions in its market is not governed by the Coordinated Operation Agreement. Correspondingly, the Coordinated Operation Agreement permits SMUD to price voluntary interchange transactions sinking into the SMUD balancing authority area under SMUD’s tariff. SMUD acknowledged this fact in a contract it entered into with the CAISO after it had already agreed to the obligations included in the original Coordinated

¹⁷⁸ CAISO June 17, 2008 Filing, Ex. ISO-1 at 88-89.

¹⁷⁹ See, e.g., *PacifiCorp* at P 1; *Pacific Gas and Elec. Co.*, 120 FERC ¶ 61,231, at P 5 (2007).

¹⁸⁰ Coordinated Operation Agreement § 5.

Operation Agreement, which were similar to the amended Coordinated Operation Agreement.¹⁸¹

249. TANC is incorrect that the CAISO violates section 8.2.1 of Coordinated Operation Agreement, which obligates each party to the Coordinated Operation Agreement to “make arrangements . . . and make reasonable efforts to require the Control Area Operator to *operate such facilities* in accordance with [the Coordinated Operation Agreement].”¹⁸² Again, TANC confuses the operation of the California-Oregon Intertie facilities with how each balancing authority area prices transactions entering its territory once it leaves the three-line system. Nothing in the CAISO’s proposal changes how parties are required to operate the California-Oregon Intertie facilities.

250. Protestors argue that the IBAA proposal is a back door attempt by the CAISO to impose charges related to parallel flows in contravention of the Coordinated Operation Agreement. We disagree. The IBAA proposal will only have a pricing impact on transactions on the COTP that source or sink into the CAISO-controlled grid. This is not prohibited by the Coordinated Operation Agreement. The IBAA impact is not triggered therefore based on the COTP aspects of the interchange transactions, but on the source or sink in the CAISO-controlled grid and the impact thereon. If a transaction on the COTP sinks in the SMUD-Turlock IBAA, there is no charge imposed by the CAISO regardless of any impact such transaction may have on the CAISO-controlled grid.¹⁸³ However, once the energy is imported into the CAISO system, it has an impact thereon and it is appropriate that the CAISO’s pricing (which represents the CAISO approximation of the energy value at that point based on the information it has available) should apply. Given the impact of such transactions directly on the CAISO-controlled grid, we find it appropriate for CAISO-established pricing mechanisms to apply, and, as we have said above, we find the IBAA proposal to be an appropriate means by which the CAISO can address the impact of such transactions on its system.

251. The Commission further disagrees with TANC and Santa Clara that the CAISO’s IBAA proposal violates section 8.4 of the Coordinated Operation Agreement. Section 8 of the agreement concerns system operations over the California-Oregon Intertie. We

¹⁸¹ SMUD entered into a contract with the CAISO acknowledging that “imports into the [CAISO balancing authority area] at the COTP Interconnection Point that use the ISO Controlled Grid beyond the COTP Terminus shall pay all applicable [CAISO] Tariff based charges” and “exports from the [CAISO balancing authority area] shall pay all applicable [CAISO] Tariff based charges.” SMUD ICAOA § 3.3.1 (emphasis added).

¹⁸² Coordinated Operation Agreement § 8.2.1 (emphasis added).

¹⁸³ CAISO June 17, 2008 Filing, Ex. ISO-1 at 72.

find that each provision of the Coordinated Operation Agreement must be read in connection with the scope of the agreement itself. Therefore, section 8.4 must be read in the context of the scope of the agreement – which is coordinated operation of the California-Oregon Intertie. While section 8.4 of the Coordinated Operation Agreement states that “[n]o Party shall be charged any rate...for any power, which flows over the System ...,” this does not preclude the CAISO from setting a rate for voluntary interchange transactions under the CAISO Tariff that impact the CAISO system. As stated by the CAISO, when a party to the Coordinated Operation Agreement requests transmission service from another party under a different agreement, it must still pay for and comply with the provisions of the applicable tariff of the party providing the requested transmission service.¹⁸⁴ The Coordinated Operation Agreement does not absolve the party receiving service under another agreement of its responsibility to pay the charges for those services.

252. Further, the Commission finds unpersuasive TANC’s and Santa Clara’s arguments regarding parallel flows. As acknowledged by both the CAISO and protestors, the California-Oregon Intertie and the agreements governing the operation of the California-Oregon Intertie recognize that schedules on the PACI will cause flows on the COTP, and vice versa. Section 8.4 of the Coordinated Operation Agreement merely provides that parties cannot charge a rate for these flows. As discussed above, the Commission is requiring the CAISO to revise the IBAA proposal to address any potential overcollection of losses. For this reason, the IBAA proposal will not charge any rate for these flows over and above what it is doing under the current tariff. Therefore, the IBAA proposal, as accepted by the Commission, does not violate the Coordinated Operation Agreement.

253. The Commission also disagrees with Santa Clara that the IBAA proposal violates the spirit of the Coordinated Operation Agreement. As discussed above, the IBAA proposal does not change the coordinated nature of the operation of the California-Oregon Intertie and therefore will not result in a reduction in reliability. Further, as stated above, the CAISO is not charging for the use of the California-Oregon Intertie facilities, so Santa Clara’s assertion that the CAISO is unilaterally imposing costs on the use of parallel facilities is incorrect.

254. Further, contrary to TANC’s assertions, section 8.1.7 of the Coordinated Operation Agreement is irrelevant to this proceeding. That section provides that the CAISO, as the California-Oregon Intertie path operator, lacks the authority to revise the terms and conditions of the Coordinated Operation Agreement without the written

¹⁸⁴ This is evidenced by SMUD’s ICAOA, which acknowledges that “exports from the [CAISO balancing authority area] shall pay all applicable [CAISO] Tariff based charges.” SMUD ICAOA § 3.3.1 (emphasis added).

agreement of all parties. The IBAA proposal only proposes revisions to the current CAISO and MRTU Tariffs, it does not propose to revise the Coordinated Operation Agreement. Further, because the CAISO's proposal does not violate the Coordinated Operating Agreement, the CAISO cannot be construed to modify any term or condition by its "course of conduct."

255. Finally, the Commission does not find persuasive TANC's argument that the Commission should ignore the CAISO's interpretation of the Coordinated Operation Agreement. First, the Commission has undertaken its own interpretation of the contract, and found that the IBAA proposal does not violate it. Further, while TANC is correct that section 16.2.3.1.1 of the CAISO Tariff provides that the CAISO "will have no role in interpreting Existing Contracts," that is not the complete text of that section of the CAISO Tariff. This provision specifically provides for the CAISO's treatment of operating instructions with respect to existing contracts. For instance, it requires the parties to an existing contract to agree on operating instructions, but that if an agreement is not reached, the CAISO must implement the participating transmission owner's operating instructions. Nowhere does section 16.2.3.1.1 of the CAISO Tariff preclude the CAISO from advocating a position as to whether a tariff amendment violates an existing contract. In such cases, each party to the proceeding may advocate its position with regard to the existing contract, but the Commission ultimately interprets whether the tariff amendment violates the contract. For the reasons stated above, the Commission finds that the IBAA proposal does not violate the Coordinated Operating Agreement.

2. Path Operating Agreement

256. The Coordinated Operation Agreement required the parties to execute a detailed operating agreement, which is the Path Operating Agreement. In contrast to the Coordinated Operation Agreement, the CAISO states that it is a party to the Path Operating Agreement. The other parties are PG&E, the COTP participants and Western. The CAISO's role under the agreement is to act as the Path Operator for the California-Oregon Intertie. According to CAISO, the IBAA proposal does not violate the CAISO's obligations under the Path Operating Agreement.

257. The CAISO asserts that none of the duties of the Path Operator outlined in section 8.3 of the Path Operating Agreement conflicts with the MRTU Tariff or should prevent the CAISO from proceeding with the IBAA proposal. Specifically, the CAISO states that it does not believe it has violated section 8.3.19 of the Path Operating Agreement because it has not entered into an agreement with a California-Oregon Intertie Control Area Operator that has the attributes described in that section.

a. Comments and Answers

258. TANC and Santa Clara contend that the IBAA proposal violates the terms of the Path Operating Agreement. They state that the Path Operating Agreement obligates the

CAISO, as Path Operator of the California-Oregon Intertie, to enter into agreements with the California-Oregon Intertie control area operators (SMUD and the CAISO) that contain terms:

that prohibit the application to the Parties of any requirement, rule, obligation, rate or change in a tariff, rate schedule or other document issued or revised by any [California-Oregon Intertie] Control Area Operator without the written consent of the Administrative Committee.¹⁸⁵]

259. TANC concludes that the prohibition against “any...obligation, rate or change in tariff,” precludes the CAISO’s imposition of costs associated with flows on the California-Oregon Intertie against any owner of the California-Oregon Intertie, including TANC and other COTP participants.

260. TANC and Santa Clara disagree with the CAISO’s claim that it cannot violate this provision if it has not entered into final agreements with California-Oregon Intertie Control Area Operators. Because the CAISO is one of these Control Area Operators, Santa Clara argues that the limitations imposed by this provision directly apply to the CAISO, without need for the CAISO to enter into such an agreement with itself.

261. Santa Clara contends that a principle underlying the agreements is that each owner will enjoy the reciprocal benefits from reliable coordinated operation without charge from another owner. Santa Clara states that if one owner believes it is entitled to compensation over and above the reciprocal benefits, it needs to seek that compensation from the administrative committee. Therefore, Santa Clara argues that the CAISO’s attempt to create a charge based on parallel flows must be approved by the administrative committee. Santa Clara also argues that the IBAA proposal violates the spirit of the Path Operating Agreement, for the same reasons stated with respect to the Coordinated Operation Agreement.

262. TANC also cites section 2.10.1, which indicates the desire to “provide for the continued reliable coordinated operation of the PACI and COTP with the Pacific Northwest Path Operator.”¹⁸⁶

¹⁸⁵ TANC July 8, 2008 Protest at 33 (citing Path Operating Agreement Section 8.3.19(ii)).

¹⁸⁶ Path Operating Agreement § 2.10.1.

263. The CAISO reiterates that it has not entered into an agreement with a California-Oregon Intertie control area operator that has both attributes described in section 8.3.19 of the Path Operating Agreement.¹⁸⁷

264. In its answer, TANC disagrees with the CAISO's answer regarding the Path Operating Agreement. TANC argues that, while the CAISO's answer acknowledges that it is one of the control area operators subject to this term, it brushes off its contractual obligation by stating it has entered into no such agreement with itself. According to TANC, the CAISO's failure to enter into a necessary agreement, albeit with itself, does not excuse its contractual obligation to ensure that no control area operator, including itself, can assess costs against the owners of the California-Oregon Intertie.

