

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

**California Independent System                    )       Docket Nos. ER06-615-012  
Operator Corporation                            )       and ER07-1257-000**

**POST-TECHNICAL CONFERENCE REPLY COMMENTS OF THE  
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION ON  
BUSINESS PRACTICE MANUAL ISSUES**

Pursuant to the “Notice Establishing Post-Technical Conference Schedule” issued in the captioned proceeding on October 2, 2007, the California Independent System Operator Corporation (“CAISO”) here submits its reply comments (“Reply Comments”) to address the comments submitted by a number of parties on November 30, 2007<sup>1</sup> regarding issues concerning the rules, standards, and practices in Business Practice Manuals (“BPMs”) that supplement the detail in the CAISO Tariff<sup>2</sup> to implement the CAISO’s Market Redesign and Technology Upgrade (“MRTU”).<sup>3</sup> Those parties submitted their comments addressing the response that the CAISO filed in this

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<sup>1</sup> The following parties submitted comments: the City of Santa Clara, California (“Santa Clara”), doing business as Silicon Valley Power (“SVP”), and the M-S-R Public Power Agency (“M-S-R”) (jointly “SVP/M-S-R”); Metropolitan Water District of Southern California (“MWD”); Modesto Irrigation District (“MID”); Pacific Gas and Electric Company (“PG&E”); Sacramento Municipal Utility District (“SMUD”); Southern California Edison Company (“SCE”); Transmission Agency of Northern California (“TANC”); and Western Power Trading Forum (“WPTF”).

<sup>2</sup> Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the CAISO Tariff (also known as the MRTU Tariff or the Tariff), and in the BPMs.

<sup>3</sup> The Commission has addressed the provisions of the MRTU Tariff in several major orders over the course of the past year or so: Order Conditionally Accepting the CAISO’s MRTU Tariff, *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274 (2006) (“September 21 Order”); Order Granting in Part and Denying in Part Requests for Clarification and Rehearing, *Cal. Indep. Sys. Operator Corp.*, 119 FERC ¶ 61,076 (2007) (“April 20 Order”); Order on Compliance Filings, *Cal. Indep. Sys. Operator Corp.*, 119 FERC ¶ 61,313 (2007) (“June 25 Order”); *Cal. Indep. Sys. Operator Corp.*, 120 FERC ¶ 61,023 (2007) (“July 6 Order”); *Cal. Indep. Sys. Operator Corp.*, 120 FERC ¶ 61,271 (2007) (“September 24 Order”); and *Cal. Indep. Sys. Operator Corp.*, 121 FERC ¶ 61,030 (2007) (“October 15 Order”).

proceeding on November 15, 2007 (“November 15 Response”) following the technical conference held in the proceeding on September 26-27, 2007 (“September Technical Conference”).

As explained below, the Commission should find the CAISO has complied with the Commission’s “rule of reason” and with the Commission’s findings in the September 21 Order that all details in the BPMs do not need to be included in CAISO Tariff. As to the issues concerning specific BPMs, the Commission should generally approve the revisions to the CAISO Tariff that the CAISO proposes in the instant Reply Comments.<sup>4</sup> Moreover, the Commission should find that the CAISO is justified in declining to make certain revisions to the CAISO Tariff and the BPMs that parties propose, for the reasons discussed below.

## **I. REPLY COMMENTS**

### **A. All Capitalized Terms Used in the BPMs Will Be Defined in the Definitions and Acronyms BPM**

In its comments, TANC states that the CAISO should use the same terms and phrases used in the MRTU Tariff in the corresponding sections of the BPM. For example, TANC states that “Allocation Eligible Entities” is used in the BPMs but is not defined in the MRTU Tariff or the Definitions and Acronyms BPM.<sup>5</sup>

The CAISO recognizes that several capitalized terms used in the BPMs do not currently appear in the Definitions and Acronyms BPM. The CAISO is in the process of

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<sup>4</sup> These proposed revisions are contained in Attachment A to the instant Reply Comments.

<sup>5</sup> TANC at 15-16.

updating that BPM, and commits to include in that BPM definitions of all of the capitalized terms that appear in the various other BPMs.<sup>6</sup>

**B. The CAISO Will Consider Stakeholder Input in Further Developing the BPM Mapping Document, but the Details of That Document Are Outside the Scope of the Commission's Review**

As discussed during the September Technical Conference and in its November 15 Response, the CAISO is prepared to assist Market Participants and interested parties in identifying the applicable BPM that contains the implementation detail for a given CAISO Tariff provision through a mapping table that will be posted on the CAISO Website, and will map references to the BPMs in the CAISO Tariff to the titles of the relevant BPMs. This approach appeared to be generally acceptable to interested parties during the September Technical Conference.<sup>7</sup>

Several parties (PG&E, MID and TANC) suggest specific changes and propose additional features for the mapping table. For instance, PG&E recommends that the mapping table identify each BPM reference in the Tariff, and map that reference not just to a specific BPM, as suggested by the CAISO, but further to the specific section or sections of the BPM that are relevant to the Tariff reference being addressed.<sup>8</sup> MID and TANC contend that the mapping table will be useful only if it were posted on the CAISO website with links to the MRTU Tariff, if it were updated with each Tariff or BPM

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<sup>6</sup> The CAISO notes that updates to the Definitions and Acronyms BPM have necessarily lagged updates to the substantive BPMs.

<sup>7</sup> The CAISO also is posting a related mapping document which lists all references to the CAISO Tariff in the BPMs. The CAISO will update this document based on the versions of the BPMs posted on November 15, 2007. The CAISO will post the mapping document as soon as possible and apologizes for the delay.

<sup>8</sup> PG&E at 8.

change, and if it were complete such that all BPM provisions pertinent to any Tariff section are cross-referenced.<sup>9</sup> MID and TANC also state that if the Commission approves the CAISO's proposal, it should require that the CAISO post or link the mapping table with the CAISO's Tariff on the website, and that the mapping table be comprehensive and be updated when any BPM or Tariff change is made effective.<sup>10</sup>

The CAISO is willing to discuss with stakeholders potential changes or enhancements to the mapping table in order to make that document as useful as possible to Market Participants. However, because this document will not be part of a Commission-jurisdictional tariff, the question of what features the mapping table will possess is one that is properly reserved for the CAISO to decide, in conjunction with stakeholders. The Commission should decline to address what form the mapping table will take.

**C. The CAISO is Not Attempting to Improperly Narrow the Scope of the BPM Technical Conference to be Held After MRTU Implementation**

In its November 15 Response, the CAISO noted that during the September Technical Conference, other participants and Commission Staff agreed to schedule an additional technical conference approximately six months after MRTU implementation where parties will have a final opportunity to identify any details in new or revised BPM language developed after November 15 which commenters believe should be added to the CAISO Tariff. The CAISO also noted that it had agreed to this approach based on the understanding that, after this additional technical conference, any party alleging that

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<sup>9</sup> MID at 12; TANC at 15.

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

details in BPMs should be moved to the Tariff will have the opportunity to raise this issue only through the CAISO stakeholder process or through a complaint filed under Section 206 of the Federal Power Act.

WPTF now seeks to expand the scope of this post-implementation technical conference to address both the language added to the BPMs after November 15 and the existing provisions in the BPMs.<sup>11</sup> The CAISO urges the Commission to reject this request. WPTF provides no compelling reason for revisiting Tariff/BPM split issues that have already been subject to review and comment by stakeholders and that parties have had the opportunity to bring before the Commission. WPTF contends that failing to address such issues “would just leave the Tariff ambiguous or silent about important terms and conditions.” The CAISO fails to see how this can be the case, however, given the extensive review process that has included multiple drafts of BPMs and tariff language, numerous stakeholder meetings, written responses by the CAISO to stakeholder questions and concerns, a technical conference, and the opportunity for multiple rounds of comments before the Commission. In short, parties have had adequate opportunity to voice any concerns they might have with respect to all of the language added to the BPMs through November 15.

WPTF also suggests that limiting the post-implementation technical conference to BPM language added after November 15 would be inconsistent with the process established by the Commission in the September 21 Order.<sup>12</sup> However, the September 21 Order did not even mention a second technical conference. The process that the

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<sup>11</sup> WPTF at 33-35.

<sup>12</sup> *Id.* at 34.

Commission envisioned in the September 21 Order was one in which a technical conference would be convened after the CAISO had completed the BPM stakeholder process to assist the Commission in its determination as to what, if any, details in the BPMs should be included in the MRTU Tariff. It is for this reason that the CAISO recognized the utility in convening an additional technical conference in order to address any additions to the BPMs that occur after November 15. It would be extremely inefficient, however, to allow parties to re-open at that time BPM/tariff split issues as to which they have already had the opportunity to bring the Commission's attention, and the CAISO has serious reservations that a technical conference with such a "kitchen sink" agenda would be productive and useful. It is for this reason that the CAISO conditioned its support for a post-implementation technical conference on the understanding that the scope of such a conference would be limited to issues relating to BPM provisions added after November 15.

WPTF's argument also fails to take into account the fact that parties will still be able to raise issues regarding BPMs in the context of the CAISO's BPM change management and general stakeholder processes, and if necessary, through a Section 206 complaint to the Commission. In short, limiting the scope of the post-implementation technical conference to BPM language added after November 15 will not deprive parties of the opportunity to raise Tariff/BPM split issues with respect to existing BPM provisions.

