

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

**California Independent System            )     Docket No. ER09-1542-000  
Operator Corporation                    )**

**ANSWER TO COMMENTS, MOTION TO FILE ANSWER, AND ANSWER TO A  
PROTEST OF THE  
CALIFORNIA INDEPENDENT SYSTEM  
OPERATOR CORPORATION**

Pursuant to Rules 212 and 213 of the Federal Energy Regulatory Commission's (Commission) Rules of Practice and Procedure, 18 C.F.R. §§ 385.212 and 385.213, the California Independent System Operator Corporation (ISO) hereby files an answer to comments by various parties and moves for leave to answer, and hereby answers, a protest filed by the the Western Power Trading Forum (WPTF) regarding the ISO's tariff clarification filing submitted on July 31, 2009 in the above captioned proceeding (July 31 Filing).<sup>1</sup> As explained below, the Commission should accept the July 31 Filing without modification.

**I.     BACKGROUND**

On February 9, 2006, the ISO submitted in Docket No. ER06-615 substantial changes to the then effective ISO Tarff for the purpose of implementing new Locational Marginal Price (LMP) based markets. On April 1, 2009, following a series of Commission orders, compliance filings, stakeholder processes, and further enhancements and refinements of the software requirements, the ISO implemented the new market design.

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<sup>1</sup> WPTF filed a Motion to Intervene and Protest; Powerex, Pacific Gas & Electric Company (PG&E) and J.P. Morgan Ventures Energy Corporation and BE CA LLC (JP Morgan) each filed separately a Motion to Intervene and Comments. Others filed motions to intervene with no comments or protests.

On July 31, 2009, the ISO submitted proposed tariff amendments to clarify certain tariff provisions. The first area of clarification pertained to the eligibility of external resources as Regulatory Must-Take Generation as defined under the ISO tariff. The ISO notes that no intervenor opposes this proposed change. The second area of clarification in the July 31 Filing pertains to the inaccurate and inconsistent description in the tariff of the role of the Full Network Model (FNM) and the enforcement of transmission constraints in the ISO market runs. Below the ISO answers the relevant aspects of the WPTF protest, as well as other related comments that raise objections to these tariff clarifications.

## **II. MOTION FOR LEAVE TO ANSWER LIMITED PROTEST**

Pursuant to Rules 212 and 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §§ 385.212 and 385.213, the ISO moves for leave to answer protests to the July 31 Filing. The ISO requests waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to permit it to make an answer to the protest of the WPTF. Good cause exists for this waiver because the answer will (1) aid the Commission in understanding critical facts regarding the proposed tariff clarification pertaining to the tariff language describing the role of the FNM in the ISO markets and (2) help to ensure a complete and accurate record in this case.<sup>2</sup>

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<sup>2</sup> See, e.g., *Entergy Services, Inc.*, 116 FERC ¶ 61,286, at P 6 (2006); *Midwest Independent Transmission System Operator, Inc.*, 116 FERC ¶ 61,124, at P 11 (2006); *High Island Offshore System, L.L.C.*, 113 FERC ¶ 61,202, at P 8 (2005).

### **III. ANSWER**

#### **A. The Commission should reject WPTF's protest and accept the ISO's proposed tariff clarifications.**

No intervenor, including WPTF, actually opposes the ISO's specific proposed tariff language regarding the role of the FNM in the ISO markets. This is not surprising because the specific changes are obviously nonsubstantive and purely for the purpose of clarification. However, WPTF does object to the approval of the proposed changes at this time. WPTF asserts that the parties and the Commission cannot ascertain the true impact of the proposed tariff clarifications because the ISO has not provided sufficient visibility on its practices for enforcing constraints and managing the constraints through its operation of the markets. WPTF suggests that the filing is necessary to provide the ISO with the authority not to enforce constraints at all times. WPTF requests that the Commission reject the ISO's proposed modifications regarding the enforcement of constraints, direct the ISO to work with stakeholders to address concerns about the transparency of this practice, and require the ISO to re-file its proposed tariff provisions after addressing stakeholders' transparency issues. J.P Morgan and Powerex support WPTF's protest.

Contrary to the assertions of WPTF, the Commission should not reject the proposed tariff clarifications. WPTF's argument that the ISO has not provided sufficient evidence regarding the impact of the tariff changes on rates terms and conditions of services is based on the erroneous presumption that the ISO is proposing a substantive tariff change. WPTF is unable to identify any flaws with the proposed tariff clarifications, but instead leverages this opportunity to file

comments on the clarifying tariff language in a misplaced attempt to persuade the Commission to force the ISO to provide additional visibility into other ISO business practices -- not related to the instant tariff amendment -- an effort that, as explained below, is already underway. That effort does not in any way obviate the need for the proposed clarifications. The Commission should accept the proposed tariff clarifications and allow the ISO to continue on its current path towards discussing with its stakeholders what additional information regarding transmission constraints, contingencies and operator practices in managing the market limits is reasonably required for an efficient and well functioning market.