265. In its answer, Modesto asserts that the CAISO does not rebut its argument that sections 8.4 of the Path Operating Agreement prohibit the CAISO from charging for any services other than those provided under the Agreement. It also argues that the CAISO did not contest its assertion that section 8.2 of the Path Operating Agreement describes a procedure for calculating rated system transfer capability and operating transfer capability limit in response to unscheduled flows and does not contemplate charges for these flows.

266. In response to Modesto, the CAISO states that Modesto's argument is misplaced and that the IBAA proposal has nothing to do with section 8.4 of the Path Operating Agreement. According to the CAISO's response, section 8.4 of the Path Operating Agreement involves the compensation paid to the Path Operator for the California-Oregon Intertie for its services.¹⁸⁸ The CAISO clarifies that the IBAA proposal does not entail compensation for the CAISO's duties as Path Operator.

b. Commission Determination

267. The prohibition on the application of any obligation, rate or change in a tariff issued or revised must be read in the context of the entire contract. The Path Operating Agreement concerns operation of the California-Oregon Intertie, not the pricing of transactions between balancing authority areas. Indeed, the CAISO's tariff has applied for years to establish the pricing for transactions into the CAISO, and no party has ever argued that such tariff provisions were a violation of section 8.3.19. The pricing under the IBAA proposal is no different in this respect than the pricing under the CAISO's

¹⁸⁷ CAISO July 23, 2008 Answer at 16.

¹⁸⁸ Specifically: “[t]he Owners shall compensate the Path Operator for COI for services provided pursuant to Section 8.3 of this Agreement in accordance with the costs specified in Appendix B of this Agreement.”

existing tariff in that the CAISO is not changing its charges to other parties for transmission over the PACI or COTP, nor is it changing its tariff to reduce available transfer capability. It is applying its tariff to reflect the price of interchange transactions into and out of the CAISO. Because the IBAA proposal does not affect the operation, or as we have stated above, the pricing, of the California-Oregon Intertie, or CAISO's obligations as the Path Operator, the Commission finds that the IBAA proposal does not violate the Path Operating Agreement. For the same reason, the Commission finds that the CAISO has not entered an agreement that violates the Path Operating Agreement, including section 8.3.19.

268. The Commission finds that the CAISO's IBAA proposal does not violate the Path Operating Agreement. This agreement:

...establishes the Owners' arrangement with the Path Operator for COI to ensure that the Owner's transmission capacity is available to the maximum extent practical consistent with the reliable operation of the COI. It is the intent of the Parties that the Path Operator for COI shall operate the COI to make available the greatest amount of Transfer Capability on the COI consistent with Prudent Utility Practice and existing conditions. In the case of any conflict between any tariff or rate schedule of the Path Operator for COI and this Agreement, this Agreement shall prevail.^[189]

269. Therefore, the Path Operating Agreement, similar to the Coordinated Operation Agreement, concerns the operation of the California-Oregon Intertie to ensure that transmission capacity is available. Similarly, TANC cites sections of the agreement that support the fact that the Path Operating Agreement concerns operations of the California-Oregon Intertie, not pricing of transactions external to the California-Oregon Intertie. TANC acknowledges that the purpose of the Path Operating Agreement was to "ensure that the Owner's transmission capacity is available to the maximum extent practical consistent with the reliable operation of the [California-Oregon Intertie]," but does not provide any reason that the IBAA's proposal would affect the amount of transmission capacity available.^[190]

¹⁸⁹ Path Operating Agreement § 5.

¹⁹⁰ TANC July 8, 2008 Protest at 33 (citing Path Operating Agreement § 5).

270. Further, as discussed above, CAISO's IBAA proposal does not cause reliability concerns for the California-Oregon Intertie or otherwise and therefore does not violate this provision.

271. For the same reasons discussed above respecting the Coordinated Operation Agreement, the Commission disagrees with Santa Clara that the IBAA proposal violates the spirit of the Path Operating Agreement.

3. Other Existing Contracts

272. The CAISO notes that it has entered into an agreement with SMUD entitled the California-Oregon Intertie Control Area Operating Agreement (ICAOA). However, the CAISO asserts that, by its own terms, nothing in the ICAOA or other existing contracts would prohibit the CAISO from implementing the IBAA proposal.

a. Comments and Answers

273. TANC submits that the IBAA proposal violates the terms of Amendment No. 4 to the ICAOA between the CAISO and SMUD. TANC argues that, in agreeing to the interconnection point between the CAISO control area and the COTP at the Tracy 500 kV substation, the CAISO committed to treating that point as a scheduling point for COTP schedules with no additional charges to be assessed to COTP schedules to reach the CAISO-controlled grid.¹⁹¹

274. San Francisco adds that the CAISO fails to address the situation where a transmission ownership right holder has an explicit agreement with the CAISO that defines the scheduling points to be used to model, settle, schedule and calculate LMPs for interchange transactions over facilities that are not part of the CAISO grid and the impact of the proposal on transmission ownership rights and existing transmission commitment holders with explicit bilateral agreements. For example, San Francisco states that, in December 2007, San Francisco and CAISO executed the First Amended and Restated Operating Agreement (San Francisco Operating Agreement) that specifically identifies intertie scheduling points between San Francisco, SMUD and Turlock for use in scheduling and settlement of interchange transactions.¹⁹² San Francisco claims that the IBAA proposal conflicts with this agreement because it does not model or price San Francisco's injections and withdrawals at the specified interconnections.¹⁹³ San

¹⁹¹ *Id.* at 34-35 (citing SMUD ICAOA § 2.24, 3.3, 3.3.1 and Recital F).

¹⁹² The San Francisco Operating Agreement is currently pending approval by the Commission as an uncontested settlement in Docket No. ER06-227-000.

¹⁹³ San Francisco July 8, 2008 Protest at 6.

Francisco states that it is concerned that any proposal that results in financial settlements of its transactions at a location other than the interconnections established in its Operating Agreement with the CAISO will expose it to increased costs.

275. San Francisco also claims that the IBAA proposal could interfere with its existing transmission contract agreement with PG&E. Under this agreement, San Francisco states that it is provided access to the SMUD balancing authority area at Tracy. San Francisco raises concerns that if prices for transactions at Tracy are calculated at Captain Jack, San Francisco will be denied the full benefit of the existing transmission commitment right to obtain power at Tracy, since the Captain Jack price could expose San Francisco to additional loss charges that already will have been incurred by the counter party delivering the power to Tracy. San Francisco claims that, while the perfect hedge would provide protection against congestion charges from Captain Jack to Tracy, it would provide no protection against loss charges.

276. Turlock maintains that the CAISO proposal could cause the abrogation of two of its contracts: the Turlock-CAISO ICAOA, which governs coordination of Turlock's two interconnections with the CAISO, and Turlock's long-term power sales agreement with San Francisco. Turlock states that its long-term power sales agreement with San Francisco allows Turlock to receive priority rights to use the San Francisco transmission system. First, Turlock is concerned that the CAISO's IBAA proposal is inconsistent with the terms and conditions of the Turlock ICAOA because it could be used by the CAISO to reduce its obligations under the ICAOA. In addition, Turlock argues that the CAISO's pricing proposal would violate both contracts by devaluing Turlock's investment in and use of dynamic scheduling, revenue metering and telemetry because it would require Turlock to enter into an MEEA before it could get a price other than Captain Jack. Turlock argues that the CAISO proposal could deter imports, which would affect Turlock's use of its rights under its agreement with San Francisco.

277. As a result of the CAISO's representation that the IBAA proposal does not modify or violate the CAISO's treatment of Transmission Ownership Rights or Existing Transmission Contracts under MRTU, Western states that it reserves all of its arguments on its contractual rights.

278. In its answer, Modesto states that it supports San Francisco's request for a clear commitment from the CAISO to honor the San Francisco Operating Agreement. According to Modesto, the CAISO agreed to the San Francisco Operating Agreement after a long negotiating process of almost two years and it represents the balance that is the give and take of settlements.

279. Modesto states that, if the San Francisco Operating Agreement settlement essentially is abrogated by the CAISO's IBAA proposal, Modesto not only would share

San Francisco's frustration with having a new contract ignored, but would share San Francisco's concerns as to the consequences that would be felt absent that contract.

280. The CAISO states in its answer that the IBAA proposal honors the terms of Amendment No. 4 of the ICAOA between CAISO and SMUD because market participants will still be able to schedule at the same intertie scheduling points that exist today.¹⁹⁴ The CAISO states that market participants will be permitted to schedule at Tracy, thus the agreement will not be changed.

281. The CAISO maintains that the IBAA proposal does not mean that the CAISO will fail to honor the CAISO-San Francisco Operating Agreement. The CAISO states that it intends to honor the terms of the San Francisco Operating Agreement with regards to how transactions are scheduled and settled. Since San Francisco's protests were filed, the CAISO claims that the list of sources and sinks has been updated in the Transmission Rights and Transmission Curtailment Instructions to address San Francisco's concerns and accommodate the San Francisco Operating Agreement's pricing point provision.

282. The CAISO continues that market participants are well aware of the balance that was struck in honoring all existing transmission commitments through the "perfect hedge" and scheduling priorities. The CAISO states that through that process there was no expectation that the existing transmission commitments would be subject to any specific LMP but that they would be perfectly hedged based on the points allowed under the existing transmission commitment, and the IBAA proposal does not change that. Also, there was no expectation that losses would be hedged through the perfect hedge. The CAISO continues that San Francisco's request that they are entitled to a Tracy price, which contemplates that the Tracy intertie is radial, is entirely outside the scope of these proceedings.

283. In its answer, San Francisco disagrees with the CAISO that the Commission cannot retain a pricing point that is not specifically required by contract. San Francisco reiterates its objection to the CAISO's application of the perfect hedge. Further, San Francisco argues that the CAISO's position would require further consideration of what specific price should apply to each set of rights, given that the contracts do not speak to such matters. According to San Francisco, this statement presumes that the parties to the existing transmission contract contemplated a pricing point other than at a point of receipt or point of delivery identified in the existing transmission contract. Given that MRTU was not in place at the time of San Francisco's existing transmission contract, and that CAISO's IBAA pricing concept did not even exist until late 2007, San Francisco states that it is impossible that San Francisco's existing transmission contract would have a

¹⁹⁴ CAISO July 23, 2008 Answer at 16, 77.

pricing point at Captain Jack, unless Captain Jack were identified as a point of receipt or point of delivery in the contract.