**D. The CAISO Appropriately Included in its November 15 Filing Proposed Tariff Modifications not Specifically Discussed at the September Technical Conference**

WPTF argues that certain of the CAISO’s proposed Tariff modifications as set forth in its November 15 Response are unwarranted because they were not specifically raised at the BPM Technical Conference, and requests that the Commission reject any of the CAISO’s proposed changes to the MRTU Tariff “that cannot be directly mapped to a specific, substantive issue filed by a party in connection with the BPM technical conference at this time.”<sup>13</sup> Similarly, MWD states that if the CAISO is seeking approval of more tariff revisions in its November 15 Response, MWD objects to limited time to review the numerous changes which relate to rules for Energy Bids, Ancillary Services (“AS”) Bids, and Bid submission and validation, which appear to come from the CAISO’s review with its independent contractor, Science Applications International Corporation (“SAIC”), and not through the stakeholder process.<sup>14</sup>

The CAISO believes that it is appropriate to raise and resolve all Tariff/BPM split issues as soon as possible, including those that were not explicitly addressed at the September Technical Conference. Doing so is consistent with the purpose established by the Commission for the BPM technical conference – namely to include in the Tariff details from the BPMs as appropriate. Other parties have not interpreted this process so narrowly as to prevent them from raising comments concerning Tariff/BPM split issues that were not specifically addressed at the September Technical Conference. Also, there

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<sup>13</sup> *Id.* at 31-33. This argument by WPTF is rather ironic given WPTF’s insistence that the CAISO take a more proactive role in identifying necessary tariff modifications, so as not to place the burden of identifying such changes on stakeholders.

<sup>14</sup> MWD at 3.

is no functional difference between the CAISO including additional tariff language in its November 15 filing, and the proposals raised by other parties in their post-technical conference comments.

The CAISO submits that it should be under the same compliance obligation to include in the Tariff additional details that SAIC might recommend or that the CAISO concludes should be in the Tariff based on application of the rule of reason as would be all parties to this proceeding pursuant to the procedural schedule discussed at the September Technical Conference. Specifically, six months after MRTU start-up, all parties could again propose under this proceeding any additional detail they believe should be in the Tariff.

The CAISO has in multiple instances reported to its stakeholders and the Commission that it has engaged independent outside consultants to ensure that the MRTU Tariff, the BPMs, and the CAISO's software are consistent with one another, and to make recommendations for including additional, appropriate detail in the MRTU Tariff. A critical component of this review effort is SAIC's review of the MRTU Tariff, the BPM for Market Operations, and the rules and tests applicable to the Scheduling Infrastructure Business Rules ("SIBR"), unlike the PricewaterhouseCoopers ("PWC") audit discussed below. This review is being conducted for the very purpose of making specific recommendations to the CAISO when SAIC concludes that details might more appropriately be included in the MRTU Tariff rather than in the BPMs. In addition, the modifications made by the CAISO to the MRTU Tariff in response to recommendations from SAIC do not represent new rules or policies, but rather consist of additional details relating to SIBR bidding rules and consolidating AS provisions in order to reduce



inconsistencies and redundancies. The SIBR rules that form the basis of several of the additions to the MRTU Tariff recommended by SAIC have been in existence for many months now, and have been fully available to stakeholders during this time. Therefore, there is no basis for an argument that this material is somehow new. As a result, WPTF and MWD's arguments should be denied.

**E. Issues Relating to the BPM for Settlements and Billing**

**1. The CAISO's Process for Determining What Additional Settlements Detail Should be Included in the MRTU Tariff Has Been Sufficient and Effective**

In its discussion of the BPM for Settlements and Billing, WPTF makes a number of general arguments concerning the sufficiency of the CAISO's process to determine the appropriate level of detail to be included in the MRTU Tariff. Taken as a whole, these arguments are confusing, sometimes contradictory, and unconvincing. WPTF asserts, for instance, that the Commission should reject the CAISO's arguments that the Tariff language related to settlements meets the rule of reason, there are no systemic deficiencies with the Tariff language, and that the current process for resolving such deficiencies works well, based on the fact that the CAISO has agreed, in response to comments from WPTF and other Market Participants, as well as through its own initiative, to add additional language to the MRTU Tariff, or to resolve inconsistencies between the Tariff and the BPMs, and within the BPMs themselves.<sup>15</sup> As the CAISO explained in its November 15 Response, the CAISO and stakeholders have been engaged in reviewing the provisions of the MRTU Tariff and BPMs throughout the development of MRTU. Throughout this process, the CAISO has considered and responded to literally

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<sup>15</sup> WPTF at 22-23.

hundreds of stakeholder inquiries and suggestions. The fact that in certain cases the CAISO has agreed to make modifications to the MRTU Tariff or the BPMs does not point to some deficiency in the process, but rather demonstrates that the process is working as intended.

The MRTU Tariff and the BPMs are the fruits of a massive market redesign effort that has been ongoing for several years now. It is incomprehensible to think that these documents, which number in the many hundreds of pages, would be entirely unsusceptible to improvement and clarification as of the first draft. WPTF, however, finds this fact alone to be evidence that the Tariff and BPMs suffer from some sort of comprehensive flaw. Upon closer examination, however, WPTF's real quarrel with the CAISO's process appears to be simple dissatisfaction with the fact that the CAISO has not elected to adopt all of WPTF's recommendations. This, however, is not indicative of any deficiency in the CAISO's process. Rather, what is most telling is *whether and how* the CAISO has addressed parties' recommendations. The fact that the CAISO has considered and responded to a multitude of comments, questions, and suggestions raised by parties throughout this process, including WPTF, strongly suggests that the process is operating exactly as the Commission intended when it directed the CAISO to work with stakeholders to develop the BPMs and to determine what, if any, additional detail should be included in the MRTU Tariff as a result of the BPM development process.<sup>16</sup>

WPTF also contends that Market Participants should not be required to "bear the burden of finding settlements errors, inconsistencies, and deficiencies and raising them in

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<sup>16</sup> See September 21 Order at PP 1370-71.

audits and stakeholder review.”<sup>17</sup> The CAISO agrees, and to this end, has been active in performing its own analyses and assessments of the provisions of the MRTU Tariff and the BPMs. The CAISO finds it hard to believe that WPTF, given its active participation in this process, wishes the CAISO to cease consulting with stakeholders and soliciting their input with respect to issues concerning Tariff and BPM language altogether.

Rather, upon closer examination, it appears what WPTF is requesting is that the CAISO develop perfect or near-perfect documents and only then submit them for stakeholder feedback. Such a process would be very inefficient, as it would exclude stakeholder input during the formative stages of policy development and implementation, which would lead to less robust and well-ventilated proposals. Moreover, the CAISO submits that stakeholders are themselves better served having been informed and consulted at an early stage, as the CAISO has done throughout this process, as it has provided them with more opportunities to learn, comment, test, and develop their own systems.

WPTF also raises issues concerning the audit being performed by PWC of the CAISO’s settlement Charge Codes. First, WPTF contends that although the PWC audit may be intended to ensure that the Charge Codes are consistent with the MRTU Tariff, there is no indication that the audit currently addresses whether the level of detail or specificity in the Tariff is sufficient, and argues that the Commission should direct the CAISO to amend the scope of the PWC audit accordingly.<sup>18</sup> WPTF’s argument reflects a fundamental misunderstanding of the audit process. First, PWC is not an expert on the subject of tariff drafting or determinations as to whether a particular detail should or

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<sup>17</sup> WPTF at 23-24.

<sup>18</sup> *Id.* at 24-25.

should not be in the tariff. Second, PWC's audit is not a readiness requirement but, rather, an activity that the CAISO undertakes pursuant to Section 11.29.5.4 of its existing Tariff to ensure that the settlements system software it uses will calculate charges and payments consistent with the provisions set forth in the Tariff. It is appropriate pursuant to the MRTU Tariff that the CAISO perform an audit at this juncture because of the major settlements-related software changes associated with the implementation of MRTU. Also, pursuant to the provisions of Section 11.29.5.4 the PWC audit will not explicitly examine the question of whether the level of detail in the MRTU Tariff is sufficient, any inconsistencies revealed by the audit will result in curative tariff modifications, *i.e.*, the inclusion of additional or modified tariff language, as appropriate. Finally, it is very important to recognize that PWC was hired for a specific purpose as discussed above and its scope was set accordingly. These types of audit services are not provided at insignificant costs and the CAISO has taken all actions to ensure that PWC's scope of work meets the needs it is trying to address specifically. Expanding the scope of PWC at this time would require significant re-evaluation of the cost for its services, which without a doubt would increase substantially. The CAISO believes that given all the measures it has taken to review its Charge Codes both internally and externally with its stakeholders as it has described in this pleading and in prior pleadings in this proceeding it is not just and reasonable to force the CAISO to incur such an increase in costs. For all of these reasons, it would be inappropriate and unnecessary for the Commission to direct any changes to the scope of the PWC audit.

Further, WPTF states that the CAISO "has refused even WPTF's modest request that the CAISO make public any interim findings" from the audit. WPTF requests that

the Commission direct the CAISO to make available to Market Participants any and all interim findings provided to the CAISO by PWC during its audit, and if PWC or the CAISO assert that these reports contain information they consider confidential or proprietary, Market Participants should nonetheless be able to obtain copies through a non-disclosure agreement process.<sup>19</sup> The CAISO has declined WPTF's request to make interim audit findings public for the very simple reason that PWC treats as confidential any preliminary findings that PWC makes, and the CAISO has no authority to require PWC, as an independent auditor, to modify its own business practices. The CAISO notes, however, that PWC's final report will be made available to the public and, in addition, the CAISO will be providing the CAISO Governing Board with a status report of the audit in January 2008.

## **2. Issues Concerning Purported Inconsistencies between the MRTU Tariff and the BPM for Settlements and Billing**

PG&E asserts that it has found several instances in which the MRTU Tariff and the BPM for Settlements and Billing are inconsistent.<sup>20</sup> First, PG&E proposes revisions to Sections 11.5.6.2.3 and 11.5.8.1.1 of the MRTU Tariff so that the Tariff conforms with Charge Codes as described in the BPM. The CAISO believes that the existing MRTU Tariff language is consistent with the BPM, but nevertheless the CAISO has no objection to making the Tariff changes PG&E proposes because they will add more clarity and specificity to the Tariff.

Also, PG&E asserts that the descriptions of certain Charge Codes in the BPM should be modified to be consistent with Tariff Section 11.10.7 concerning the allocation

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<sup>19</sup> *Id.* at 24.

