

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

California Independent System Operator Corporation)))))	Docket No. ER06-615-000 Docket No. ER02-1656-000
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**INFORMATIONAL FILING OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
TO FACILITATE TECHNICAL CONFERENCE REGARDING ALLOCATION OF
IMPORT CAPACITY FOR RESOURCE ADEQUACY PURPOSES**

The California Independent System Operator Corporation (“CAISO”) submits this informational filing in accordance with its “Motion to Defer Commission Action in Setting Date for Technical Conference and to Shorten Response Time for Answering this Motion,” filed December 1, 2006, in the above-referenced docket (“December 1 Motion”).

I. Introduction

In its September 21 Order in this proceeding, in response to the CAISO’s request, the Commission directed its staff to convene a technical conference to address the allocation of import capacity for resource adequacy purposes under the CAISO’s proposed Market Redesign and Technology Upgrade (“MRTU”) Tariff provisions.¹ The CAISO requested that the Commission defer any immediate action to schedule the technical conference so that the CAISO could submit additional information in advance of the conference. This information will

¹ *California Independent System Operator Corp.*, 116 FERC ¶ 61,274 at P 12236 (2006) (“September 21 Order”).

help parties and Commission staff to prepare for, and enhance the quality of discussion at, the anticipated Commission technical conference.

The December 1 Motion explained the CAISO's position that the tariff language incorporated in its Interim Reliability Requirements Program ("IRRP"), filed June 12, 2006 in Docket ER06-723-000, constitutes a superior framework to proceed to refine the import allocation provisions of the MRTU Tariff, filed on February 9, 2006. Accordingly, the CAISO believes that the Commission staff and interested parties should focus their attention on the IRRP tariff provisions currently in effect, which are described in Section II below and attached as Attachment A.

The IRRP tariff provisions represent a more equitable method for allocating import capacity for resource adequacy purposes than that incorporated in the pending MRTU Tariff. However, the CAISO recognizes that open questions remain. A secondary purpose of this filing, therefore, is to identify areas or issues that should be addressed at the technical conference. This discussion is set forth in Section III below.

II. Background and Explanation of the IRRP Tariff Provisions

The CAISO filed its proposed MRTU Tariff on February 9, 2006. Subsequent to this date on March 13, 2006, the CAISO filed its IRRP tariff provisions to assist in the implementation of state resource adequacy programs prior to the implementation of MRTU. In response to intervenor comments, the CAISO agreed it would "revise the accounting or allocation of import capacity for 2007 so that both CPUC and non-CPUC LSEs are permitted to receive Resource

Adequacy import allocation for their existing resource agreements as of March 10, 2006 (with any remaining import capacity allocated to both CPUC and non-CPUC LSEs based on an LSE's load share to the CAISO control area peak load)."² The Commission's May 12 Order on the IRRP found "the CAISO's proposal for allocation of import capacity in 2007 to be equitable and we accept it."³ However, the May 12 Order was not explicit as to which import allocation proposal for 2007 was accepted – the CAISO's proposal as filed on March 13, 2006 or as expressed in the CAISO's answer to protests and comments. Because the May 12 Order directed "the CAISO to submit revised tariff sheets reflecting the *new* import allocation methodology," the CAISO interpreted the May 12 Order as requiring the import allocation provisions to be modified in accordance with the CAISO's answer.⁴

The IRRP provisions capture the Commission's instructions to first allocate import capacity by honoring, to the maximum extent possible, resource commitments and then distributing remaining import capacity among both CPUC and non-CPUC jurisdictional entities in a uniformly applicable manner using load share ratios. Under its multi-step process, the CAISO initially reserves from the total available import capacity, capacity associated with Existing Contracts (transmission contracts) and other transmission ownership rights. The CAISO next seeks to accommodate existing resource commitments entered into prior to

² Motion for Leave to File Answers Out-of-Time and Answers to Motions to Intervene, Comments and Protests of the California Independent System Operator Corporation, Docket No. ER06-723-000 (April 19, 2006) at p. 35.

³ California Independent System Operator Corporation, 115 FERC ¶ 61,172 (2006) at P 94. (May 12 Order).

⁴ *Id.* at P 96.

March 10, 2006 by allowing all LSEs to identify those existing import resources and assign those resources to specific branch groups. These existing resource commitments will be honored, except where insufficient capacity exists on a particular branch group to accommodate all requests. In that case, the CAISO will allocate the requested resource commitment MW quantities based on the "Import Capacity Load Share" ratio of each LSE submitting such resource commitments on that branch group. Import Capacity Load Share is each LSE's proportionate share of the forecasted coincident peak Load for the ISO Control Area for the next year, as determined by the California Energy Commission (defined as "Coincident Load Share"), relative to the total Coincident Load Share of those LSEs that have requested capacity on that particular branch group. To the extent this allocation does not fully assign the total import capacity for that branch group to the requested existing resource commitments, the remaining capacity will continue to be allocated in the same manner to those LSEs whose submitted requests were not fully satisfied for that branch group through an initial application of the formula.