284. Further, San Francisco's answer states that it is inappropriate for the CAISO to interpret San Francisco's existing transmission contract because the CAISO should have no role in interpreting existing contracts.¹⁹⁵ According to San Francisco, the CAISO would be superimposing a pricing term into San Francisco's existing transmission contract by applying the IBAA default pricing node of Captain Jack to San Francisco's imports at Tracy under its existing transmission contract rights. San Francisco argues that if it and PG&E had intended that Captain Jack would be the pricing and scheduling point under the existing transmission contract, they would have identified Captain Jack as a point of receipt or point of delivery in the existing transmission contract. According to San Francisco, to allow the CAISO to impose the IBAA to the extent that San Francisco's existing transmission contract imports would be subject to a CAISO-determined pricing and settlement scheme not contemplated by the agreement and thereby deny San Francisco the benefit is its bargain, is clearly beyond the CAISO's stated intent for the IBAA and beyond the authority of its own MRTU Tariff.

285. In its answer, the CAISO reiterates that for the purposes of settling existing transmission contract and transmission ownership rights under MRTU as currently contemplated, the adoption of the IBAA proposal does not change the fact that the CAISO will provide the "perfect hedge" and priority of schedules consistent with the applicable pricing points established for the CAISO markets.

286. In its response to San Francisco, the CAISO states that San Francisco's rationale in arguing that the CAISO presumes that the parties to the existing transmission contract contemplated a pricing point other than at a point of receipt or point of delivery identified in the existing transmission contract is flawed. The CAISO states that it is not disputing that San Francisco is entitled to a "Tracy Price" and San Francisco will receive a Tracy price under MRTU and the IBAA proposal. Rather, the CAISO states that the manner in which the price is developed for the Tracy pricing point is not addressed by San Francisco's Interconnection Agreement with PG&E. The CAISO does not dispute what points of delivery and points of receipt are permitted under the San Francisco and PG&E existing transmission contract. However, CAISO states that, under the IBAA proposal, the pricing points will reflect the locational cost of using the grid and the perfect hedge for San Francisco's transactions will be applied accordingly. Rather, the CAISO states that nothing proposed by the CAISO in this proceeding changes the perfect hedge and priority of schedules for existing transmission contracts under MRTU, which has already been accepted by the Commission. According to the CAISO's response, the request that

¹⁹⁵ CAISO Tariff Section 16.4.8.

the CAISO extend the existing transmission contract rights beyond the perfect hedge and the priority of schedules for the treatment of existing transmission contracts under MRTU so that San Francisco is guaranteed a price for energy at Tracy it deems to be favorable, is beyond the scope of this proceeding.

b. Commission Determination

287. The Commission finds that the IBAA proposal does not violate any of the contracts cited by the protestors.

288. While the SMUD ICAOA describes Tracy as the “COTP Interconnection Point,”¹⁹⁶ this is not determinative of how interchange transactions are priced between the SMUD balancing authority area and the CAISO. First, the SMUD ICAOA describes the location of the COTP interconnection point as a “scheduling convenience.”¹⁹⁷ More importantly, the SMUD ICAOA acknowledges that imports and exports from the CAISO must pay all applicable charges under the CAISO tariff. Specifically, section 3.3.1 provides that:

Neither party will charge the other Party or any of the COTP Participants for any charges ... related to any transactions across the line segments between the COTP Interconnection Point and the COTP Terminus..., provided, however, that (1) imports into the [CAISO balancing authority area] at the COTP Interconnection Point that use the ISO Controlled Grid beyond the COTP Terminus shall pay *all applicable [CAISO] Tariff based charges*; and (2) exports from the [CAISO balancing authority area] shall pay all applicable [CAISO] Tariff based charges.[¹⁹⁸]

289. As section 3.3.1 indicates, SMUD and the CAISO anticipated that imports to and exports from the CAISO would incur charges under the CAISO tariff. They also anticipated that the CAISO tariff might be amended from time to time, which would necessarily mean that how such imports and exports are priced might also be modified.¹⁹⁹

¹⁹⁶ SMUD ICAOA § 2.2.4.

¹⁹⁷ *Id.* § 3.3.1.

¹⁹⁸ *Id.* (emphasis added). The COTP Terminus is the point of interconnection between PG&E and the COTP, where the COTP’s conductors extending from Tracy meet PG&E’s conductors extending from Tesla-Los Banos. *Id.* § 2.2.7.

Therefore, the Commission finds that the SMUD ICAOA does not bar the CAISO's proposal to modify how it determines the charges for interchange transactions between SMUD and the CAISO.

290. We find that the IBAA proposal does not violate the San Francisco Operating Agreement concerning transmission operating rights. In its July 23, 2008 Answer, the CAISO confirmed that it intends to establish Resource IDs to reflect the scheduling and pricing points identified in the San Francisco Operating Agreement – at the Standiford and Oakdale pricing nodes. Because the CAISO has acknowledged that it is specifically required by the San Francisco Operating Agreement to apply the LMPs at these locations,²⁰⁰ San Francisco's concerns regarding its Operating Agreement appear to be satisfied.²⁰¹

291. The IBAA proposal also does not violate the San Francisco existing transmission contract with PG&E. Unlike the San Francisco Operating Agreement with the CAISO, this agreement lacks specificity regarding pricing nodes and scheduling points. The Commission does not agree with San Francisco that the pricing point is necessarily the identified point of delivery. The point of delivery is just that – the point at which the energy is delivered. This does not change with the IBAA. Thus, the agreement is subject to pricing at the locations permissible under the existing transmission contract. In addition, San Francisco's concerns regarding losses should be addressed by the Commission requiring the CAISO to provide that COTP users that import to CAISO who demonstrate that they pay for losses to Western or TANC should receive an appropriate adjustment in the marginal cost component of the price paid for their import. Further, the perfect hedge will continue to operate as it has and be based on points allowed under the existing transmission contract.

292. The IBAA proposal also does not violate Turlock's contract to use the San Francisco system. The IBAA proposal does not alter whatever rights Turlock has to use the San Francisco transmission system. Further, as stated by Turlock, the Turlock ICAOA "establishes the rights and obligations of the CAISO and Turlock with respect to the *operation, maintenance and control of the transmission facilities* that interconnect

¹⁹⁹ The CAISO tariff is defined as the CAISO "Operating Agreement, Protocols, and Tariff as amended from time to time, together with any appendices or attachments thereto." *Id.* § 2.2.15. Also, as the parties are aware, the FPA provides the CAISO the right to file to amend its tariff and charges.

²⁰⁰ CAISO June 17, 2008 Filing, Ex. ISO-1 at 73.

²⁰¹ The Commission notes that the San Francisco Operating Agreement remains pending as an uncontested settlement in Docket No. ER06-227-000.

these two control areas, in accordance with NERC and WECC requirements.”²⁰² It does not govern the pricing of transactions over those facilities. The Commission disagrees that the CAISO’s IBAA proposal could be used by the CAISO to reduce its obligations under the Turlock ICAOA. The IBAA proposal governs how transactions are priced, but does not reduce the CAISO’s operational responsibilities under the contract.

293. With respect to Turlock’s assertion that the IBAA proposal devalues its facilities, as we stated above, the IBAA proposal only sets the just and reasonable price for interchange transactions into the CAISO market, it does not devalue external resources. The IBAA proposal helps the CAISO to better manage congestion within its market by pricing interchange transactions as effectively as it can based on the information available to it. The CAISO market is a voluntary market, and IBAs have a choice to sell into or purchase from the CAISO market. The IBAA proposal does not impose prices on or devalue external facilities.

294. Finally, the Commission does not reach Western’s reservation of rights regarding any contractual issues. Because Western is not making any claims regarding its contracts, we find there is no need to address Western’s potential contract issues.

F. Congestion Revenue Rights

295. The CAISO states that, in anticipation of the need to conform settlement points between CRRs and Integrated Forward Market Energy schedules where both are affected by implementation of the IBAA proposal, the CAISO chose to incorporate the SMUD-Turlock IBAA into the full network model during the 2007 CRR release process and establish CRR sources and CRR sinks based upon the previously contemplated multiple hub approach. The CAISO explains that, because it has moved to a single hub pricing approach in its proposal, it must now address potential inconsistencies that may arise if previously-released CRRs are not conformed to the new Integrated Forward Market Energy settlement points associated with the IBAA proposal.

296. In order to address the potential impacts of the IBAA single proxy price methodology on previously-released CRRs, the CAISO proposes to provide CRR holders two options: (1) Allow the holder whose CRR source or sink is affected by the IBAA proposal to make a one-time election to modify the settlement of the CRR to be congruent with the revised Integrated Forward Market pricing points associated with the IBAA change; or (2) allow the holder of the previously-released CRR to retain the original source or sink specification of the CRR.

²⁰² Turlock July 8, 2008 Protest at 28 (emphasis added).

297. In response to stakeholder concerns about the potential for revenue adequacy issues as a result of the proposal, the CAISO further proposes to use the CRR Balancing Account to cover any short-fall associated with the IBAA in a given month. The CAISO asserts that this approach is reasonable because the Commission has already approved use of the CRR Balancing Account as a means to ensure the full funding of CRRs.²⁰³

1. Comments and Answers

298. Western notes that the CRRs were released under the assumption that a multiple hub pricing scheme would be followed as part of the CAISO IBAA proposal. Western states that if the CAISO should ever choose to implement an IBAA proposal on a cycle which is different from the annual CRR nominating process, (i.e., implementing a new IBAA in midyear), the Commission should require the CAISO to evaluate and coordinate potential cost implications so that the rest of the CRR obligation rights holders are not unexpectedly obligated to provide additional funds on short notice.

299. DOE-Berkeley contends that the IBAA proposal would diminish the value of the CRRs it currently holds from Tracy to its load. DOE-Berkeley argues that the CAISO's proposed new CRRs are the "obligation" type, which means the CRRs could produce positive payments, or negative payments, depending upon the direction in which congestion actually occurs. DOE-Berkeley adds that the substitute CRRs would apply only prospectively and not to 2008 CRRs such that DOE-Berkeley would not be able to hedge against any congestion in 2008 and would receive second priority for 2009 CRRs, which are offered first to 2008 holders of CRRs as renewals. DOE-Berkeley concludes that the IBAA proposal places itself at risk of receiving insufficient CRRs to hedge adequately against congestion from Captain Jack.

300. DOE-Berkeley argues that the CAISO is not empowered to issue CRRs for any of the 1567 MW of capacity on the COTP over which the CAISO holds no scheduling rights.