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

of costs associated with Voltage Support.<sup>21</sup> Further, SCE notes that the CAISO stated that it is revising Section 11.10.7 based on a WPTF comment regarding one of the BPM Configuration Guides. SCE argues that a BPM Configuration Guide should not provide the rationale for changing the MRTU Tariff but rather should be written to be consistent with the Tariff, and that the revision to Section 11.10.7 represents a change to a previously resolved matter.<sup>22</sup> In this regard, the CAISO notes that it submitted proposed tariff language that would change the filed cost allocation from system-wide to an allocation of the costs to the Participating Transmission Owner (“PTO”) where the Voltage Support is required to be consistent with language in the BPM. The CAISO agrees that this revision is unrelated to MRTU and would further require approval of the CAISO Governing Board and a tariff amendment filing. Accordingly, the CAISO agrees that it is the BPM that should change in this instance and will withdraw the proposed Tariff revision.

### **3. Issues Concerning the BPM Configuration Guides**

SCE states that it recommends use of the practice evidenced in the BPM Configuration Guide for Charge Code 6788 of using a revision history log.<sup>23</sup> This recommendation is outside of the scope of the instant proceeding, and therefore the Commission should not require the use of such a log. Moreover, the CAISO plans to maintain all versions of the BPMs (including superseded versions) on the CAISO

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<sup>21</sup> *Id.*

<sup>22</sup> SCE at 13.

<sup>23</sup> *Id.* at 11.

Website. This practice will allow stakeholders to see the progression of revisions to the BPMs, and therefore will serve the same purpose as a revision history log.

SCE also argues that, prior to communicating and distributing updated documents, the CAISO should ensure that the BPM Configuration Guides are synchronized with Settlements & Market Clearing (“SaMC”) specifications. SCE asserts that there is continued inconsistency between the BPM business names found in the Configuration Guide formulas and the Bill Determinant names in the SaMC system equations for many of the settlement Charge Codes.<sup>24</sup> This issue, too, is outside the scope of the instant proceeding. However in response to SCE’s concerns, the CAISO notes that there are two reasons why there might, at present, be inconsistencies between the Configuration Guide formulas and the Bill Determinant names in SaMC. First, the Configuration Guides as posted represents the most current design version of the SaMC system, that is, what the system is developed to match. The updating of the Configuration Guides and design and implementation of those updates in the SaMC system are done in parallel. However, because updating the SaMC software necessarily takes longer than changing the text in the Configuration Guides, the system configuration sometimes lags behind the Configuration Guides. Another possible reason for the “inconsistencies” reported by SCE is that the Configuration Guides reflect formulation generically, from a requirements perspective. How these formulas are implemented will vary from computer system to computer system. The result may be the addition of a formula to the software and hence the creation of an extra Bill Determinant. However,

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<sup>24</sup> *Id.* at 11-12.

this does not impact the ultimate Charge Code calculation as these types of refinements pertain to software configurations.

Nonetheless, the CAISO has designed one short-term solution and is considering long-term solutions to address this issue. First, in the short-term, the CAISO is providing the Billing Determinant Matrix posted at <http://www.caiso.com/1bd7/1bd7ebbc72fc0.html>, which provides participants the Bill Determinant names and links these specifically to the business name. In the longer term, the CAISO is considering the adoption of a recommendation by participants to include a column in the configuration output file that would include the business name for each bill determinant. In addition, the CAISO will be converting the requirements and design documents so that they are fully visible and can be mapped to the Configuration Guides.

**F. Issues Relating to the BPM for BPM Change Management**

**1. The Entire BPM for BPM Change Management Should Not Be Included in the MRTU Tariff**

Several parties reiterate arguments, which were previously made in response to the CAISO's August 3, 2007 filing in this proceeding ("August 3 Filing"), that the CAISO should be required to include the entire BPM change management process (*i.e.*, the entire BPM for BPM Change Management) in the MRTU Tariff.<sup>25</sup> The CAISO has addressed these arguments before. As the CAISO explained in its October 5 Reply Comments (at 54-56), the MRTU Tariff already includes ample detail for the Commission to approve the CAISO's BPM change management process consistent with

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<sup>25</sup> MID at 5-9; SMUD at 2-3; TANC at 9-12. A number of parties filed comments, protests, and other submittals concerning the August 3 Filing on September 7, 2007, including with regard to BPM issues. On October 5, 2007, the CAISO submitted reply comments in response to those filings ("October 5 Reply Comments").



the rule of reason. In Order No. 890, the Commission made it clear that it will continue to apply its rule of reason in a manner that would not require all of a transmission provider's business practices to be included in its tariff:

The Commission disagrees with parties arguing that all of a transmission provider's rules, standards, and practices should be incorporated into its OATT. We believe that requiring transmission providers to file all of their rules, standards and practices in their OATTs would be impractical and potentially administratively burdensome.<sup>26</sup>

Moreover, as the CAISO noted, the Commission did not conclude that the CAISO must include the BPM change management process in its Tariff, but instead accepted a CAISO proposal to include this process in its Tariff.<sup>27</sup> The CAISO explained that it did not intend, as part of that proposal, to include detail in the Tariff that exceeded the detail required under the rule of reason or that would be administratively burdensome. The CAISO further noted that it added a large amount of detail to the Tariff concerning the BPM change management process based on stakeholder comments prior to the August 3 Filing, and added language to the Tariff providing that the BPM for BPM Change Management itself can be changed only with CAISO Governing Board approval but cannot be altered by CAISO management.

The CAISO also explained that the MRTU Tariff already contains more detail on manual change management procedures than other ISO or RTO tariffs and that, indeed, some other ISOs and RTOs have not included any details on their manual change

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<sup>26</sup> *Preventing Undue Discrimination and Preference in Transmission Service*, Order No. 890, 72 Fed. Reg. 12,266 (Mar. 15, 2007), FERC Stats. & Regs., Regs. Preambles ¶ 31,241, at P 1651 (2007) (“Order No. 890”).

<sup>27</sup> See September 21 Order at PP 1368, 1371.

management procedures in their tariffs.<sup>28</sup> Moreover, in Order No. 890, the Commission required public posting of “a transparent process for amending rules, standards, and practices previously posted by a transmission provider” but did not require that this process be included in the transmission provider’s tariff.<sup>29</sup> The CAISO stated that this is the standard against which any application of the rule of reason should be judged.

The CAISO reiterated many of the arguments discussed above in the November 15 Response (at 31-32) to address parties’ assertions that the BPM for BPM Change Management should be filed as part of the MRTU Tariff. As discussed at pages 32-36 of the November 15 Response, the CAISO also proposed to add to the MRTU Tariff a number of provisions and concepts found in the BPM for BPM Change Management.

For the reasons explained above, and especially given the further MRTU Tariff additions the CAISO proposes, the level of detail in the Tariff is sufficient to satisfy the rule of reason. Therefore, the entire BPM for BPM Change Management does not need to be added to the MRTU Tariff.

## **2. No Further Revisions Are Required to Tariff Section 22.11.1**

MID and TANC argue that, in the November 15 Response, the CAISO erroneously deleted from Tariff Section 22.11.1.1 a sentence stating that the CAISO may, as appropriate, prepare an impact analysis for BPM Proposed Revision Requests (“PRRs”) submitted by other entities eligible to submit BPM PRRs.<sup>30</sup> There is no need to

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<sup>28</sup> For example, changes to the Midwest ISO’s business practice manuals are governed by the “Stakeholders Governance Guide” not approved by the Commission. Changes to the NYISO manuals are governed by the “NYISO Manual Review, Revision and Approval Process” document which is also not approved by the Commission.

<sup>29</sup> Order No. 890 at P 1655.

<sup>30</sup> MID at 9-10; TANC at 12-13.

reinstate the sentence. The CAISO deleted it in order to streamline the Tariff provisions and eliminate unnecessary language.<sup>31</sup> As MID and TANC themselves point out, other provisions in the MRTU Tariff (*e.g.*, Tariff Section 22.11.1.4(b)) concern the circumstances in which the CAISO will perform an impact analysis for BPM PRRs. Moreover, even without the sentence in the MRTU Tariff, there is nothing that prevents the CAISO from preparing such an impact analysis.

PG&E states that it generally agrees with the proposed MRTU Tariff changes contained in the November 15 Filing that are related to the BPM for BPM Change Management, which include most of the Tariff changes that PG&E suggested in its September 7 comments. However, PG&E also reiterates the argument from its September 7 comments that Tariff Section 22.11.1.5 should be modified to state that the CAISO will provide a minimum of 10 Business Days for stakeholders to submit written comments regarding a BPM PRR, unless a shorter comment period is necessary to address an urgent request for a BPM revision pursuant to Tariff Section 22.11.1.8.<sup>32</sup>

There is no need to make the changes to Section 22.11.1.5 that PG&E suggests. The version of Section 22.11.1.5 contained in the November 15 Response already states that the CAISO will provide a 10 Business Day comment period unless otherwise specified in a Market Notice. This language mirrors the language of Section 2.4.4 of the BPM for BPM Change Management as it has read since June 2007. Also, as PG&E acknowledges, it is appropriate for the CAISO to have the authority reflected in proposed Section 22.11.1.8 to implement a written comment period of less than 10 Business Days

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<sup>31</sup> See November 15 Response at 35-36.

<sup>32</sup> PG&E at 4-5.

when circumstances require it.<sup>33</sup> Because the CAISO already has the authority to require an expedited comment period, there is no value to modifying Section 22.11.1.5 as PG&E suggests. Further, as the CAISO explained in the November 15 Response, it anticipates that it will need to depart from the normal written comment period of 10 Business Days only in rare circumstances.<sup>34</sup> The CAISO recognizes that the BPM PRR process will not work properly unless stakeholders have sufficient time (or at least as much time as can be afforded) to provide comments. Therefore, the Commission should reject PG&E's suggested changes to Section 22.11.1.5.