An example of this allocation methodology is reproduced from the CAISO's transmittal letter with its IRRP compliance filing made on June 12, 2006:

Import Capacity Load Share Method						
Branch Group Limit	1000		Round 1		Round 2	
	Requested Branch Group Capacity	Coincident Load Share	Import Capacity Load Share (Rd.1)	Allocate capacity based on Load Ratio Share	Import Capacity Load Share (Rd.2)	Allocate capacity based on Load Ratio Share
Entity 1	600	70%	82%	600.0		600.00
Entity 2	0	15%	0%	0.0		0.00
Entity 3	500	10%	12%	117.6	67%	266.67
Entity 4	200	5%	6%	58.8	33%	133.33
Total	1300	100%	100%	776.5	100%	1000
Over-Request	300			223.5		0

Following this step, to the extent capacity remains available on particular branch groups, that capacity will be aggregated and allocated to all LSEs based on their respective Coincident Load Shares. Information on the quantity and location of available capacity will be disseminated by the CAISO. LSEs are provided an opportunity to trade this allocation not only to other LSEs, but also to any Market Participant. The inclusion of other Market Participants is consistent with the CPUC's determination regarding the identity of entities that may participate in trading import capacity for resource adequacy purposes.⁵ LSEs and other Market Participants then notify the CAISO where they want their import capacity assigned. Again, to the extent a branch group is over requested, the CAISO will apply the Import Capacity Load Share methodology. Market Participants without a Coincident Load Share will be given a Coincident Load Share equal to the average of the LSEs from which they received their capacity share(s). The CAISO will provide entities with two iterative opportunities to request remaining available import capacity.

III. Areas for Further Inquiry

The Commission has signaled a preference to allocate import capacity on the basis of load share and in a manner that encourages and respects contractual transactions. The CAISO agrees. However, given the transitional nature of the IRRP provisions, import capacity is allocated both on the basis of historic contractual relationships (also Existing Transmission Contracts) and subsequently, to the extent branch group capacity remains available, to all load

⁵ *Opinion of Petition of Pacific Gas and Electric Company for Modification of Decision 05-10-042*, CPUC Decision 06-02-007 (Feb. 16, 2006).

serving entities on a load share ratio basis. The result is that a load serving entity that historically served a high percentage of its load through existing imports contracts could obtain an allocation greatly in excess of its relative share of import capacity based on its aggregate load ratio share. Thus, a central question to resolve is:

- Whether a load serving entity's import allocation should be capped at the greater of the MW quantity of its "grandfathered" import contracts during those contracts' terms or its overall load ratio share of CAISO peak load. In this scenario, when the grandfathered contracts expire, the load serving entity would be limited to its relative load ratio share.
- Further, on a going forward basis, apart from "grandfathered" contracts, should entities be permitted to obtain an allocation priority for contractual relationships that may exceed their load ratio share? And if so, does that allocation have a duration for the subsequent year or up to the term of the contract?

Where a load serving entity's allocation is capped by load share, a trading mechanism for import capacity becomes potentially more important. The CAISO currently contemplates that any import capacity traded would be recognized or have a term that covers the following compliance year. Nevertheless, the CAISO acknowledges that a longer-term product may be beneficial to support longer-term supply contracts. Accordingly, the CAISO would request that comments address:

- Should parties have the ability to trade capacity allocations that are effective beyond the following compliance year? If so, how would that transfer affect the selling entity's load share (presumably it would be reduced based on the sale of rights)?
- How should capacity that is neither traded nor used by a load serving entity be made available to other market participants?
- What should the trading platform look like?

By first recognizing contracts, load serving entities can have a high degree of confidence in receiving import capacity for transactions within their relative load ratio share. However, while contracts will be assigned first priority on any particular branch group, risk continues to remain that a branch group could be over-subscribed by contracts. This raises several issues:

- What aggregated information can the CAISO obtain and publish to provide the market with information to mitigate the risk of over-subscription?
- Should contracts be assigned a queue position by transaction date to resolve conflicts or should contracts be reduced pro rata to resolve over-subscription?

The CAISO anticipates that load share ratios would be calculated on an annual basis to account for potential load migration or growth. This raises the issue regarding:

- How should load share be calculated? On a forecasted or historical coincident peak basis? The CAISO currently anticipates utilizing coincident forecast information prepared by the California Energy Commission.

The CAISO hopes that the foregoing information assists interested parties in preparing for the Commission technical conference.

Respectfully submitted,

/s/ Grant Rosenblum

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Dated: December 11, 2006

Certificate of Service

I hereby certify that I have this day served a copy of this document upon all parties listed on the official service list compiled by the Secretary in the above-captioned proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated this 11th day of December, 2006 at Folsom in the State of California.

/s/ Grant Rosenblum

Grant Rosenblum



California Independent
System Operator Corporation

December 11, 2006

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

Re: California Independent System Operator
Docket # ER06-615
Docket # ER02-1656

Dear Secretary Salas:

Please find enclosed an Informational Filing of The California Independent System Operator Corporation to Facilitate Technical Conference Regarding Allocation Of Import Capacity For Resource Adequacy Purposes in the above-referenced dockets.

Thank you for your attention to this filing.

Respectfully submitted,

/s/ Grant Rosenblum

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