301. SoCal Edison and SDG&E generally support the CAISO proposal regarding existing CRRs that are impacted by an IBAA change. According to SoCal Edison, the proposal is a reasonable way to ensure that parties with CRRs continue to receive value from those CRRs, even if the CAISO makes substantial changes to the Full Network Model during the life of the CRR.

302. SDG&E believes the effectiveness of the CRR provisions would be enhanced if previously-released CRRs based on verified-source contracts during the 2006 historic year could not be "rolled-over" once the initial term of such contracts expires. By

²⁰³ CAISO June 17, 2008 Filing at 36.

placing these CRRs back into the pool for future load-share allocation to requesting load-serving entities, SDG&E maintains that any allocation of these CRRs would inherently reflect the operational changes wrought by the IBAA amendments and any other changes that could affect the grid's capability to support the CRRs going forward. At a minimum, SDG&E states that the CRRs that were allocated to load-serving entities because a State Water Project contract was treated as a verified source during the 2006 historic year should be declared ineligible for roll-over treatment once the contract expires.

303. In its answer, the CAISO argues that, given the expected small magnitude of any shortfall in revenue adequacy and the system wide benefits the IBAA proposal would bring to the Full Network Model processes in the form of improved accuracy of congestion management and pricing, Western's concerns regarding a potential obligation for additional funds on short notice are unfounded.

304. The CAISO answers DOE-Berkeley's concerns stating that DOE-Berkeley can hedge its congestion costs from Captain Jack with CRRs and that it can receive monthly CRRs for the remainder of 2008. In addition, the CAISO contends that DOE-Berkeley's complaints regarding the use of "obligation" CRRs represent a collateral attack on prior Commission MRTU orders requiring the use of such CRRs. Furthermore, the CAISO argues that DOE-Berkeley's concerns about the potential for a financial obligation are unfounded in the absence of proof that LMPs at Captain Jack will ever be less than at either Tracy or at DOE-Berkeley's loads.²⁰⁴

305. The CAISO asserts that the IBAA proposal affords entities such as DOE-Berkeley the opportunity to receive more favorable pricing treatment for interchange transactions than they currently do under the CAISO's existing zonal congestion management model. The CAISO argues that, so long as the IBAA entities provide the requisite information to prove that their exports to the CAISO have a favorable impact on internal CAISO transmission constraints, entities such as DOE-Berkeley will be compensated for these positive impacts.

2. Commission Determination

306. We find the CAISO's proposal to allow holders of previously released CRRs the option to either make a one time election to reassign their designated source or sink or to retain the original source and sink designations for their CRRs to be a reasonable means for addressing potential impacts of the IBAA proposal on existing CRRs. Providing this option best ensures that both financial hedge positions and rights will be preserved under the single-hub default pricing mechanism. Furthermore, the CAISO's proposal to use the CRR Balancing Account to ensure the revenue adequacy of previously released CRRs is

²⁰⁴ CAISO July 23, 2008 Answer at 107.

an acceptable approach in light of the significant benefits to all CAISO grid-users of improved modeling and pricing accuracy.

307. We share DOE-Berkeley's concerns that the CAISO lacks the authority to issue CRRs for transactions over the COTP. However, we recognize that what the CAISO proposes here is to charge congestion and make available CRRs only for imports that sink into the CAISO. This approach is merely a means of valuing the impact of an import transaction on the CAISO's system. Therefore, because congestion charges are a central component of LMP calculations and thus, because pricing at Captain Jack will follow LMP methodology, it is essential that market participants be given the opportunity to hedge against these potential costs.

308. Finally, in response to SDG&E, we addressed this in the order on rehearing in the Docket No. ER07-869-002 proceeding.²⁰⁵ There we found that the Priority Nomination Process struck the appropriate balance between providing reasonable certainty that CRRs associated with existing contract rights could be kept while allowing load-serving entities the flexibility needed to request new CRRs associated with future procurement decisions.²⁰⁶ We reiterate that the free-choice tiers will continue to provide load-serving entities with an opportunity to nominate non-source verified CRRs in response to market developments and operational changes that may occur after implementation of the IBAA proposal.

G. Pre-Filing Process

309. Certain affected parties claim that the stakeholder process that preceded the CAISO's filing was inadequate and request additional process, such as additional negotiations or hearings, before the Commission makes a final order regarding the IBAA proposal. Further, some parties claim that the IBAA proposal has been unnecessarily rushed through the stakeholder process and to the Commission and that the IBAA proposal ignores existing tariff provisions, standards and commitments.

310. The CAISO contends that, as a result of the six month stakeholder process, it has amended its proposal and reduced the information it would request from the IBAA entities. The CAISO contends that, in direct response to the specific stakeholder comments, it: (1) extended the stakeholder process and deferred action on the IBAA proposal three times; (2) agreed to file the IBAA proposal under section 205 of the FPA²⁰⁷ and not as a compliance proposal due to the pricing provisions of the proposal;

²⁰⁵ See *Cal. Independ. Sys. Operator Corp.*, 124 FERC ¶ 61,094 (2008).

²⁰⁶ *Id.* P 32.

²⁰⁷ 16 U.S.C. § 824d (2006).

and (3) developed and committed to a stakeholder process regarding changes to the existing IBAA (assuming approval) and the creation of a new IBAA.

1. Requests for hearing, meetings and negotiations

a. Comments and Answers

311. Numerous interested parties request that the Commission defer making a determination on the IBAA proposal and require the parties to hold a technical conference or participate in formal or informal negotiations, including using the Commission's Dispute Resolution Service.

312. SMUD contends that the CAISO chose to file its proposal without sufficiently negotiating with the IBAA entities. SMUD and Imperial assert that they are open to negotiating mutually agreeable data exchanges with the CAISO, but that the CAISO did not make a good faith effort to reach a mutually acceptable agreement with its neighboring balancing authorities before making its filing with the Commission. Imperial states that it already provided significant data to the CAISO, including both day-ahead and real-time schedules. Imperial asks the Commission to direct the CAISO to complete negotiations with its neighbors and, if needed, make a new filing with the Commission at the conclusions of those negotiations. Imperial asserts that the execution of joint agreements would be a preferable means to resolve the seams issues, rather than the IBAA proposal.

313. TANC contends that the IBAA issues should be resolved through mutual agreement with TANC and the affected balancing authorities and entities. TANC argues that the CAISO has not allowed any time for consideration of the Alternate Proposal prepared by some interested parties, presented as an alternative to the IBAA proposal. TANC asserts that the CAISO has violated longstanding Commission policy by failing to attempt to resolve operational issues with the relevant entities.²⁰⁸ TANC submits that the Commission should only entertain a filing, if, after a reasonable period of negotiation regarding the Alternate Proposal and the CAISO's remaining concerns, an agreement cannot be reached. TANC argues that if the Commission does not reject outright the IBAA proposal, it should order an evidentiary hearing to explore whether the IBAA proposal is just and reasonable, unduly discriminatory or preferential or otherwise unlawful.

²⁰⁸ TANC July 8, 2008 Protest at 131 (citing *Penn. Elec. Co.*, 65 FERC ¶ 61,034, at 62,401 (1993); *Indiana Michigan Power Co.*, 64 FERC ¶ 61,184, at 62,544 (1993); *American Elec. Power Co.*, 49 FERC ¶ 61,377, at 62,381 (1989), *reh'g denied*, 50 FERC ¶ 61,192 (1990)).

314. Western adds that, if data is the primary driver of the IBAA proposal, the Commission should continue to use its current orders, which require balancing authorities to work together to provide data. However, Western asserts that this issue is driven not by data, but the CAISO's desire to provide its ratepayers with the lowest possible price, even if such price is arbitrary and discriminatory.

315. Western disagrees with the CAISO that it and the other balancing authority areas have been unwilling to share data. It states that it has independently been working with the CAISO to develop a non-disclosure agreement to share data and has submitted to the CAISO comments on a CAISO-proposed non-disclosure agreement. Western asserts that, if data were the only item at issue, the parties should be able to work out details on a data sharing plan.

316. SMUD, TANC and Imperial argue that, in the event that the CAISO's filing is not rejected, it should be set for hearing because it is premised on presumptions of material facts that are in dispute. In particular, SMUD disputes six separate factual claims: (1) that the SMUD/Turlock balancing authority has the greatest impact on its market operations; (2) that there are significant differences between scheduled and actual flows between SMUD and the CAISO and that there were a large number of flow reversals between SMUD and the CAISO; (3) that the IBAA entities have refused to cooperate in sharing data to facilitate the operation of the CAISO markets; (4) that the CAISO will face a reliability problem in the absence of the IBAA proposal; (5) that the default pricing mechanism makes reasonable assumptions about where sales to the CAISO market will be sourced; and (6) that the CAISO's MEEA is analogous to Incentive Pricing Agreements executed by PJM.

317. In addition, TANC asks the Commission to order a settlement or technical conference. Also, TANC and Modesto request a full five-month suspension because they maintain that the IBAA proposal will have a substantial effect on rates, and the CAISO has failed to meet the *West Texas* guidelines for a one-day suspension.²⁰⁹

318. In its answer, the CAISO contends that no hearing on this matter is required.²¹⁰ The CAISO asserts that the issues raised by the protestors are largely policy questions, not requiring a hearing. Also, the CAISO maintains that the record submitted concerning this filing is substantial enough to provide information regarding any disputed material issues of fact, including explanations, testimony and supporting documents.

²⁰⁹ *Id.* at 141 (citing *West Texas Utilities Co.*, 18 FERC ¶ 61,189, at 61,375 (1982)).

²¹⁰ CAISO July 23, 2008 Answer at 19.

319. The CAISO reiterates that it worked to reach resolution on data exchange and modeling issues and would have preferred to reach agreement but was unable to reach a satisfactory result because of the strong differences over critical issues including the type of data exchanges, the use of that data, and the reciprocal amount of data. The CAISO further states that, although it would hope to negotiate some resolution to this matter, Commission action is necessary at this point.²¹¹

320. Santa Clara adds in its answer that there are material issues of fact that should prevent a ruling in the CAISO's favor and that the CAISO did not adequately respond to its protests.²¹²

321. TANC, in its answer, requests a hearing to address claimed issues of material fact, including: (1) whether Captain Jack is an accurate pricing point; (2) whether the criteria for establishing IBAAAs is arbitrarily and discriminatorily applied and if there are significant differences between scheduled and actual flows between SMUD and Turlock; and (3) whether the IBAA proposal creates a disincentive to use the COTP.²¹³

322. The CAISO reiterates that there are no material issues of fact in this matter, stating: (1) that there is no need for a hearing on Captain Jack because whether the modeling location is an actual generating resource is not significant because the only issue is whether the modeling location adequately represents the impact of interchange schedules on internal transmission constraints; (2) that there is sufficient record to determine whether the IBAA proposed is unduly discriminatory; and (3) that the record is sufficient to determine if the proposal discourages use of the COTP.²¹⁴

b. Commission Determination

323. The Commission denies the protestors' requests that the Commission require additional or alternate process including hearings, meetings and negotiations before acting on the CAISO's motion. As we have said many times before, the Commission encourages parties to mutually resolve these issues. While we encourage the parties here to continue to work together to resolve their concerns, we have reviewed the history of this matter, and it is evident that additional meetings, hearings, negotiations and delays are unlikely to lead to a mutual resolution of the significant issues presented.