For similar reasons, the Commission should not require PG&E's suggested changes to the proposed language in Tariff Section 22.11.1.4 stating that written comments regarding a completed BPM PRR impact analysis must be submitted within 10 Business Days or otherwise as specified in a Market Notice.<sup>35</sup> The CAISO anticipates that only in rare circumstances will it need to deviate from the normal written comment period of 10 Business Days for comments on a completed BPM PRR impact analysis.

There is also no need to make PG&E's suggested changes to Tariff Section 22.11.1.5 regarding the time period for stakeholders to provide written comments on reports containing the BPM change management coordinator's recommendations for action on pending BPM PRRs.<sup>36</sup> Section 22.11.1.5 already states that such reports "shall be published in a timeframe that allows interested stakeholders a meaningful opportunity to provide written comment" and that the BPM change management coordinator "shall

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<sup>33</sup> *Id.* at 5.

<sup>34</sup> November 15 Response at 32-33.

<sup>35</sup> PG&E at 6.

<sup>36</sup> *Id.*

publish a final decision on any BPM PRR *after considering stakeholder comments* and all relevant impacts on their business needs” (emphasis added). Further, Section 2.4.5 of the BPM for BPM Change Management requires that stakeholders provide written comments on such reports within 10 Business Days of the Report posting or otherwise as specified in a Market Notice. Therefore, stakeholders will have sufficient opportunity to comment on such reports unless any rare circumstances arise that require the CAISO to shorten the comment period.

MID and TANC argue that the CAISO should delete from Tariff Section 22.11.1.7 (and from Section 2.6 of the BPM for BPM Change Management) the provision stating that emergency circumstances in which the CAISO may take expedited action to change or clarify a provision of a BPM include whenever the CAISO determines in good faith that a failure to implement such a change or clarification would substantially and adversely affect “security or the competitiveness or efficiency of the CAISO Market.”<sup>37</sup> This provision is necessary to ensure that the CAISO has sufficient authority to take expedited action in emergency circumstances, and thus deletion of the provision could leave the CAISO without the ability to change or clarify BPM language when necessary and is similar to authority of other ISOs and RTOs. Moreover, the CAISO proposed to include this language in the August 3 Filing, and thus, protests concerning this language should have been raised in response to that filing, rather than in the current process.

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<sup>37</sup> MID at 10; TANC at 13-14.

**G. The Commission Should Not Require Any Modification to the CAISO’s Rules for Scheduling Transmission Maintenance Outages, as Set Forth in the BPM for CRRs and the BPM for Outage Management**

Several parties raise issues regarding the CAISO’s rules with respect to the scheduling of transmission outages of “Significant Facilities” to support the CAISO’s responsibility to ensure revenue adequacy of Congestion Revenue Rights (“CRRs”). WPTF contends that the Commission should direct the CAISO to include in the MRTU Tariff descriptive policies that underlie the new language that the CAISO has added to the BPM for Congestion Revenue Rights.<sup>38</sup> Generally speaking, it is inappropriate for WPTF to raise, at this time, arguments such as this concerning the level of detail in the MRTU Tariff with respect to which transmission outages must be requested 30 days in advance. In the April 20 Order, the Commission recognized and accepted the CAISO’s proposal to include in a BPM, rather than in the tariff, the criteria used to determine what constitutes a “significant transmission outage.”<sup>39</sup> Therefore, WPTF’s argument that the CAISO should include additional detail in the MRTU Tariff regarding the criteria used to determine which outages are covered under the 30-day rule constitutes a collateral attack on the April 20 Order, and should be rejected accordingly.

Moreover, the rationales presented by WPTF to support its argument that the 30-day criteria should be included in the Tariff are without merit. First, WPTF contends that for facilities that are granted an exemption under the criteria set forth in the BPM for Outage Management, Market Participants other than PTOs would be provided with little

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<sup>38</sup> WPTF at 25-26.

<sup>39</sup> See April 20 Order at P 646.

or no notice when a facility outage is scheduled.<sup>40</sup> This is incorrect. For facilities that are exempt from the 30-day rule the outage scheduling rules will remain the same as they exist under the CAISO's current market, *i.e.*, maintenance outages must be requested at least 72 hours in advance, absent a forced outage. In any event, it is important to keep in mind that the 30-day rule approved by the Commission was not for the purpose of providing notice to the market when a facility is scheduled out, but for the purpose of allowing the CAISO to more accurately model outages in the monthly CRR process to minimize the risk of CRR revenue inadequacy.

WPTF also argues that the test used by the CAISO to determine whether Significant Facilities can be exempted from the 30-day rule does not protect individual Market Participants from harm because it uses revenue adequacy as the determining metric, rather than considering how the charges and payments to individual Market Participants will change.<sup>41</sup> This argument reflects a fundamental misunderstanding of how the revenue adequacy guarantee will operate under MRTU. The charges and payments to individual Market Participants are not relevant criteria in determining exemptions from the 30-day rule, because there are no differential impacts on individual Market Participants. Under the "full funding" of all CRRs approach, the CAISO will ensure that all CRRs will be settled at their full value by allocating any necessary costs due to revenue inadequacy to Measured Demand.

Finally, WPTF contends that the CAISO's proposal for granting exemptions to Significant Facilities does not appear to be open to stakeholder participation or

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<sup>40</sup> WPTF at 26.

<sup>41</sup> *Id.*

stakeholder comments.<sup>42</sup> This is flatly wrong. As explained in previous filings, the CAISO has conducted a comprehensive stakeholder process relating to CRR issues, including rules for scheduling significant transmission maintenance outages. In its July 20, 2007, compliance filing in Docket No. ER07-869, the CAISO detailed the various stakeholder activities that it had engaged in relating to several CRR rules, including the 30-day rule. These activities consisted of the CAISO circulating issues papers, draft proposals, and draft tariff language, the opportunity for parties to submit written comments on these documents, and meetings with stakeholders to discuss their feedback.

The CAISO has engaged in additional stakeholder process addressing the 30-day rule after the July 20 compliance filing. The CAISO held conference calls with the Transmission Maintenance Coordinating Committee (“TMCC”) on July 30 and August 17, and posted the criteria it will use to determine which outages fall under the 30-day reporting rule in its BPM for Outages on September 8, 2007. On November 8, 2007, the CAISO posted a discussion paper concerning the methodology it would use to determine what outages would be exempt from the 30-day rule based on the criteria provided in the BPM for Outage Management. Throughout this process the CAISO considered and proposed various options on the criteria, and, in addition, as the concept of the need for exceptions developed, the CAISO specifically solicited input from stakeholders on how the exceptions list should be developed. The CAISO did finally post its own proposal finding that it had not received any suggestions and also that it needed to close this issue soon so that participants could evaluate for their own purposes the complete package. On

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<sup>42</sup> *Id.*



November 13, 2007, the CAISO held a conference call specifically to discuss its exceptions list methodology and has now included that detail in the BPM for CRRs.

This lengthy and extensive stakeholder process for the purposes of developing the definition of Significant Facilities and any exceptions to the 30-day rule has provided Market Participants ample opportunity to provide input and influence the CAISO's direction on this issue. Moreover, the CAISO has repeatedly made clear to stakeholders, in meetings and in the text of the BPM for CRRs, that as it gathers more empirical data, it will analyze and evaluate how outages of specific facilities impact revenue adequacy, and if further refinement is necessary then the CAISO will implement a stakeholder process to review the results and discuss other options. Thus, the CAISO has and will continue to provide stakeholders ample opportunity to comment and participate in the definition of these criteria, which the CAISO anticipates will change over time.

TANC states that the CAISO seemingly agreed with TANC that a discrepancy existed in the first sentence of the BPM for CRRs as to the term "CRR Year One" and "immediately previous year," because the CAISO provided an explanation that "CRR Year One" is a defined term that means the first period of time for which the CAISO conducts an annual CRR Allocation.<sup>43</sup> However, TANC states that CAISO's response does not resolve TANC's concern regarding BPM/tariff consistency because the BPM indicates that for every year subsequent to CRR Year One, the CRR Holder will be able to reacquire only those CRRs that were allocated in CRR Year One, whereas the MRTU Tariff Section provides that for every year subsequent to CRR Year One, the CRR Holder may nominate those CRRs that were allocated in the immediately previous year, which

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<sup>43</sup> TANC at 17.

must be an unintended result.<sup>44</sup> The CAISO had intended to change the BPM for CRRs as follows and will do so in subsequent releases: “The Priority Nomination Process (PNP) provides a means for AEEs that participated in the CRR Allocation in a given year to re-acquire in the immediately subsequent year the CRRs that were allocated to them in the immediately previous year (See CAISO Tariff § 36.8.3.5.1).”

PG&E and SCE argue that the transmission maintenance outage scheduling requirements will impose a severe burden on them because of the number of outages that will need to be reported.<sup>45</sup> As a general matter, such arguments are beyond the scope of this proceeding, which was established to determine the appropriate level of detail from the BPMs that should be incorporated into the Tariff. As noted above, the Commission has already found that details concerning what constitutes a Significant Facility, for purposes of transmission outage scheduling, properly reside in the BPMs and not in the MRTU Tariff. PG&E and SCE do not appear to contest the inclusion of these details in the BPM, but rather, take issue with the language of the BPM for CRRs and BPM for Outage Management themselves. However, the terms of the BPMs are not the subject of the instant proceeding, and indeed, are beyond the scope of the Commission’s review. Issues concerning BPM provisions are appropriately dealt with through the CAISO’s stakeholder process, which, as described above, has been extensive with regard to addressing transmission outage scheduling issues.

That said, having raised their concerns regarding the CAISO’s proposal, the CAISO feels compelled to respond to the substantive arguments made by PG&E and

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<sup>44</sup> *Id.* at 17-18.

<sup>45</sup> PG&E at 2-3; SCE at 3.

SCE. Before addressing the specific criticisms raised by PG&E and SCE, however, there are several general concepts that should be understood.

