



August 2, 2005

The Honorable Magalie Roman Salas  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, DC 20426

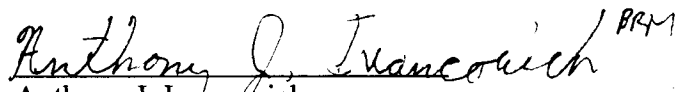
**Re: California Independent System Operator Corporation  
Docket No. ER02-1656-026**

Dear Secretary Salas:

Enclosed please find the Compliance Filing of the California Independent System Operator Corporation ("CAISO"), submitted in the referenced docket. Pursuant to Rule 212 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.212 (2005), the CAISO requests that the Commission accept the attached filing one day out-of-time. Due to a miscommunication, the filing was not made on August 1, 2005 as directed in the Commission's July 1, 2005 order in the referenced docket.

Two additional copies of this compliance filing are enclosed to be date-stamped and returned to our messenger. Thank you for your attention to this filing.

Respectfully submitted,

  
Anthony J. Ivancovich

Counsel for the California Independent  
System Operator Corporation

Cc: Service list

August 2, 2005

The Honorable Magalie Roman Salas  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D. C. 20426

**Re: California Independent System Operator Corporation  
Docket No. ER02-1656-026,  
Compliance Filing**

Dear Secretary Salas:

On May 13, 2003, the California Independent System Operator Corporation (“CAISO”) submitted for filing in the referenced docket a further amendment to its Comprehensive Market Design Proposal (“MRTU”). Therein, the CAISO requested that the Commission grant conceptual approval to allow the CAISO to implement, as part of MRTU, the following design elements: (1) the clearing of demand bids at the load aggregation point level; (2) a revised Hour-Ahead Scheduling Process; and (3) a package of market power mitigation measures to be in place upon implementation of MRTU in February 2007.

On July 1, 2005, the Commission issued an *Order On Further Amendments To The California Independent System Operator’s Comprehensive Market Design Proposal*, 112 FERC ¶ 61,013 (“July 1 Order”). The July 1 Order approved in principle certain elements of the CAISO’s May 13, 2005 MRTU conceptual filing, modified other elements, and provided further guidance regarding the CAISO’s market redesign. In particular, the Commission directed the CAISO to file, within 30 days of the July 1 Order, a full explanation of the alleged infeasibility to implement convergence bidding simultaneously with the Day-Ahead Market. The Commission also stated that the CAISO should include in that filing a date when it would be feasible for the CAISO to implement convergence bidding. July 1 Order at P 174.

The instant filing is intended to comply with the Commission’s directive in the July 1 Order that the CAISO explain why it is not feasible to implement convergence bidding by February 2007.

**I. THE INFEASIBILITY OF IMPLEMENTING CONVERGENCE BIDDING BY FEBRUARY 2007**

As the Commission is aware, February 2007 is the target date for implementation of the MRTU market redesign. In order to achieve this implementation date, it was necessary for the CAISO to “freeze” the conceptual design and the associated business

requirements well in advance of that date. The market design the CAISO proposes to implement in February 2007 is referred to as MRTU Release 1.<sup>1</sup> To ensure that individually stable systems can be carried into the integration effort that is scheduled to begin in January 2006, such systems need to be built and tested by the end of December 2005.

The need to finalize or “freeze” the design was born out of certain looming deadlines in the implementation schedule. Indeed, many of the key core systems, such as the IFM, are already in pre-factory and factory acceptance testing (“pre-FAT” and “FAT,” respectively) and any significant design deviations will at this point result in significant delays to the implementation schedule. Most importantly, pursuant to the current MRTU implementation schedule, integration testing will commence in January 2006. Integration testing presumes and requires that each of the MRTU component systems, *e.g.*, the Scheduling Infrastructure Business Rules, IFM, RUC, are complete (and have been separately tested) and that it is time to determine if the entirety of the MRTU design can work as a whole, *i.e.*, that all the systems and subsystems can communicate with and transfer data between one another and can produce viable solutions.