²¹¹ *Id.* at 116-17.

²¹² Santa Clara July 30, 2008 Answer at 7.

²¹³ TANC July 29, 2008 Answer at 13-14.

²¹⁴ CAISO August 8, 2008 Answer at 51.

324. We also disagree with arguments raised by SMUD, TANC and Imperial that there are disputed facts requiring that we set this matter for hearing. As stated previously, the information available in the record is sufficient for the Commission to determine this matter without an evidentiary hearing. Further, an evidentiary hearing is only necessary when material issues of fact are in dispute and cannot be resolved on the basis of the written record. Many of the issues identified by SMUD, TANC and Imperial are policy questions and not material issues of fact and the remaining issues can be resolved on the basis of the existing record.

325. Also, we deny the requests that we order the CAISO to employ alternate methods to resolve the issues presented in the CAISO's proposal. As discussed elsewhere in the order, we find that the IBAA proposal is a just and reasonable method to address the issues presented in this matter, and therefore we do not reach alternate methods to address the same issues.

2. Stakeholder process

a. Comments and Answers

326. Western maintains that the CAISO is in violation of Commission orders because the CAISO has not worked with neighboring balancing authorities to accommodate the existing commercial practices. Further, Western maintains that the Commission required the CAISO to resolve seams issues bilaterally.²¹⁵ Western argues that, rather than working collaboratively with the existing balancing authority to change the existing commercial practices, the CAISO unilaterally put forward its current proposal – a proposal that creates new seams issues between balancing authorities. As a result, Western asserts, the CAISO's current proposal violates existing Commission orders, and therefore the Commission should reject it and order the CAISO to work with neighboring balancing authorities. Western states that the Commission accepted the CAISO's original MRTU proposal with the understanding, and the CAISO's representations and assurances, that it would not adversely affect the nature of commercial practices and relationships currently in place in the CAISO markets and in the West. Western agrees that, as the CAISO itself has acknowledged, the current practice in the West is to model each balancing authority in an open loop, i.e., radial format.

327. Turlock, Santa Clara, and SMUD contend that the CAISO violated its own tariff requirements by failing to provide an adequate stakeholder process in developing the

²¹⁵ See Western July 8, 2008 Protest at 8 (citing September 2006 Order at P 489-90 ("Fundamentally, we note that it is important to resolve any seams issues that will hinder the reliable, competitive functioning of markets in the West. It is also incumbent on both the CAISO and other Western control areas to resolve these issues together."))).

IBAA proposal. Turlock claims that the CAISO employed a unilateral process and “consistently ignored virtually every proposal made by stakeholders,”²¹⁶ and changed its proposal only based on the input from the CAISO Market Surveillance Committee and Department of Market Monitoring.

328. TANC submits that the CAISO’s description of the stakeholder process used for the IBAA issue masks significant shortcomings in the CAISO’s interaction with the affected entities that renders meaningless the list of meetings and draft documents presented as proof of a thorough stakeholder process. They maintain that the CAISO had predetermined that it would proceed with the filing without regard for stakeholder concerns.²¹⁷ To this end, TANC, SMUD and Western state that the IBAA proposal is based on the CAISO’s April 18, 2008 plan, which was the first time CAISO officially suggested using the Captain Jack LMP as a single pricing point for all imports into the CAISO from the SMUD balancing authority. Further, according to Western, this was the first time CAISO officially picked a node that was not on the CAISO grid and was also the first time the CAISO officially acknowledged that it planned to use what Western maintains is an arbitrary pricing point that uses the lowest projected price on Western’s sub-balancing authority. Therefore, the protestors generally state that stakeholders were not given an opportunity to comment on this proposal.

329. Furthermore, SMUD, Santa Clara and TANC contend that the CAISO has not made any changes to the IBAA proposal based on stakeholder comments. In addition, SMUD notes that opposition to the various iterations of the CAISO’s proposal has come from several parties, not just the municipal entities in Northern California.²¹⁸ SMUD concludes that the CAISO’s approach to weighing stakeholder input for its proposal has been unfair and capricious.

330. TANC states that the CAISO completely skipped the regional process at WECC on inter-balancing authority area issues. It maintains that the CAISO has treated equal and autonomous balancing authority areas as subordinates. TANC suggests that it was only after SMUD and Turlock alerted the Commission’s Office of Enforcement that the

²¹⁶ Turlock July 8, 2008 Protest at 33.

²¹⁷ TANC notes that it has presented similar concerns over this process to the Commission in its recent Notice of Proposed Rulemaking on Wholesale Competition. TANC Protest at 89 (citing TANC Comments on *Wholesale Competition in Regions with Organized Electric Markets*, Docket Nos. RM07-19-000 and AD07-7-000).

²¹⁸ SMUD July 8, 2008 Protest at 54. SMUD points to earlier stakeholder comments in opposition by Calpine, the Western Power Trading Forum, Powerex, DOE, and CMUA.

CAISO agreed to submit a tariff filing with the Commission. Rather than engage stakeholders early in the process, TANC submits the CAISO waited eight months before notifying stakeholders with the issuance of a market notice in December 2007.

According to TANC, the CAISO refused to provide requested data and studies that supported the CAISO's claims and refused to entertain questions or comments on the substance of its proposal. TANC argues that, as noted above, the CAISO issued its Draft Final IBAA Proposal²¹⁹ in April 2008, which, without prior notice, switched the CAISO's previous IBAA pricing proposal from a multi-hub to the single hub approach.

331. Modesto argues that the CAISO did not address the substance of the concerns of the entities directly affected by the default mechanism. Modesto also argues that when it comes to matters involving balancing authority area-level activities, SMUD and Turlock should not be treated differently from any generator or constituent utility in a stakeholder process. Modesto notes that when the CAISO negotiates interconnected balancing authority area operating agreements, it is unaware of stakeholder process being initiated with the other market participants at the table.

332. To the extent that there are current or expected inefficiencies at the seams between the CAISO and adjoining balancing authority areas, California PUC states that such issues should be reported, and if necessary, mitigated by using existing structures and processes, especially those that have been convened by the WECC. California PUC asserts that MRTU will not create new seams, but will improve the ability of the CAISO and its embedded and adjacent balancing authority areas to manage seams issues by providing increased transparency and more accurate and proactive management of congestion.

333. In its answer, the CAISO claims the proposed changes are far from unilateral given the stakeholder and Commission process to which it is subject.²²⁰ The CAISO also contends that it is a non-profit organization without a financial stake in any negotiations and it just wants its customers to have a fair price.

334. The CAISO reiterates that changes were made to the IBAA proposal as a result of the stakeholder process, including meetings and other activities.²²¹ The CAISO adds that it provided the stakeholders months to review the IBAA proposal details and draft tariff language before seeking board approval, even extending the review process three times.

²¹⁹ TANC July 8, 2008 Protest at 94 (citing Draft Final CAISO Integrated Balancing Authority Proposal (Apr. 18, 2008)).

²²⁰ CAISO July 23, 2008 Answer at 17.

²²¹ *Id.* at 109.

The CAISO observes that the size of certain protests, including affidavits, belies the claims of surprise. The CAISO contends that it is not surprising or wrong for the IBAA proposal to have evolved during the stakeholder process, prior to filing with the Commission. Although the stakeholders were unable to reach consensus on all matters, the CAISO contends that that does not mean the stakeholder process was deficient or that the CAISO did not meet its tariff or FPA requirements.

335. TANC reiterates, in its answer, that a collaborative approach to the seams issues is preferred and that WECC should be used to address the issues present in this matter.²²²

336. Modesto reiterates in its answer its belief that this matter should be handled on a regional basis and that any reliability effects should be addressed.²²³

b. Commission Determination

337. The Commission finds that the CAISO's stakeholder process prior to the filing of the IBAA proposal was sufficient and that the CAISO did not violate its tariff or Commission orders during the stakeholder process. As detailed in the CAISO's filing, interested parties have been in discussions concerning the issues addressed in this filing for many months. One of the protestors, Western, even acknowledges in its protest that, "the CAISO, Western and other parties had discussions related to the CAISO's modeling of prices, schedules, and settlements since the summer of 2007."²²⁴ Although some affected parties disagree with elements of the IBAA proposal, and some parties were unable to obtain their preferred resolution to the issues presented in this matter during the process, the stakeholder process appears to have been robust. For example, in response to comments in the stakeholder process, the CAISO extended the stakeholder process several times and agreed to file the IBAA proposal as a section 205 filing rather than a compliance filing. Also, the CAISO made certain concessions based on the stakeholder process, such as committing to hold a stakeholder process to develop any further changes to the existing IBAA and providing the opportunity to enter into an MEEA to receive alternate pricing arrangements.

338. The Commission finds that additional stakeholder process is unlikely to produce consensus or change in parties' positions. The Commission finds that the CAISO has taken adequate measures to ensure that stakeholders have had opportunity to discuss and contribute to the proposed revisions through a variety of forums. The CAISO identifies

²²² TANC July 29, 2008 Answer at 10.

²²³ Modesto July 29, 2008 Answer at 6.

²²⁴ Western July 8, 2008 Protest at 12.

various meetings, proposals, letters, whitepapers, conference calls, presentations, throughout 2007 and 2008 concerning the issues contained in the IBAA proposal.²²⁵ Accordingly, the Commission finds that these forums provided sufficient opportunity for stakeholder participation and therefore denies protestors' complaints concerning the need for additional stakeholder process.

339. In response to TANC's claim that the CAISO skipped the WECC process, as discussed below, CAISO is not required to use NERC or WECC processes to determine how it should price interchange transactions.

340. Finally, we find that the IBAA proposal will not adversely affect commercial practices as Western contends. In fact, we find that the IBAA proposal is a just and reasonable method designed to improve commercial practices in the West.