First, the CAISO's definition of Significant Facilities, and the exemptions thereto, represent a starting place only, and will be reevaluated later based on actual market data. Several parties have argued through the stakeholder process that the CAISO should perform this analysis in advance of MRTU start-up to justify the specific 30-day rule criteria by demonstrating that the facilities covered by the 30-day rule will indeed adversely impact CRR revenue adequacy if not scheduled in time to be incorporated in the monthly CRR release process. Unfortunately, as the CAISO has repeatedly explained, absent actual Locational Marginal Price ("LMP") market data applied to an actual release of CRRs there is no reliable way to assess the degree of impact of specific outages on CRR revenue adequacy. Because revenue inadequacy is a probabilistic phenomenon that depends on hourly system conditions and market behavior as well as the actual CRRs that have been released, the best the CAISO can do at this point is to identify which classes of outages increase the risk of revenue inadequacy, which it has done with the initial 30-day rule provisions stated in the BPMs. As actual market data becomes available, the CAISO and the market participants will be able to see on a monthly basis whether the outage information provided under the 30-day rule has been effective in allowing the CAISO to minimize revenue inadequacy, and as more months of market experience are accumulated, the CAISO will be able to assess whether any of the criteria can be relaxed. As discussed above, and as stipulated in its BPM for CRRs, the CAISO will, in conjunction with stakeholders, re-visit the requirements for scheduling transmission outages some time after the first summer of MRTU implementation, and

will consider any appropriate revisions to the rules after assessing twelve months of market data.

Second, unlike some other ISOs where PTOs are held accountable for revenue shortfalls associated with Firm Transmission Rights (“FTRs”), under the CAISO’s CRR design all shortfalls are allocated to Measured Demand generally.<sup>46</sup> Thus the PTOs in California have been relieved of the financial burden of CRR revenue shortfalls, while the CAISO nevertheless continues to have a fiduciary duty to ensure that revenue inadequacy is minimized so that Measured Demand is not exposed to an unreasonable level of costs. An essential tool for performing this duty is the modeling of expected transmission outages in the network model used for releasing Monthly CRRs. The more accurately the CAISO can model expected outages, the better it can balance, on a monthly basis, the competing objectives of releasing as many CRRs to the market as possible while minimizing the risk of revenue inadequacy. In order to accomplish this, the CAISO requires sufficient data from the PTOs regarding the availability of transmission assets. Indeed, the Commission has already accepted the CAISO’s 30-day rule, concluding, in the April 20 Order, that a 30-60 day advance notice requirement for “significant” transmission maintenance outages was reasonable because such a requirement “will allow for more accurate allocation of congestion rights and precise outage information across the West, leading to more informed planning decisions.”<sup>47</sup>

Given that the PTOs will not be financially liable for ensuring CRR revenue adequacy,

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<sup>46</sup> See the CAISO’s January 29, 2007, filing in Docket No. RM06-8 at 18, in which the CAISO explained that in response to stakeholder comments regarding the allocation of uplift costs associated with full funding, the CAISO had changed its allocation proposal from allocating any shortfall amounts in the CRR Balancing Account to PTOs to allocating any such shortfall to Measured Demand.

<sup>47</sup> April 20 Order at P 645.

the CAISO believes that requiring the PTOs to provide sufficient data so as to minimize the risk of needing to collect substantial costs from Measured Demand in order to maintain CRR revenue adequacy is entirely reasonable. The CAISO is chagrined that the PTOs, having been relieved of the burden of ensuring CRR revenue adequacy, now stridently oppose producing the information that the CAISO, at least initially, estimates will be necessary in order to ensure CRR revenue adequacy and protect the market as a whole.<sup>48</sup>

PG&E's and SCE's arguments concerning the burden imposed by the outage scheduling requirements are highly exaggerated. PG&E, for instance, alleges that the CAISO's requirements will require a 30-day advance notification for "essentially all" transmission outages,<sup>49</sup> while SCE contends that the CAISO's requirements will have a "significant negative impact on SCE's Transmission Operations."<sup>50</sup> It is true that there will be an increase in the amount of advance outage submittals under the CAISO's requirements, but ultimately the 30-day rule will affect only a small percentage of the total transmission outages occurring on the CAISO Controlled Grid, and thus the impact will not be nearly as significant as PG&E and SCE assert. Indeed, the 30-day rule covers only the longest outages that would presumably require additional planning on the part of PTO regardless of the CAISO's scheduling requirements. The bulk of transmission outages on the CAISO Controlled Grid are those for which work can be completed in a

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<sup>48</sup> A timely reminder of the potential significance of this risk is provided by a report in the trade press, published the same day that the instant filing was submitted to the Commission, regarding an FTR funding shortfall of \$100 million over several months in the Midwest ISO, due to the occurrence of transmission outages to a greater degree than was expected when the FTRs were released. See "FTR deficit prompts MISO to look into outages," *Electric Power Daily* (Dec. 7, 2007), pp. 4-5.

<sup>49</sup> PG&E at 2.

<sup>50</sup> SCE at 3.

single day, or which do not require an interruption in electric flow. These outages are excluded from the 30-day reporting requirement. To quantify this notion, only 8.23 percent of the total number of transmission outages that have occurred from January through November of 2007 on the CAISO Controlled Grid would have fallen under the 30-day scheduling requirement per Section 4.2.1.1 of the BPM for Outage Management.

It is also important to understand that the CAISO's requirements do not preclude a PTO from scheduling additional maintenance outages on shorter notice, consistent with today's 72-hour scheduling requirement. If other outages that meet the criteria for the 30-day rule are scheduled with less than the 30 days notice, the CAISO's software merely attaches an "unplanned" descriptor to the outage record so that CRR processes can distinguish, after-the-fact, between information known to the CAISO 30 days in advance of the monthly CRR release versus information that was provided to the CAISO too late to be reflected in the monthly CRR release. Thus, there is nothing in the 30-day rule that precludes a PTO from taking a transmission maintenance outage when needed or otherwise adversely impacts accepted good transmission maintenance practices.

Also, in scheduling outages under the 30-day rule, PTOs are required to be accurate only to within the calendar month. The 30-day rule allows the PTOs complete discretion to reschedule – within the same month and subject to the current 72-hour requirement to obtain CAISO approval – an outage that was previously scheduled 30 days in advance of the month. The CAISO finds it difficult to believe that the PTOs will be severely burdened by a requirement that they plan major transmission work (*i.e.*, work that cannot be completed within a single calendar day) so that it is accomplished within the bounds of an entire month at a point 30 days in advance of that month. For instance,

if at 30 days in advance a PTO schedules a transmission maintenance outage on a particular day during the month, and needs to reschedule to another date during that month do to unforeseen circumstances (*e.g.*, to adapt to weather conditions as PG&E suggests), the PTO is free to do so under the CAISO's rules. Under such circumstances, the PTO would simply utilize the normal 72-hour request process as provided for under the current CAISO Tariff to reschedule within the month.

PG&E maintains that CAISO's revenue neutrality concerns are addressed so long as those outages which might reasonably be expected to have a *significant* effect on congestion costs are captured by the BPM's notice requirements.<sup>51</sup> PG&E's argument here is based on an incorrect understanding of the problem. The linkage between unanticipated transmission outages and revenue inadequacy is not based on the impact of outages on congestion costs *per se*, but rather through their impact on grid transfer capability. To illustrate, suppose the CAISO releases 500 MW of CRRs that have a high shift factor across line A-B. If line A-B is later substantially derated or taken out of service in the Integrated Forward Market ("IFM"), the CAISO still must pay those 500 MW of CRRs their full value, yet the overall collection of congestion charges may be severely reduced because the quantity of energy that can be scheduled (and that pays congestion charges) will be limited to reflect the outage or derate of line A-B, even though the locational price difference may have increased due to the outage or derate. This explains why the emphasis of the exception criteria on the flow impacts of outages is entirely appropriate, and why PG&E's argument focusing solely on congestion costs misses the point. If the CAISO were informed about the planned outage of line A-B in

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<sup>51</sup> PG&E at 2.

time to reflect that information in the monthly CRR release, the network model could be adjusted so that the quantity of CRRs released is appropriately limited to reflect the expected outage or derate.

Similarly, SCE proposes that in determining exceptions to the 30-day rule, the CAISO incorporate an economic approach which utilizes the CRR auction prices based on the following outline: (1) utilize the annual CRR results and the auction prices which will be known by the CAISO; (2) develop the total market value of all CRRs; (3) determine the value of any line or line segment; and (4) if a line is a very small fraction of the total (to be determined), that line would be placed on the exceptions list.<sup>52</sup> This proposal is seriously flawed for the same reason discussed above with respect to PG&E. A particular line A-B may have had zero price in the auction because the line was not congested in the auction, allowing a large quantity of CRRs across this path to be released. If the line is then taken out of service or substantially derated when the IFM is run, the CAISO will be in the position of having to collect substantial congestion charges in order to make full payments on those CRRs, yet actual congestion charges collected may be less than the CRR payments due to the reduced quantity of energy that can be scheduled across line A-B. Again, the rationale behind the 30-day rule provisions is to enable the CAISO to adjust the CRR network model to avoid as much as possible over-allocating CRRs in the monthly CRR allocation and auction process and thereby risking revenue inadequacy. The focus of the proposed exception criteria on flow impacts (*i.e.*, the shift factors) is therefore the appropriate risk-management approach, whereas SCE's proposal does not address this risk, and, therefore, is not a reasonable alternative.

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<sup>52</sup> SCE at 8-10.