WPTF incorrectly suggests that the tariff amendments are necessary to enable the ISO to obtain authority do that it is not required to enforce “all” constraints in running the ISO markets. As explained in the July 31 Transmittal Letter, the tariff changes are necessary to clarify the inaccurate representations currently contained in the tariff regarding the role of the FNM and how transmission constraints are enforced in the market software. In particular, the existing language wrongly attributes to the FNM certain functions related to the setting and enforcement of transmission constraints. These functions are actually effectuated through other market mechanisms; so, the tariff’s characterizations are incorrect and must be clarified. The incorrect attribution of these functions to the FNM creates an appearance of inconsistency with other tariff provisions that relate to the management of transmission constraints through the market applications in clearing of the ISO markets. Accordingly, the tariff language should be clarified in two ways.

First, the FNM models the topology of the transmission facilities that make up the ISO grid and is merely a mathematical representation of the physical

transmission system that the ISO operates. Contrary to the impression created by existing tariff language, the FNM does not take any *action* with regard to transmission constraints. Through the proposed tariff changes, the ISO merely seeks to clarify its tariff to eliminate the confusing and incorrect statement that suggests that the FNM enforces constraints.

Second, contrary to WPTF's assertions, even without the proposed clarifications, the tariff does not require that the ISO literally enforce "all" constraints at all times. Even if it were possible to literally enforce all constraints, such a practice would be entirely impractical because it would lead to schedules and prices that are entirely unrelated to actual system conditions. That is a wholly inappropriate result and is not consistent with good utility practice. Indeed, while WPTF suggests that the Commission cannot accept the ISO's proposed clarifications without understanding all of the implications of the ISO's transmission enforcement practices, WPTF also "acknowledges the CAISO's authority not to enforce constraints selectively in situations in which enforcing constraints might result in actions not consistent with good utility practice or could lead to anomalous prices." The ISO has previously provided ample information why in running the ISO in certain instances markets transmission limits must be relaxed in the market optimization in order to achieve a market solution and the procedures its operating engineers conduct to ensure that the market runs are based on an accurate reflection of grid conditions over time.<sup>3</sup>

It is misleading to suggest that the erroneous reference to the FNM's reflection of transmission grid facilities results in an expectation that all transmission

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<sup>3</sup> See Transmittal Letter at pp. 3-6.

line limits are enforced at all times. There is no statement in the tariff or elsewhere that indicates that the ISO should enforce all constraints at all times in running the ISO markets. Indeed, the lengthy stakeholder process that preceded the market parameters filing in ER09-240, the comments in Docket ER09-240 where the ISO previously sought clarification regarding the use of the FNM, the stakeholder process prior to this filing, and a round of comments in this filing, have not revealed any language in the tariff that supports the conclusion that the ISO must enforce all constraints at all times. The only current tariff language that WPTF asserts requires the ISO to enforce all constraints at all times is the language that the ISO seeks to correct and because it is neither factually accurate nor consistent with other parts of the tariff. Yet WPTF provides no rationale why the ISO should enforce all constraints at all times. The Commission should reject WPTF's protest and accept the proposed clarifications as necessary to eliminate any confusion regarding the role of the FNM in running the ISO markets.

**B. The Commission should accept the proposed clarifications regarding the FNM and let the ISO continue its efforts towards providing greater visibility.**

The Commission should not condition acceptance of the proposed clarifications, nor delay acceptance of such clarifications, on the ISO's further disclosure of information regarding the ISO's transmission constraints enforcement in running the ISO markets or the practices of its operators to account for system conditions in managing the limits. The ISO has already committed to conducting a stakeholder process to consider what additional visibility can be provided with respect to these areas of the ISO's operations. However, the goal of that process is not, and cannot be, to justify the ISO's authority to enforce all constraints at all

times. The ISO cannot seek such authority because it would contradict other parts of its tariff and would for result in unjust and unreasonable prices and schedules. Rather, the role of that process is to provide a practical approach to determining the information market participants reasonably require for their effective participation in the ISO markets, and the conditions and process pursuant to which that information can be provided.