3. Timing of the IBAA Proposal

a. Comments and Answers

341. TANC contends that the Commission has recognized that the seams and data exchange issues presented in the CAISO proposal currently exist, are not newly created by MRTU, and should not be addressed in a unilateral CAISO filing.²²⁶

342. TANC and Modesto assert that the IBAA proposal is not essential for the yet-to-be announced MRTU go-live date. TANC contends that the CAISO has not demonstrated a compelling need for the IBAA proposal to be implemented simultaneously with the start of the MRTU program. According to TANC and Modesto, the Commission has already considered and addressed these issues and has determined that any issues concerning accurate modeling of interchange transactions need not be resolved by MRTU start-up.²²⁷ Modesto notes in particular that the Commission: (1) did not mandate data from adjacent balancing authority areas; (2) recognized and approved MRTU without the CAISO having all the information it desired; and (3) did not contemplate a punitive, default mechanism if the CAISO did not obtain the information it needed. TANC and Modesto also note that the CAISO has already admitted that it will need to make changes to the IBAA filing soon after the initiation of MRTU.

²²⁵ CAISO Filing, Attachment E.

²²⁶ TANC July 8, 2008 Protest at 82-86 (citing September 2006 Order at P 8, 480, 482, 485, 489-490; April 2007 MRTU Rehearing Order at P 134, 253, 2870).

²²⁷ TANC July 8, 2008 Protest at 73 (citing September 2006 Order at P 45, 48; April 2007 MRTU Rehearing Order at P 182, 252).

343. TANC submits that the CAISO's recent switch from a multi-hub to a single hub methodology calls into question the appropriateness of a June 17 filing. TANC further submits that the flaws in the CAISO proposal will deter rather than aid in timely MRTU implementation, especially given that entities have already raised concerns regarding uncertainties with the MRTU testing.²²⁸

344. CMUA cautions the Commission against rushing to action on the CAISO's IBAA proposal and requests that the Commission force the CAISO to discuss resolution of the CAISO concerns while respecting the legal rights, asset investments, and expectations of CMUA members affected by the IBAA proposals, and in coordination with other neighboring balancing authority areas.²²⁹

345. The CAISO contends in its answer that deploying the IBAA proposal with MRTU will help eliminate certain market design flaws and help avoid significant financial harm to CAISO ratepayers once MRTU is in place.²³⁰ Further, the CAISO requests approval of the IBAA proposal so that it can finalize implementation details, and market participants can fully test the MRTU. The CAISO acknowledges the offers from protestors to work to avoid potential abuses due to market design flaws, but contends that one should not be forced to wait for known or reasonably anticipated problems to occur before instituting corrective action and the proper market incentives should be built into the design from the beginning.

346. The CAISO maintains that its proposal is not rushed or premature because new software must be designed, developed and tested before being employed.²³¹ The CAISO claims it requires Commission approval of the IBAA proposal's design concept and will need time for testing and for market participants to provide feedback.

347. SMUD, in its answer, states that there is no need for such a rush to implement the CAISO IBAA proposal and that WECC should handle issues of data exchange.²³²

²²⁸ *Id.* at 79-80 (citing Western Protest, Ex. No. WPA-3 at P 7 (Affidavit of Sonja Anderson); NCPA Comments and Request for More Detailed Status Reports and Technical Conference at 2-3, 5, 18, Docket No. ER06-615 (Jun. 2, 2008)).

²²⁹ CMUA July 8, 2008 Protest at section III.B.

²³⁰ CAISO July 23, 2008 Answer at 22.

²³¹ *Id.* at 97.

²³² SMUD July 29, 2008 Answer at 4.

348. TANC, in its answer, reiterates that a denial of the IBAA proposal will not delay MRTU, especially since the latest MRTU delay.²³³

349. The CAISO reiterates its request for a timely order in order to implement the IBAA proposal.²³⁴ The CAISO further reiterates that while a better exchange of data is common to the WECC efforts to address seams issues and the IBAA proposal, the latter issue fundamentally is a modeling and pricing issue for transactions using the CAISO-controlled grid and it is necessary to be in place at the start of MRTU, while the former does not involve pricing issues and obviously involves all of the balancing authority areas within the WECC.²³⁵

b. Commission Determination

350. We find that the CAISO has justified the need for the IBAA proposal to be implemented simultaneously with the start of the MRTU program. We find that having the IBAA proposal in place for MRTU start-up will provide substantial benefits to the market design. We find that the implementation of the IBAA proposal simultaneously with the MRTU can help further improve market design issue initially, reducing the potential for infeasible schedules and providing a more accurate model. As we have said above, these improvements to the market design are key goals of MRTU. We see no reason to delay implementation given that the IBAA proposal is before us and has been found a just and reasonable mechanism for pricing interchange transactions. In addition, our approval of the IBAA proposal allows the CAISO time to test the implementation of the proposal with market participant feedback. Therefore, we find the CAISO properly seeks to implement the IBAA proposal with MRTU. However, we will not allow the CAISO, without a satisfactory explanation, to delay MRTU implementation because it needs additional time to implement the IBAA proposal.

351. As discussed above, the Commission will not require further settlement or hearing procedures on the IBAA, although we encourage the parties to continue to resolve any differences.

²³³ TANC July 29 and August 6, 2008 Answers.

²³⁴ CAISO August 8, 2008 Answer at 8.

²³⁵ *Id.* at 33.

4. Existing provisions, standards and commitments**a. Comments and Answers**

352. Imperial asserts that the CAISO's proposal is inconsistent with and in violation of MRTU Tariff section 11.10.1.6, which provides that "Schedules between Balancing Authority Areas shall be deemed as being delivered in accordance with Good Utility Practice." Imperial states that section 11.10.1.6 provides for loop flow concerns to be addressed pursuant to WECC inadvertent interchange practices and procedures. Imperial also states that the CAISO's own procedures include provisions that address not only how inadvertent flow is measured and calculated, payback procedures and correcting additional flows, but also how balancing authority areas can request loop flow mitigation.²³⁶ Additionally, Imperial asserts that the CAISO proposal conflicts with certain reliability standards.²³⁷ Imperial argues that the CAISO has not supported why it has failed to use the various procedures and provisions that already exist to handle loop flow problems. Imperial further contends that the IBAA proposal is contrary to its previous commitments to work with existing NERC and WECC processes to resolve seams issues. Imperial requests that the Commission require the CAISO to exhaust the available WECC process before imposing its new IBAA proposal.

353. Imperial, CMUA, WestConnect and NCPA contend that entities such as WECC should resolve the issues present in this matter. They claim that the issues should be resolved in a collaborative manner, rather than through a filing with the Commission. Imperial states that there are already established WECC procedures currently used to reduce loop flow across constrained, rated transmission paths. Imperial claims that WECC's procedures also encourage neighboring balancing authorities to cooperate and provide for bilateral arrangements that allow required curtailments in lieu of making larger curtailments in schedules over parallel paths.²³⁸ CMUA notes that the CAISO originally claimed it was willing to work within the necessary WECC process to develop a network model and day-ahead protocol exchange but that it did not believe MRTU should be delayed due to the issue.²³⁹ However, CMUA and WestConnect argue that the

²³⁶ Imperial July 8, 2008 Protest at 36.

²³⁷ *Id.* (citing INT-001-2 Interchange Information, NERC Operating Manual – Section 1F, Inadvertent Interchange Dispute, and WECC Operating Committee Handbook – section IV, Bilateral Inadvertent Payback Scheduling Procedures and section V, Inadvertent Scheduling Accounting).

²³⁸ *Id.* at 34.

²³⁹ CMUA July 8, 2008 Protest at section III.B.

CAISO has changed its position, claiming that it cannot implement MRTU without developing a data exchange protocol.²⁴⁰

354. The California PUC believes that the long-term resolution of seams issues in the West is most likely to be achieved through such collaborative processes, in which the disparate parties commit to working with each other on an on-going and collaborative basis. In addition to WECC-based, action on seams, California PUC states that many challenges or concerns can be addressed by bilateral or multilateral coordination between balancing authority areas. The California PUC supports the joint efforts of the CAISO and its adjacent/embedded balancing authority areas in working towards resolution of outstanding seams issues prior to MRTU start-up.

355. The CAISO asserts in its answer that the protestors' requests for increased NERC involvement is an effort to expand the role envisioned for NERC and other regional entities, and the authority granted them. The CAISO maintains that it is not NERC or WECC's role to be involved in pricing matters over which the Commission has oversight.²⁴¹

356. The CAISO contends that WECC is not equipped to resolve market related pricing aspects central to the IBAA proposal. The CAISO maintains that only the Commission is conversant with the market and pricing issues to resolve the present issues.

357. NCPA, in its answer, reiterates its position that NERC and WECC are competent to address the representation and prediction of actual flows on the system.²⁴²

b. Commission Determination

358. The Commission will not require the CAISO to use NERC or WECC processes to determine how it should price interchange transactions. The protestors confuse the mandatory reliability-related requirements for the exchange of operational data and the data necessary to price system imports and exports. First, reliability standard INT-001-2 ensures that interchange information is submitted to the reliability analysis service identified by NERC.²⁴³ It does not ensure that the CAISO has the pricing-related data it

²⁴⁰ *Id.*, WestConnect Protest at 3.

²⁴¹ CAISO July 23, 2008 Answer at 6 - 7.

²⁴² NCPA July 31, 2008 Answer at 2.

²⁴³ *Mandatory Reliability Standards for the Bulk-Power System*, Order No. 693, at P 803 (2006).

would need to ensure its markets function smoothly. Further, the IBAA proposal does not violate reliability standard INT-001-2 or the NERC and WECC operating manuals. Nothing in this proposal would prohibit any entity from providing any information to the NERC-identified reliability analysis service.

359. We recognize that NERC and WECC have processes to address certain issues that the CAISO seeks to address through the IBAA proposal. As discussed elsewhere in this order, we see no reason to delay implementation given that the IBAA proposal is before us and has been found a just and reasonable mechanism for pricing interchange transactions. As discussed above, the Commission will not require further settlement or hearing procedures on the IBAA, although we encourage the parties to continue to resolve any differences.

360. As stated by Imperial, section 11.10.1.6 of the MRTU Tariff provides for loop flow concerns to be addressed pursuant to WECC inadvertent interchange practices and procedures. This concerns how to address loop flows after the fact. In contrast, the IBAA proposal addresses how to schedule and price interchange transactions in the day ahead market to minimize infeasible schedules. Because the two provisions address different timeframes, section 11.10.1.6 of the MRTU Tariff is not violated by the IBAA proposal.