PG&E and SCE also raise arguments concerning the stakeholder process that resulted in the transmission outage reporting requirements. For instance, SCE criticizes the CAISO for not adopting all of the recommendations made by the CAISO's TMCC with respect to exemptions from the 30-day reporting requirement.<sup>53</sup> As described above, the CAISO has conducted an extensive stakeholder process to develop the 30-day reporting requirement. Moreover, the CAISO coordinated with the TMCC, carefully considered their recommendations, and, as SCE notes, adopted several. For instance, based on two conference calls held with the TMCC during July and August 2007, the CAISO agreed to modify its then-current proposal to allow PTOs greater flexibility under the 30-day rule by exempting outages lasting only one day, and permitting PTOs full discretion to request rescheduling of previously scheduled outages within the same month. Ultimately, however, the CAISO decided against certain of the TMCC's recommendation because the CAISO determined that including those recommendations would overly restrict the CAISO's ability to model outages in order to minimize risk of CRR revenue inadequacy. Because the TMCC members do not reflect the broad interests of all stakeholders, the CAISO was not and should not be under an obligation to adopt any or all of the recommendations made by the TMCC. Although the Commission recognized the benefit of interacting with the TMCC in any stakeholder process aimed at establishing transmission outage reporting requirements,<sup>54</sup> the Commission did not direct the CAISO to adopt the TMCC's recommendations. This was the correct approach and result, given that the TMCC represents the interests of transmission owners, not the

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<sup>53</sup> *Id.* at 3-5.

<sup>54</sup> *See* April 20 Order at P 646.

interests of the market as a whole, nor the parties on whom the impact of revenue inadequacy will fall, and possesses no particular expertise with respect to CRR revenue adequacy issues.

Both PG&E and SCE urge the Commission to require the CAISO to revisit these issues with stakeholders in order to further revise the outage scheduling requirements set forth in Section 4.2.1.1 of the BPM for Outage Management.<sup>55</sup> The CAISO submits that further discussions would not be productive at this time. The CAISO has settled on a conservative approach to outage reporting to support its fiduciary duty to Market Participants because, as discussed above, it lacks actual LMP market data necessary to measure the actual impact of certain outages on CRR revenue adequacy. Only after the LMP markets have been operating for some time can any further discussion on this issue be productive, because then all parties will have access to the actual data necessary to evaluate the issue further. As discussed above, the CAISO has already committed to monitor the effectiveness of its outage modeling after MRTU start up and to work with stakeholders to consider possible changes to the 30-day rule provisions if necessary.

SCE requests confirmation that, consistent with statements made at an October 18, 2007 TMCC meeting, the CAISO will develop a list of transmission facilities that satisfy the exemption criteria. SCE maintains that the CAISO, not the PTOs, should perform this analysis, because the CAISO has all the information and modeling tools necessary to do so.<sup>56</sup> To be clear, the CAISO committed to develop a list of the exemptions that were proposed by the PTOs and approved by the CAISO in accordance

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<sup>55</sup> PG&E at 2-3; SCE at 3.

<sup>56</sup> SCE at 9-10.

with the exceptions criteria. To reiterate, however, there can be no reliable analysis of this matter until the CAISO has actual market data based on MRTU operations. In the meantime, the CAISO has committed to make available to the PTOs the following: (1) a list of all facilities proposed for exemptions by the PTOs that the CAISO has approved, and (2) a list of all facilities covered by the criteria set forth in 30-day reporting rule requirements.

TANC states that it requested that Section 3.2.1 of the BPM for Outage Management be explained or included in the Tariff, and that the CAISO responded that Section 3.2.1 concerns reporting processes and informational requirements that have been in place for a number of years. Despite this, TANC states that the fact remains that BPM Section 3.2.1 includes details on priority of requests that affect terms of the outage request process that are absent from the Tariff, and that these terms are fundamental to rates, terms and conditions of service and, consistent with the rule of reason, should be incorporated into the MRTU Tariff.<sup>57</sup>

Section 3.2.1 does not need to be included in the MRTU Tariff. As the CAISO explained in its November 15 Response (at 93-94), much of the information set forth in Section 3.2.1 is also provided in Section 9 of the MRTU Tariff, and specifically in Section 9.3.6. Section 9 of the MRTU Tariff is adapted with minor modifications, but no lack of detail, from Section 9 of the CAISO's current Tariff. The Commission approved Section 9 of the MRTU Tariff subject to certain compliance requirements, which the CAISO has fulfilled.<sup>58</sup> In essence, TANC is arguing that the level of detail in the CAISO

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<sup>57</sup> TANC at 19-20.

<sup>58</sup> See September 21 Order at PP 1335-36.

Tariff regarding outage management, which has been accepted by the Commission for many years and implemented without stakeholder confusion, is inconsistent with the Commission's rule of reason. TANC provides no evidence to suggest that the rule of reason should be applied differently to the MRTU Tariff than it is to the currently approved CAISO Tariff. Moreover, TANC's argument constitutes an untimely request for rehearing of, and collateral attack on, a prior Commission order which should be rejected.

#### **H. Issues Relating to the BPM for Market Instruments**

##### **1. The CAISO Will Be Able to Post Intertie Shadow Prices as of Day 1 of MRTU**

SCE notes that, in November 15 Response, the CAISO states that it will have the ability to post all shadow prices but does not state if it will be able to post them by Day 1 of MRTU. SCE requests that the CAISO clarify when it will be able to post all intertie prices.<sup>59</sup> The CAISO hereby clarifies that it will be able to post all intertie shadow prices as of Day 1 of MRTU.

##### **2. The CAISO Should Not Be Required to Include Attachment D to the BPM for Market Instruments in the MRTU Tariff**

TANC argues that the CAISO should be required to incorporate the concepts from Attachment D to the BPM for Market Instruments into the MRTU Tariff.<sup>60</sup> In the November 15 Response (at 53-54), the CAISO addressed TANC's similar argument that Appendix D should be included in its entirety in the MRTU Tariff. For the reasons

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<sup>59</sup> SCE at 12.

<sup>60</sup> TANC at 18-19.

explained in the November 15 Response, the Commission should deny TANC's more recent request concerning Attachment D.

**I. Issues Relating to the BPM for Market Operations**

**1. The Commission Should Accept the Proposals in the November 15 Response Concerning the Treatment of AS Bids and Prices in the RTM Subject to the Further Clarifications**

WPTF argues that, by adding a rule in Tariff Section 30.7.3.1 that requires Bids for AS and deleting the sentence from Tariff Section 34.2.2 that requires Bids for Regulation, the CAISO creates an ambiguity as to which AS Bids are required, because it is not clear whether the CAISO actually inserts Bids at \$0 for Regulation services for the Real-Time Market ("RTM") or whether it only inserts \$0 AS Bids for the Operating Reserve services.<sup>61</sup>

The MRTU Tariff changes that WPTF describes do not create any ambiguity and in fact add detail that simply provides more explanation on how bids are treated through the SIBR process, building on the market rules that are already in the MRTU Tariff as filed and amended through in the captioned proceeding. The CAISO's only purpose in making the changes was to consolidate the Bid validation rules in Section 30.7.3.1 and 30.7.6.1.<sup>62</sup> Further, the CAISO deleted the sentence from Section 34.2.2 relating to Regulation because it was not accurate. Based on further review, the CAISO now proposes clarifications to Sections 30.7.3.1 and 30.7.6.1. Section 30.7.3.1 provides the rules for Operating Reserves, rather than Ancillary Services generally, because the rules for Regulation are different from the rules for Spinning and Non-Spinning Reserve.

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<sup>61</sup> WPTF at 4.

<sup>62</sup> See November 15 Response at 78-79.

Accordingly, the relevant portion of this section now reads: “To the extent that an Energy Bid to the HASP/RTM is not accompanied by an Ancillary Services Bid, the CAISO will insert an Ancillary Services Bid at \$0/MW for any certified Operating Reserve capacity.”

The CAISO also clarified Section 30.7.6.1 to include additional details on AS Bid validation for Bids from resources with certified Regulation capacity. No Energy Bids associated with Regulation are required to be submitted in the Bid and the CAISO will not generate an Energy Bid component for Regulation capacity as these resources are not dispatched based on economics.

WPTF asserts that Section 7.6.1.2 of the BPM for Market Operations, as revised by the CAISO on November 15, 2007, changes the rule for missing Bids so that, instead of assigning zero dollars for the missing Bid price, the CAISO will instead assess a “Default AS Bid Price” that it does not define. WPTF argues that the provisions in Section 7.6.1.2 as revised are ambiguous, confusing, and do not make it clear whether the CAISO simply inserts Bids at zero dollars (or some other value) when Bids are not provided, or ignores or sets to zero all Real-Time AS Bids whether they are submitted or not.<sup>63</sup>

There is nothing ambiguous, confusing, or unclear about Section 7.6.1.2. As relevant here, Section 7.6.1.2 states that “[i]f the Scheduling Coordinator does not submit an Bid for Operating Reserves but has submitted an Energy Bid, the CAISO inserts a Default AS Bid Price on their behalf for all Operating Reserve to allow the CAISO to procure either Energy or Operating Reserve up to the maximum Bid-in level as represented by the Energy Bid,” and also states that, “[f]or Regulation, all resources

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<sup>63</sup> WPTF at 5-7.

certified and capable of providing Regulation that have been awarded Regulation in Day-Ahead Market (“DAM”) or have submitted a Bid to provide Regulation in the Real-Time Market shall also submit applicable Regulation Bids up to their certified value.

Otherwise, SIBR will create a Default AS Bid Price to the certified quantity.” The meaning of these provisions is stated clearly and unambiguously. In addition, the Default AS Bid Price is zero dollars, and hence the change in Section 7.6.1.2 from “\$0” to “Default AS Bid Price” is entirely non-substantive. These are the values that will be used for the co-optimization only in the absence of a submitted Bid. Scheduling Coordinators that do not want the CAISO to use a zero Bid should submit AS price Bids of their own choosing. Further, the use of a zero Bid price does not mean that the resource will be paid zero dollars for AS; the resource will still receive the Ancillary Service Marginal Price (“ASMP”).