Perhaps in an attempt to force the ISO to expedite that effort, WPTF attempts to expand the scope of the simple clarifications sought in this filing. However, no matter how much visibility is provided into these practices, clearly the outcome of a stakeholder process to provide more visibility will not be that the ISO must enforce all constraints at all times, nor will it be that the ISO must enforce constraints through the FNM, as suggested by the current erroneous tariff language because the FNM does not -- and never was designed to -- perform such a function.

Moreover, to suggest that the ISO must first undergo a process that considers each and every decision made regarding constraints setting and the enforcement or relaxation of such constraints before the clarifying language is accepted constitutes nothing more than an attempt to leverage the opportunity to file comments on proposed tariff clarifications to force a level of detail concerning every full network model and market process setting. Clearly, such detail would exceed the rule of reason that governs the degree detail that must be approved and accepted in the ISO's tariff. The ISO is not aware of any other FERC jurisdictional utility or ISO tariff that contains modeling and operational detail.

The ISO recognizes that many actions the ISO takes impact market results and has taken significant measures to develop a series of documentation levels between the Tariff, Business Practice Manuals, Operating Procedures, Technical Bulletins, release of data on a confidential basis, and market notices to provide market participants and the Commission ample opportunity to evaluate its practices. The ISO also continues to provide significant detailed analysis of its market results in its weekly Market Issues conference calls and has responded to numerous inquiries through detailed analysis.

The ISO also recognizes that in some instances, it has been required to limit access to certain documents because of the confidential nature of such documentation. The Commission has recently recognized the need to strike the proper balance in finding that the ISO “may limit access to certain operating procedures based on system security, market sensitivity or proprietary concerns and may make non-public operating procedures available only to those entities that are operationally affected by the operating procedures.”<sup>4</sup> The ISO agrees with the Commission’s corollary finding that “under a locational marginal price-based market operation, virtually any market participant may claim to be economically or financially affected” by the information contained in the operating procedures. The ISO has recently submitted tariff language in that proceeding that provides the complete criteria for accessing the operating procedures, which are the exact same type of procedures WPTF now suggests, should be made fully publically available.<sup>5</sup>

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<sup>4</sup> *California Independent System Operator Corp.*, 126 FERC ¶ 61,276 at P 34 (2009)  
<sup>5</sup> <http://www.caiso.com/2418/2418585058bc0.pdf>.

In addition, as previously requested by market participants and reiterated in the protest and comments in this proceeding, the ISO is currently developing a stakeholder process to seek ways in which the ISO can provide (1) either the list of the constraints that are or are not enforced in the ISO market processes or more visibility into how they are established; and (2) the list of the contingencies that are enforced in the market process. The goal through that process is to evaluate the information required by market participants based on ISO market specifics and in the context of best practices by other independent market operators. It is not necessarily the case that the ISO must provide all information. Clearly, the provision of any piece of market information requires application of administrative, legal, analytical and system resources, which come at a financial cost. Without an actual and demonstrated need for specific information, there is no reason why the ISO should be required to provide information for the mere sake of providing information.

The stakeholder process will also address whether, and if so how, the ISO can provide more transparency on the practice of transmission limit management by its operators, how it can better document the criteria used to determine whether a transmission limit should be biased and the guidelines on magnitude and duration of adjusting the transmission lines limit when running the market. The ISO has already taken significant measures in this area by posting a document that describes the ISO operator practices in managing transmission limits based on good utility practice. Through the upcoming stakeholder process, the ISO will discuss with market participants what additional information is required in the context of striking a balance between what the market needs, what is available, and

the best practices of other independent system operators and regional transmission organizations.

The ISO is in the process of finalizing the release of information to launch this effort and a market notice is forthcoming. In the event that this effort reveals the need to make any additional tariff modifications, the ISO will seek such tariff changes. This effort is the proper context for establishing the framework for the additional visibility sought by WPTF and other commentators such as Powerex and J.P. Morgan. There is no need for the Commission to force the ISO through this effort because the ISO has already taken considerable measures to roll this effort out. In addition, providing any further visibility into the ISO market operational details cannot obviate the need for the requested clarifications. As evidence by the fact that the intervening parties have not raised any arguments suggesting that the actual proposed language itself is erroneous, misleading or inaccurate in any way, the Commission should accept the proposed clarifications as filed.

#### **IV. CONCLUSION**

For the reasons provided herein, the Commission should accept the tariff revisions as submitted by the ISO in the July 31 Filing.

Respectfully submitted,

**/s/ Anna A. McKenna**

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Dated: September 8, 2009

## CERTIFICATE OF SERVICE

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

Dated at Folsom, CA this 8<sup>th</sup> day of September, 2009.

/s/ Jane Ostapovich  
Jane Ostapovich