H. Alternate Proposal

361. The CAISO states that on May 8, 2008, the IBAA entities provided their Alternative Proposal to the CAISO.²⁴⁴ The Alternate Proposal had three elements: (a) data exchange between the CAISO and the IBAA entities, (b) modeling of interchange transactions, and (c) pricing of interchange transactions. Under the Alternate Proposal, the exchange of data would be on a reciprocal, after-the-fact basis. The parties would provide WECC and NERC required real-time transmission data in each other's control for reliability purposes, but the data subject to the agreement could not be physically removed from the site. Under the Alternate Proposal, the CAISO would model interchange schedules at the intertie scheduling points between the CAISO and the IBAA. The interchange schedules/bids would be settled by calculating the LMPs at the boundary locations and applying the LMPs to the scheduled quantities at each intertie scheduling point.

²⁴⁴ SMUD, Turlock and TANC were the IBAA entities that made the Alternative Proposal.

1. Comments and Answers

362. Turlock describes the alternative modeling approach as a nondiscriminatory, more accurate and more reasonable means of achieving the CAISO's objectives.

363. TANC argues that any complaints the CAISO may have about the unwillingness to negotiate on data exchange are belied by the fact that the IBAA entities have offered an alternative proposal to the CAISO during the CAISO's stakeholder process. TANC submits that the alternative proposal has promising preliminary results with lower variances between predicted and actual flows than the CAISO proposal. Modesto believes that the Alternate Proposal provides sufficient information while still allowing the IBAA entities to feel comfortable that the data being provided is not being used for competitive or market purposes against them.

364. According to Western, it has not officially received a response from the CAISO regarding the alternate proposal. Therefore, Western maintains that the CAISO's approach to unilaterally file its new proposal is inconsistent with the Commission's order, which directed the CAISO to accommodate existing commercial practices or work with neighboring balancing authorities to resolve seams issues. Western states that it would be pleased to provide its counterproposal to the Commission as part of a technical conference.

365. TANC agrees with Western's testimony that the IBAA proposal "is a limited and narrow approach [that] will not achieve the CAISO goals of improved forward schedule modeling"²⁴⁵ and "will not address the more significant loop flow originating far beyond both the CAISO and SMUD...balancing authority boundaries."²⁴⁶ TANC contends that the CAISO has failed to demonstrate that its proposal is more accurate than the use of a Tracy pricing point for COTP schedules because the proposal does not properly assign LMPs at interchange/scheduling points that reflect either the actual value of energy or congestion.

366. Santa Clara states that there are numerous and extensive changes CAISO would need to make to the IBAA proposal.²⁴⁷

367. SMUD states that it is open to the possibility of reciprocal and more robust data exchanges with the CAISO. Also, Modesto argues that the CAISO can receive after-the-

²⁴⁵ TANC July 8, 2008 Protest at 76 (citing Western Protest, Ex. WPA-1 at 11).

²⁴⁶ *Id.* at 13.

²⁴⁷ Santa Clara July 8, 2008 Protest at 43.

fact data, which will help tune its model and better gauge parallel flows without the need for sensitive market data from neighboring utilities.

368. The CAISO claims in its answer that the Alternate Proposal was rejected because of the merits of the proposal including: (1) concerns about how the proposed data exchange would enhance modeling; (2) the lack of visibility of the location of the resources in the IBAA because modeling would be done at the boundaries; and (3) concerns that the monitoring and information exchange processes were insufficient.

369. SMUD claims in its answer that the Alternative Proposals should be considered because the IBAA proposal is unjust and unreasonable.²⁴⁸

2. Commission Determination

370. As discussed above, the Commission finds the CAISO's IBAA proposal just and reasonable. Although Western and other affected entities have prepared an Alternate Proposal, the existence of such a proposal does not alter the Commission's position on the CAISO's IBAA proposal.²⁴⁹ As a public utility, the CAISO has a right to file tariff revisions pursuant to section 205 of the FPA. We are required to adopt just and reasonable rates, terms and conditions. The Commission's review is complete if we determine that the proposal filed by the CAISO is just and reasonable.²⁵⁰ Thus, the Commission does not reach the merits of the Alternate Proposal.

371. Santa Clara's proposed changes to the CAISO's IBAA proposal are not supported by any justifications. Also, the proposed changes are significant enough to constitute an entirely new proposal. As discussed above, the Commission does not reach the merits of alternate proposals or other proposals suggested by the protestors in this order.

I. Tariff Language Provisions and the Business Practice Manuals

372. The CAISO proposes new sections 36.14.1 through 36.14.13 and new definitions that together would amend the CAISO's currently effective tariff regarding the CRR

²⁴⁸ SMUD July 29, 2008 Answer at 6.

²⁴⁹ *Florida Gas Co.*, 62 FERC ¶ 61,024, at 61,178 (1993).

²⁵⁰ *Cal. Indep. Sys. Operator Corp.*, 121 FERC ¶ 61,193, at P 106 (2007), citing *Louisville Gas and Elec. Co.*, 114 FERC ¶ 61,282, at P 29 (2006) (the just and reasonable standard under the FPA is not so rigid as to limit rates to a "best rate" or "most efficient rate" standard; rather, a range of alternative approaches often may be just and reasonable), *reh'g denied*, *E. ON U.S. LLC*, 116 FERC ¶ 61,020 (2006).

implications of establishing new IBAAAs or modifying existing IBAAAs. These new sections and definitions would also be reflected in the MRTU Tariff.

373. Under the MRTU Tariff the CAISO proposes to modify section 27.5.3 and add sections 27.5.3.1 through 27.5.3.4, as discussed more below. The CAISO also proposes to amend Appendix C, Section G of the MRTU Tariff to reflect the IBAA methodology for calculating LMP prices for interchange transactions with an IBAA.

374. The CAISO explicitly reserves to the business practices manuals the following: (1) the modeling specifications for an IBAA; (2) the “consultative” process with the applicable balancing authority and the CAISO market participants to establish a new IBAA or modify an existing IBAA; and (3) the methodology for determining the default pricing points and the specific default pricing points for currently established IBAAAs.

1. Section 27.5.3

a. Comments and Answers

375. Turlock asserts that the terms “sufficient data” and “adequate estimates,” in discussing the conditions under which the CAISO will incorporate the IBAA’s network topology into the CAISO’s full network model, are subjective and not clear. NCPA requests that the CAISO specify the information it requires for accurate modeling.

376. TANC argues section 27.5.3 offers no guidance as to how the CAISO will model the impact of injections and withdrawals to and from other balancing authority areas, other than to state that it will model “as accurately as possible given the information available to the CAISO.” TANC and Modesto argue that this language leaves the CAISO with unfettered discretion to pick and choose how accurately it uses modeling information so as to select its preferred pricing point.

377. Western voices concerns with the CAISO’s right to enforce network constraints. It asserts that even if a bilaterally negotiated MEEA does not provide the CAISO with the right to enforce a network constraint, the CAISO can unilaterally file a modification to a MEEA under section 205 of the FPA.

378. In its answer, the CAISO submits that it will not enforce transmission constraints within the IBAA, absent the agreement of the other party. The CAISO proposes as an alternative to delete the relevant language.

b. Commission Determination

379. We are not persuaded by Turlock’s argument that the conditions under which an IBAA network topology will be included in the CAISO’s full network model are too

subjective. The CAISO must have the flexibility to examine on a case by case basis the adequacy of information to accurately model an IBAA.

380. As discussed in the section on default pricing, we direct the CAISO to include tariff language on the changes to the default pricing points for an IBAA. We believe this should address concerns that the CAISO will unilaterally choose default pricing points.

381. As discussed in the section on MEEAs, we direct the CAISO to remove language authorizing the CAISO to enforce transmission constraints for an IBAA and remove the stakeholder process requirement for developing individual MEEAs. In addition, we reiterate that the CAISO must include tariff provisions concerning the MEEAs that: (1) state the limited purpose for which the CAISO will use the information; (2) specify measures the CAISO must take to preserve the confidentiality of information; (3) provide procedures with which the parties would have to comply in their negotiations; (4) provide dispute resolution procedures; and (5) establish audit rights for both parties.

382. We direct the CAISO to make these changes on compliance filing within 60 days of the issuance of this order.

2. Section 27.5.3.2

a. Comments and Answers

383. SoCal Edison supports proposed section 27.5.3.2,²⁵¹ arguing that because the IBAA modeling and pricing methodology may affect many parties beyond just the balancing authority area itself, stakeholders should be allowed the opportunity to comment. SoCal Edison contends that each balancing authority area is different and warrants a distinct stakeholder process to develop the modeling and pricing methodology.

384. Several protestors argue that section 27.5.3.2 fails to provide any way to know what metrics might be applied in establishing new IBAAAs and that the CAISO has given itself unfettered discretion without providing safeguards to other parties. TANC argues that decisions impacting reliability, operations, competition and contracts with other balancing authority areas should not be left to the CAISO's unilateral discretion. TANC argues that section 27.5.3.2 fails to provide the CAISO with an adequate standard for the exercise of its discretion in performing these activities. Imperial asserts that the CAISO should be required to establish an IBAA through a new FPA section 205 filing.²⁵²

²⁵¹ Section 27.5.3.2 defines a process for establishing a new IBAA or MEEA and modifying an existing IBAA or MEEA.

²⁵² Imperial July 8, 2008 Protest at 47 (citing 16 U.S.C. § 824d (2006)). Imperial (continued)

385. Protesters also contend that the CAISO could, under “exigent circumstances,” bypass the proposed stakeholder process and Commission filing and simply declare that it is implementing a new, arbitrary and discriminatory pricing proposal to prevent harm to the market. Powerex contends that, in the event that truly “exigent” circumstances should arise requiring prompt action, the CAISO can request that the Commission expedite action on its filing. Powerex concludes that it is essential that for affected balancing authorities and other market participants to have the opportunity to be heard by the Commission before the CAISO implements a new IBAA or significantly modifies an existing IBAA.

386. TANC argues that the proposed section 27.5.3.2 fails to reflect the authority accorded to the CAISO by its Board of Governors, because there is no reference to the default import/export pricing components at Captain Jack and the SMUD hub, as was discussed at the Board of Governors’ meeting. Furthermore, TANC asserts that the CAISO did not seek Board of Governors’ approval for its inclusion of “exigent circumstances” authority.

387. In its answer, the CAISO contends that its Board of Governors was fully briefed on the IBAA proposal when it received the board’s unanimous support. This briefing included the “exigent circumstances” language concerning establishing new or modifying existing IBAAAs. The CAISO maintains that no additional detail is required in its tariff sheets.

b. Commission Determination

388. As discussed above, the Commission requires the CAISO to file any new IBAA or modifications to any existing IBAA under section 205. We find that this requirement provides adequate protection.