It appears that WPTF makes its allegations regarding this language in order to dispute the CAISO’s long-standing, Commission-approved co-optimization policy. For example, WPTF asserts that ambiguity arises from a rule in Section 7.6.1.2 concerning how the CAISO will perform the Real-Time co-optimization of Energy and AS “because *it makes no sense* for the CAISO to generate a Bid for Operating Reserves if it is ultimately going to set the price for the capacity component of Real-Time AS at zero.”<sup>64</sup> Here, WPTF is protesting the co-optimization of Energy and AS in the guise of protesting the procedures the CAISO employs to implement that policy. The requirement that an Energy Bid in the RTM be accompanied by an AS Bid has been in the MRTU Tariff

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<sup>64</sup> *Id.* at 5 (emphasis added).

from the outset.<sup>65</sup> Similarly, WPTF argues that the CAISO's revisions to Section 7.6.1.2 "appear to imply that either it does not intend to compensate owners for the capacity value of the resource as Bid by the SC, or it does not intend to compensate owners for the opportunity value of the energy, neither of which would be just and reasonable." WPTF is attacking the justness and reasonableness of the requirement that if there is no AS Bid, there is no opportunity cost – that has been a requirement stated in the MRTU Tariff since it was first filed with the Commission and further clarified in the CAISO's November 20, 2006, compliance filing in this proceeding.<sup>66</sup> Thus, WPTF is engaging in an untimely and impermissible collateral attack on the Commission's approval of this requirement.

Ever since the MRTU Tariff was first filed, the CAISO has added detail from the SIBR rules concerning co-optimization in the BPMs and in the MRTU Tariff to provide further clarity regarding the implications of a failure to provide a Bid. The Tariff and BPM provisions that WPTF disputes in the instant proceeding are exactly these kinds of details, are consistent with the co-optimization policy, and further that policy. It is inappropriate and outside the scope of this proceeding for WPTF to attempt to re-litigate the CAISO's co-optimization policy. Therefore, the Commission should reject WPTF's arguments.

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<sup>65</sup> See the CAISO's February 9, 2006, MRTU Tariff filing, Tariff Section 34.13 ("Energy Bids in the RTM must also contain a Bid for Ancillary Services to the extent the resource is certified and capable of providing Ancillary Service in the RTM."). That sentence in Section 34.13 has been enhanced and moved to Tariff Section 30.5.2.6.3 to include more details concerning how Bids should be provided, but the meaning of the sentence is essentially the same as when it was originally filed.

<sup>66</sup> See pages 10-11 of the transmittal letter for the CAISO's November 20, 2006 compliance filing. WPTF failed to provide any comments regarding that compliance filing and, in effect, is attempting to contest the provisions in the compliance filing now. Therefore, WPTF's arguments are far out of date.



**2. Tariff Section 31.3.1.2 Should Be Clarified as Proposed by the CAISO, Not by WPTF, and No Changes Are Needed to Tariff Section 30.7.3**

WPTF argues that proposed Tariff Section 31.3.1.2 implies that a Day-Ahead (“DA”) must-offer obligation exists for AS that is unrelated to any must-offer provisions previously filed by the CAISO, which conveys an unjustified presumption by the CAISO that all resources are *de facto* providing AS up to their maximum allowable levels. WPTF requests that the Commission direct the CAISO to make various revisions proposed by WPTF to Section 31.3.1.2 and the BPM for Market Operations.<sup>67</sup>

The Commission should not require the CAISO to make the revisions that WPTF proposes. Instead, the Commission should accept the editorial clarifications to Section 31.3.1.2 contained in Attachment A to the instant filing, which the CAISO proposes to address any confusion that may have resulted from the version of that section contained in the November 15 Response. These clarifications are not made to suggest changes in CAISO co-optimization policy under the MRTU Tariff, but rather are made simply to make it clear how the IFM treats AS Bids. In brief, the clarifications provide that (1) the IFM co-optimizes Energy and AS Bids, based on the amount of capacity reflected in the Bids, and (2) AS Bids and/or AS Bid components that are not associated with an associated Energy Bid will be co-optimized based on zero opportunity costs.

The CAISO recognizes that there was some language in the version of Section 31.3.1.2 included in the November 15 Response that could be read as extending AS Bids for the full amount of AS Capacity of a resource. That was not the CAISO’s intent, as SIBR does not extend AS Bids above the Bid-in amount of capacity reflected in the Bid

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<sup>67</sup> WPTF at 7-8.

for use in the IFM. SIBR will only insert Energy Bids for RA Capacity that does not appear through voluntary Bids.

In contrast to the clarifications contained in Attachment A, the revisions proposed by WPTF are unnecessary and are contrary to the CAISO's policy under MRTU:

- WPTF proposes that Section 31.3.1.2 and the BPM for Market Operations should be modified to provide that, for Operating Capacity not Bid by the Scheduling Coordinator in Real-Time, the CAISO will (i) insert a Bid, (ii) indicate what that level of Bid will be and how it will be established, and (iii) if and when it will be modified by the CAISO systems. CAISO Response: In fact, Section 31.3.1.2 only applies to the treatment of AS in the IFM, *i.e.*, in the DAM and not the RTM. As for Real-Time AS procurement, SIBR will insert AS Bids (at zero) for any certified AS Capacity if there are Energy Bids submitted and there is no submitted AS Bid. SIBR does not insert AS Bids above the Energy Bid level. Moreover, WPTF's proposed modifications to Section 31.3.1.2 are already generally stated in Tariff Section 30.7.3.1, as modified by the instant filing.
- WPTF proposes that the CAISO remove language in Section 31.1.3.2 and the BPM for Market Operations suggesting that AS purchased by the CAISO in Real-Time will be paid based on a capacity value of zero. CAISO Response: These changes should not be made because they would represent a fundamental change in MRTU policy that is inappropriate at this stage of the MRTU proceeding. Although the CAISO will insert zero AS Bids in certain circumstances as noted above, AS procured in the RTM will be paid the ASMPs. Scheduling Coordinators can always ensure that their opportunity costs are considered by submitting an AS Bid.
- WPTF proposes that language be reinserted in the BPMs indicating that Resource Owners will be compensated in Real-Time based on the opportunity value of their resources. CAISO Response: This change should not be made because it would represent a change in MRTU policy that the CAISO has never proposed. The principle that if there is no Energy Bid the foregone opportunity is considered to be zero has long been reflected in the MRTU Tariff.<sup>68</sup>
- WPTF proposes that the MRTU Tariff and the BPMs be modified to remove references that allow the CAISO to insert Bids with zero dollar Bids for Regulation not offered in the RTM to the extent a resource is capable of providing more Regulation than it was awarded or self-provided in the DAM. CAISO Response: The statement in the BPM that WPTF is referring to reads as follows:

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<sup>68</sup> See MRTU Tariff, Section 11.10.1.1 ("The foregone opportunity cost of Energy is measured as the positive difference between the IFM LMP at the resource's Pricing Node and the resource's Energy Bid price (e.g., if the resource's Energy Bid price is higher than the LMP, the opportunity cost is \$0)").

“For Regulation, all resources certified and capable of providing Regulation that have been awarded Regulation in Day-Ahead Market or have submitted a Bid to provide Regulation in the Real-Time Market shall also submit applicable Regulation Bids up to their certified value.” This is an accurate statement and is reflected in the detailed SIBR rules that are linked to and part of the BPM for Market Instruments. To provide additional clarity, the CAISO proposes to add language to Section 30.7.6.1 that more precisely captures the relevant SIBR rules relating to Regulation Bids.

WPTF also argues that, in Tariff Section 31.3.1.2, the CAISO proposes to set the opportunity cost of AS at zero for the IFM co-optimization when Scheduling Coordinators fail to provide a Day-Ahead Energy Bid or provide an “incomplete” Energy Bid, and that this proposal incorrectly assigns an opportunity cost of zero when the Energy Bid that accompanies an AS Bid for a resource in the DAM is “incomplete.” WPTF asserts that the CAISO should be required to assume that offered AS is provided from the range of Energy offered by the Scheduling Coordinator and not from the capacity above the Energy Bid curve, in order to resolve any perceived deficiencies in coverage for Energy Bid curves in all cases other than when the quantity of AS offered exceeds the quantity of Energy offered. Further, rather than assuming a zero energy value over any ranges of offered AS not covered by Energy Bids, WPTF asserts that the CAISO should be required to extend the Energy Bid as it does in other places throughout the MRTU Tariff when Bid components are missing or incomplete, relying on the proxy Bid curve registered for the unit.<sup>69</sup>

As discussed above, the CAISO proposes editorial clarifying revisions to Section 31.3.1.2 providing that the IFM co-optimizes Energy and AS Bids, based on the amount of capacity reflected in the Bids, and that AS Bids and/or AS Bid components that are not associated with an associated Energy Bid will be co-optimized based on zero opportunity

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<sup>69</sup> WPTF at 17-20.

costs. These provisions do not represent new co-optimization policy but rather implement policy that the Commission has already approved. Therefore, WPTF's attempts to characterize the provisions of Section 31.3.1.2 as new policy that deserves fresh scrutiny by the Commission are inappropriate, outside the scope of this proceeding, and should be rejected.

The discussion above concerning Section 31.3.1.2 (as clarified) is also relevant to the concerns that WPTF expresses regarding Tariff Sections 30.7.3 and Section 4.3 of the BPM for Market Operations. WPTF argues that the Commission should reject the CAISO's proposal under those latter sections to assign AS to generating capacity that is not otherwise committed to provide Energy via a Self-Schedule or a DA Energy Bid, to the extent this proposal may require Scheduling Coordinators to provide AS and Energy to the CAISO that they do not wish to offer based on terms and at prices that are unfair and unreasonable. WPTF proposes that the CAISO should be required to use the operating range implied by a resource's Energy Bid to determine the total amount of capacity that is available to the IFM for Energy and AS and to make appropriate conforming changes in the Tariff and the BPM; alternatively, WPTF proposes that the CAISO should be required to allow Scheduling Coordinators to specify the total amount of capacity that is available to the IFM for Energy and AS, and to make appropriate conforming changes in the Tariff and the BPM.<sup>70</sup>

No changes should be made to the relevant portions of Tariff Section 30.7.3.1 or to Section 4.3 of the BPM for Market Operations. WPTF requests changes that go beyond the scope of this proceeding, which is to determine what additional detail from

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<sup>70</sup> *Id.* at 10-13.

the BPM should be included in the MRTU Tariff. Moreover, the BPM rules that the CAISO has added to the MRTU Tariff are consistent with Commission-approved policy that has long been documented in the Tariff and the BPMs. It is simply inappropriate for WPTF to suggest changes based on its belief that this policy should be different than what the Commission approved. The rules as reflected in the MRTU Tariff and in SIBR have long provided and continue to provide that in the DAM, the CAISO does not generate Bids components for capacity above the voluntarily submitted level of capacity reflected in the Bids except with regard to RA Capacity, and for RA Capacity the CAISO inserts Energy Bids up to certified RA Capacity. In the RTM, the CAISO does not insert Energy Bids above submitted levels, though the CAISO does insert AS Bids for any certified AS Capacity available up to the submitted Energy Bid level. WPTF provides no basis for changing these long-standing rules.