Convergence bidding is not ready for inclusion in MRTU Release 1 and is not easily accommodated in the MRTU functionality. For the CAISO to be able to include the convergence bidding functionality in Release 1 for implementation in February 2007, (1) the CAISO and market participants would have needed to develop and finalize important design and rule requirements for convergence bidding months ago, and (2) the systems/software requirements necessary to accommodate convergence bidding would have to be completed in time to meet the aforementioned testing schedule. Neither of these preconditions can be satisfied. Indeed, at this point in time, the appropriate design and rules for a convergence bidding mechanism under MRTU have not even been developed. Even assuming *arguendo* that the design of a convergence bidding feature had already been finalized and conceptually approved, it is estimated that incorporation of convergence bidding into MRTU Release 1 at this time would result in a several month delay in the Release 1 implementation schedule. This is due to several factors including, *inter alia*, (1) the extensive developmental efforts already underway and the availability of necessary resources, (2) the amount of work that would need to be done, (3) the existence of pending change orders that are critical to the basic market design, and (4) the testing schedule.

The CAISO is committed to exploring the viability of convergence bidding for possible incorporation into the MRTU design sometime after February 2007. While the CAISO appreciates the Commission’s desire to know “how and when” the CAISO can implement convergence bidding, the CAISO requests that the Commission defer such

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<sup>1</sup> The primary elements of the MRTU market design are identified at pages 24-28 of the Market Design White Paper attached to the CAISO’s May 13, 2005 filing in this proceeding. Pages 29-32 of the Market Design White paper contain a chart showing the status of the various market design elements at the Commission and the next steps for finalizing such design elements.

consideration so that the MRTU Release 1 implementation effort can proceed on schedule.

The CAISO desires to undertake a complete evaluation of the pros and cons of virtual bidding. However, the CAISO cannot make such a reasoned evaluation in a vacuum or in isolation. Rather, that analysis must consider how the overall MRTU design will work in conjunction with the CPUC's resource adequacy rules as well as the CAISO's own evaluation of capacity markets (*i.e.*, long-term resource adequacy). The CAISO has retained experts – LECG – to assist in the evaluation of all of the aforementioned issues. As the CAISO has previously indicated, the earlier LECG Report that was filed with the May 13, 2005 filing did not include a comprehensive evaluation of convergence bidding because that was not part of the MRTU market design at that time. The CAISO also believes that a thorough review of convergence bidding necessarily must include an empirical analysis of the functioning of convergence bidding in other markets (*e.g.*, PJM, NYISO, MISO).

Following completion of the aforementioned studies and analysis, the CAISO will need a few months to identify convergence bidding options, discuss this issue with stakeholders, and develop the rules for any convergence bidding mechanism. The CAISO notes, however, that a CPUC order on resource adequacy is not expected until sometime in October 2005. Accordingly, the CAISO's analysis of resource adequacy and convergence bidding cannot be completed until sometime after issuance of that decision. Upon identification of a preferred convergence bidding design, the CAISO would then need to determine the amount of time that would be necessary to implement such design feature. Important implementation date considerations will include, *inter alia*, when the CAISO can dedicate the necessary additional resources (vendor or otherwise) to develop a convergence bidding feature and determine what an appropriate date for implementation of Release 2 is based on staging (*e.g.*, SAS70) requirements and other constraints.<sup>2</sup>

Under these circumstances, the CAISO proposes to submit to the Commission by March 15, 2006 a date when it might be feasible to implement convergence bidding under MRTU.

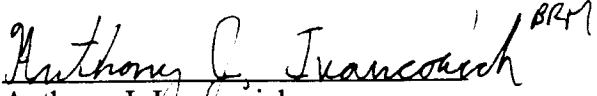
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<sup>2</sup> The CAISO is considering implementation of a number of potential design features in MRTU Release 2. However, MRTU Release 2 is only a generic concept at this time. The CAISO does not yet have a schedule for developing Release 2 elements or for implementing Release 2. For the remainder of this year, the CAISO's resources must be primarily focused on resolving the MRTU Release 1 matters in a timely manner so that the February 2007 MRTU implementation date will not be jeopardized.

## II. SERVICE

The CAISO is serving copies of this filing on all parties on the official service list for the captioned docket. In addition, the CAISO is posting this filing on the CAISO Home Page. If there are questions concerning the filing, please contact the undersigned.

Respectfully submitted,

  
Anthony J. Ivanovich  
Assistant General Counsel,  
Regulatory  
The California Independent System  
Operator Corporation  
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Folsom, California 95630  
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Filed: August 2, 2005

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Folsom, CA, this 2nd day of August, 2005.

*Anthony J. Ivanovich* /BR47  
Anthony J. Ivanovich