389. We reject arguments regarding exigent circumstances. This language only applies to the CAISO’s commitment to “follow a consultative process with the applicable balancing authority and the CAISO market participants.” This language does not apply to the requirement that the CAISO file any changes to an existing IBAA/MEEA or propose a new IBAA/MEEA with the Commission. We also note that this language is consistent with exigent circumstance provisions in the ISO New England tariff.²⁵³

submits a redline version of the CAISO Tariff that provides the language Imperial feels should be struck. *See id.* at Appendix A.

²⁵³ See ISO New England Operating Procedure No. 19 Section 11.2; see NYISO, 124 FERC ¶ 61,174.

390. We reject TANC’s arguments that the CAISO’s proposal does not reflect the authority accorded to the CAISO by the Board of Governors. A review of the CAISO’s memorandum to the Board of Governors shows that a discussion of the default pricing points and references to exigent circumstances are included.²⁵⁴

3. Section 27.5.3.3

a. Comments and Answers

391. Several protestors contend that section 27.5.3.3²⁵⁵ includes a non-exclusive list of factors that are too vague and lack any quantifiable metrics. TANC and Modesto argue that even if a balancing authority area meets the characteristics defined in the list, the CAISO has the discretion to unilaterally determine whether to establish or not establish an IBAA. They contend that the six factors do not provide clear guidance to allow objective or quantifiable evidence of whether a balancing authority area qualifies as an IBAA.

392. Modesto, TANC and Imperial argue that the CAISO fails to define the number of interties, the size of the interties or how close the interties must be with regard to the first factor. Modesto and TANC quotes language in the other five factors that are also inappropriately ambiguous: (1) transmission running parallel to “major parts” of the CAISO grid; (2) the “frequency and magnitude” of unscheduled power flows at applicable interties, (3) the “number of hours” where the actual direction of power flows was reversed; (4) the “availability of information;” and (5) the “estimated improvement” to the CAISO’s power flow modeling and congestion process.

b. Commission Determination

393. As discussed in the section on discrimination, we find that the CAISO must have the flexibility to evaluate the need for a new IBAA. In addition, the Commission review of any new IBAAAs or modifications of existing IBAAAs will provide sufficient protection. Accordingly, we reject arguments on this point.

²⁵⁴ See CAISO June 17 Filing, Attachment J at 8, 11.

²⁵⁵ Section 27.5.3.3 provides the factors to be considered in establishing a new IBAA or modifying an existing IBAA.

4. Section 27.5.3.4**a. Comments and Answers**

394. TANC argues that section 27.5.3.4²⁵⁶ contains ambiguous language that allows the CAISO unilateral discretion such as, “injection and withdrawal locations will be determined by the CAISO to allow the impact” of the associated intertie scheduling point bids and schedules on the CAISO IBAA to be reflected in the CAISO market processes “as accurately as possible given the information available” to the CAISO. TANC submits that this section provides the CAISO with discretion to afford future IBAAAs provides preferential treatment by establishing pricing points of higher value than the CAISO has proposed for the SMUD/Turlock IBAA. In addition, it argues that this section fails to include the methodology for determining and establishing the pricing points.

b. Commission Determination

395. As stated above, we find it reasonable for the CAISO to consider the individual characteristics and market impacts of its neighboring balancing authority areas in determining whether and how to implement its IBAA proposal and will not require the CAISO to address such concerns on a generic basis. We believe that section 27.5.3.4 adequately allows the CAISO to consider such issues on a case-by-case basis. Further, the Commission is requiring the CAISO to file any new IBAA to be filed under section 205 of the FPA. This will allow the Commission to review any proposed new IBAA and its pricing points.

5. Appendix A**a. Comments and Answers**

396. TANC argues that the definition of an IBAA fails to set forth an objective standard for the CAISO to determine whether a balancing authority area “significantly affects” power flows into the CAISO. TANC also argues the CAISO fails to define within the definition of an MEEA what would constitute a “demonstrable benefit,” how the CAISO would make this determination or the criteria that would apply when the CAISO would enter into an MEEA.

²⁵⁶ “Default Designation of External Resource Locations for Modeling Transactions between the CAISO and an IBAA.”

b. Commission Determination

397. Regarding the term, “significantly affects,” we reiterate that the CAISO must have sufficient flexibility to evaluate the need for an IBAA. As discussed in the section on MEEAs, we direct the CAISO to remove the reference to “demonstrable benefit” in the definition of IBAA. We direct the CAISO on compliance filing to make this change within 60 days of the issuance of this order.

6. Business Practice Manuals

a. Comments and Answers

398. Protesters argue that the CAISO delegates many terms to as-of-yet unpublished business practice manuals that significantly affects rates, terms and conditions of the CAISO’s IBAA proposal and therefore must be included in the CAISO tariff, as required under the Commission’s “rule of reason.”²⁵⁷ SMUD and Imperial argue that the CAISO’s proposed tariff provisions cannot be considered full and complete as they contain no detail and merely cross-reference the CAISO’s Business Practice Manuals. Modesto notes that the business practice manuals are subject to change without Commission supervision and market participants’ only recourse is via a section 206 complaint with the Commission.

399. Santa Clara asks the Commission to require the CAISO to identify the pricing for the IBAA in a manner that can be relied upon by market participants in the tariff sheets. As filed, Santa Clara maintains that the tariff sheets do not indicate what the IBAAAs pricing will be, leaving unwarranted discretion with the CAISO.

400. SMUD and TANC submit that language in section 27.5.3.2 providing that additional details regarding modeling specification will be included in the business practice manuals is inappropriate because the modeling specifications are integrally related to the determination of the prices assessed under the IBAA. Similarly, the methodology identified in section 27.5.3.4 for determining default Resource IDs, as well as the specific Resource IDs that have been adopted for existing IBAAAs must be included in the tariff because the methodology will establish the rates, terms and conditions for pricing imports from and exports to the IBAA.

²⁵⁷ TANC July 8, 2008 Protest at 116-17 (citing September 2006 Order at P 1358, 1370).

b. Commission Determination

401. Given the modifications directed in this order,²⁵⁸ we will not require that further details be included in the tariff. We will not require the CAISO to include additional details regarding the modeling specification.

J. Waiver and Effective Date

402. The CAISO requests that the IBAA proposal become effective concurrent with the MRTU Tariff. The CAISO states that it will not announce a new MRTU effective date until Market Participants have an opportunity to participate in scenario testing and provide feedback to the CAISO management. Accordingly, the CAISO is filing clean MRTU Tariff sheets without indicating a proposed effective date and therefore requests waiver of Order No. 614.²⁵⁹ In addition the CAISO requests waiver of the Commission's 120-day maximum notice requirement set forth in section 35.3 of the Commission's regulations.²⁶⁰

1. Comments and Answers

403. SMUD contends that the Commission should reject the CAISO's IBAA filing because it fails to comply with the requirements of section 35.3(a) of the Commission's regulations which provide that rate schedules be filed with the Commission no more than 120 days prior to the date they are to be effective. SMUD states that the CAISO does not provide a specific effective date for changes to its tariff but requests instead that the changes be accepted to be effective upon implementation of MRTU. SMUD claims that, in light of the CAISO's recent acknowledgement that MRTU will not go live before November 1, 2008, the CAISO's IBAA proposal was submitted more than 120 days ahead of the earliest possible effective date and should be rejected as premature.

404. Furthermore, SMUD contends that, contrary to the CAISO's assertions, the IBAA proposal does not need to be in place prior to the startup of MRTU. SMUD points out that the CAISO has previously asserted that "the need for better data exchange among

²⁵⁸ Specifically, we direct the CAISO to include: (1) the default pricing points; (2) information requirements by market participant type to receive an alternate pricing arrangement under an MEEA; and (3) terms and conditions for the MEEA process.

²⁵⁹ *Designation of Electric Rate Schedule Sheets*, Order No. 614, FERC Stats. & Regs., Regulations Preambles July 1996-December 2000 ¶ 31,096 (2000) (Order No. 614).

²⁶⁰ 18 C.F.R. § 35.3 (2008).

control areas is not a seams issue related to MRTU.”²⁶¹ SMUD contends that if the IBAA proposal is not a seams issue relating to MRTU, there is no reason why MRTU and the IBAA must proceed simultaneously. SMUD further protests the CAISO’s request that the CRR-related provisions of the proposal be granted an effective date of 60 days from the date of the filing on the basis that the CRR proposal is contingent upon the acceptance of the IBAA proposal, which SMUD believes the Commission should reject outright. TANC also argues that the CAISO’s has not justified waiver of the Commission’s regulations regarding the timing of the CAISO’s filing, especially since the MRTU go-live date remains speculative.²⁶²

2. Commission Determination

405. The Commission denies SMUD’s and TANC’s protest. The Commission does not agree that the IBAA proposal should be rejected because it does not need to be in place prior to the startup of MRTU. As stated more fully above, the Commission finds the IBAA proposal to be just and reasonable. Further, we believe it will help the CAISO better achieve several of the goals of MRTU such as by providing more accurate price signals. As such, we see no reason to delay implementation until after MRTU start up.

406. In order to allow the IBAA proposal to be incorporated into the MRTU market systems and fully tested in time for the start of MRTU, which will take several months, we find good cause to grant waiver of the 120-day maximum prior notice requirement.

407. With respect to SMUD’s concerns regarding the effective date of the CRR-related provisions of the proposal, because the Commission has found the IBAA proposal, including the CRR-related provisions, to be just and reasonable, we see no reason not to grant the CAISO’s requested effective date.

The Commission orders:

(A) The CAISO’s IBAA proposal is hereby accepted, subject to modification, to be effective concurrent with the MRTU Tariff.

(B) The CAISO is hereby directed to submit a compliance filing, within 60 days of the date of this order, as discussed in the body of this order.

²⁶¹ SMUD July 8, 2008 Protest at 18 (citing *Cal. Indep. Sys. Operator Corp.*, 119 FERC ¶ 61,076, at P 208 (2007)).

²⁶² TANC July 8, 2008 Protest at 81-82 (citing FPA section 205(d), 16 U.S.C. § 824d(d); 18 C.F.R. § 35.3(a)).

(C) The CAISO's CRR proposal is hereby accepted, to be effective September 26, 2008.

(D) The CAISO is granted a waiver of section 35.3 of the Commission's regulations, 18 C.F.R. § 35.3 (2008), to permit the tariff sheets concerning the IBAA proposal to become effective more than 120 days after the date the proposal was submitted.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.