### **3. The CAISO Appropriately Clarifies Tariff Section 30.7.6.1**

With regard to the CAISO's proposed revisions to Tariff Section 30.7.6.1 to describe the circumstances in which AS Bids will be generated or will be erased by SIBR, WPTF argues that the CAISO does not explain why these revisions are needed or desirable, the revisions appear to be inconsistent with the CAISO's policies regarding physical withholding, and if the CAISO has sufficient information to extend an Energy Bid when a partial Energy Bid is provided, then the CAISO should have enough information to generate a complete Energy Bid in the case where a Bid is omitted entirely. For these reasons, WPTF asserts, the Commission should reject these proposed

revisions and should direct the CAISO to modify Section 30.7.6.1 such that AS Bids are retained and Energy Bids are generated.<sup>71</sup>

The Commission should accept the CAISO's proposed revisions to Sections 30.7.3.1 and 30.7.6.1, as further modified by the instant filing. The CAISO made revisions to these sections in the November 15 Response to provide clarification regarding the existing MRTU software functionality as stated in the SIBR rules; the CAISO, at SAIC's suggestion that the Tariff should contain this detail to complete the relevant rules on Bid validation, found it appropriate to include the clarification in the MRTU Tariff. The further changes contained in the instant filing clarify any confusion concerning the Bid validation rules between the Day-Ahead and Real-Time Markets concerning when Energy Bids are generated to cover AS.

For the Day-Ahead, the CAISO has provided additional clarifying Tariff language in Section 30.7.3.1 to indicate that the CAISO will insert Energy Bids to cover any day-ahead award or self-provision of Operating Reserve only after the close of the HASP/RTM. This allows Scheduling Coordinators the maximum flexibility on how, when, and even if they will submit Energy Bids to cover their AS commitments. These details are entirely consistent with existing filed and accepted Tariff language, which provides that submission of an Energy Bid for any AS Bids in the DAM is entirely voluntary and that a Scheduling Coordinator can submit overlapping Bids for Energy and AS, but that there must be an Energy Bid submitted for use in the RTM. The Tariff revisions described above clarify the consequences in the event the Scheduling Coordinator fails to submit an Energy Bid by the close of HASP/RTM.

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<sup>71</sup> *Id.* at 9-10.

The rules for the RTM have also been clear: AS Bids submitted in the HASP/RTM must include an Energy Bid. The November 15 Response clarified in Section 30.7.6.1 the consequences in the event the Scheduling Coordinator fails to submit an Energy Bid; that is, in the absence of a day-ahead commitment, the CAISO will erase the AS Bid. The CAISO does not believe any further clarification to Section 30.7.6.1 is necessary and that WPTF's arguments should be rejected.

**4. There Is No Merit to WPTF's Arguments Regarding the CAISO's Proposal to Insert Self-Schedules and Energy Bids for Scheduling Coordinators that Self-Provide AS and Provide RUC**

WPTF makes a variety of arguments concerning the CAISO's proposal to insert Self-Schedules and Energy Bids for Scheduling Coordinators that self-provide AS and provide RUC. The Commission should reject all of WPTF's arguments.

First, WPTF asserts that the CAISO's proposed MRTU Tariff changes that are based on SAIC's review are inappropriate for inclusion in the November 15 Response because they were not solicited by parties at the September Technical Conference.<sup>72</sup> As discussed above in Section II.D, the CAISO disagrees with WPTF's position that changes made in this process should be confined to those issues specifically raised at the September Technical Conference.

WPTF also argues that the proposed insertion of Self-Schedules for Scheduling Coordinators is improper because it may significantly harm Scheduling Coordinators by increasing the likelihood of Scheduling Coordinators having to supply Energy at a low price.<sup>73</sup> This argument is without merit. All of the details that the CAISO proposes to

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<sup>72</sup> *Id.* at 14.

<sup>73</sup> *Id.*

add to the MRTU Tariff regarding Self-Schedules or extensions of Energy Bids are from pre-existing SIBR rules. These details reflect how SIBR generates Bid components in certain circumstances, including circumstances in which a submitted Self-Schedule is extended to fill in a gap or an Energy Bid Curve is extended to cover any RUC Awarded capacity. A Scheduling Coordinator always has the option to resubmit its Bids prior to Market Close. Therefore, the Scheduling Coordinator has ultimate control of the Bids that it submits (assuming the Scheduling Coordinator has allowed itself sufficient time to resubmit its Bids).

Further, WPTF asserts that proposed Tariff Section 30.5.2.6 contains provisions about the relationship between Energy Bids and Self-Provided AS that conflict with one another and with provisions in Tariff Section 30.7.6.<sup>74</sup> There is no conflict among the provisions that WPTF cites. Rather, the rules for the DAM and the RTM are not identical and the provision in Sections 30.5.2.6 and 30.7.6 reflect these different rules. As explained above, Scheduling Coordinators may submit AS Bids without associated Energy Bids in the Day-Ahead, but Energy Bids must be submitted for that capacity prior to the Market Close of the HASP/RTM.

WPTF also argues there is no rationale for why a Scheduling Coordinator that wishes to self-provide AS should have to provide a Self-Schedule for Energy.<sup>75</sup> WPTF misunderstands the rules under the MRTU Tariff. There is no requirement that a Scheduling Coordinator that wishes to self-provide AS must submit a Self-Schedule for Energy. Instead, as stated in Tariff Section 30.5.2.6.2, such a Scheduling Coordinator is

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<sup>74</sup> *Id.* at 14-15.

<sup>75</sup> *Id.* at 16.



required to submit an Energy Bid in the RTM, but if it does not, the CAISO will insert a Self-Schedule.

In addition, WPTF argues that the CAISO proposes a significant change in policy, assuming the CAISO intends its proposed MRTU Tariff language to mean that an Energy Bid curve for the DAM will be created for all Self-Provided AS Capacity, because that language would improperly require Scheduling Coordinators to offer Energy into the DAM as a condition of self-providing AS.<sup>76</sup> As noted previously, there is no obligation to submit an Energy Bid in the DAM for any AS Bids. However, there is an obligation to submit an Energy Bid for any awarded or Self-Provided AS in the HASP/RTM.

Lastly, WPTF argues that the Commission should reject the CAISO's proposal to add language to Tariff Sections 30.7.3.1 and 33.1 stating that the CAISO will generate Self-Schedules for RUC Awards and Day-Ahead Schedule gaps. WPTF asserts that the meaning and implications of this proposed language are unclear, that it is unreasonable for the CAISO to fill in gaps with Self-Schedules, and that it would be unjust and unreasonable for the CAISO to schedule or dispatch and compensate resources owners as if they had submitted Self-Schedules.<sup>77</sup> The SIBR rules provide details of when Self-Schedules are extended and when Energy Bid components are generated by the CAISO. In the case of a RUC Award, the CAISO does not insert Self-Schedules but rather provides Proxy Bids based on resource-specific information and costs. In other circumstances, where there is gap between a Self-Schedule component and an economic Energy Bid, the CASIO will extend the Self-Schedule to cover the gap.

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<sup>76</sup> *Id.*

<sup>77</sup> *Id.* at 16-17.

**5. No Modifications Should Be Made to the CAISO's Process for Disqualification of AS Self-Schedules**

WPTF asserts that the CAISO improperly proposes that, when a resource with a partial RA obligation makes a submission to self-provide AS, the entire AS Self-Schedule will be disqualified if the CAISO determines that any of the capacity dedicated to Self-Provided AS is needed to provide Energy instead. Further, according to WPTF, the new provisions in Tariff Section 31.1.3.2 violate the basic premise that must-offer obligations are limited to RA capacity and do not extend to non-RA capacity where part of a resource is under an RA obligation and the remainder is not. WPTF requests that the Commission direct the CAISO to modify its process and the MRTU Tariff to ensure that it is not able to disqualify any of a Scheduling Coordinator's Self-Provided AS on the basis of RA obligations for non-RA capacity of partial RA Resources.<sup>78</sup>

The authority to disqualify Self-Provided AS as reflected in Section 31.1.3.2 is already approved by the Commission as this has been in that part of the Tariff since the CAISO originally filed that section. WPTF is inappropriately seeking rehearing of that approved authority in this proceeding and the Commission should simply not allow such backdoor changes to its approved policy. Moreover, WPTF mischaracterizes the scope of authority to disqualify submissions to self-provide AS under the CAISO Tariff. The authority in Section 31.1.3.2 is intended to apply only to RA Capacity and the CAISO has had long-standing authority to disqualify submissions to self-provide Ancillary Services as provided in Tariff Section 8.5.6. Accordingly, if the resource is a partial RA resource, then the CAISO would only be able to disqualify that portion of the capacity that has an Energy offer obligation. The rules in Section 31.1.3.2 are in addition to those in Section

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<sup>78</sup> *Id.* at 20-22.

8.5.6 when it comes to disqualification of Self-Provided AS and both have been in the MRTU Tariff throughout the history of this proceeding. Surely, WPTF's misguided comments should not be permitted to lead the Commission to inadvertently neutralize such longstanding authority.

**6. The CAISO Will Make Revisions to the BPM for Market Operations Regarding Undefined Energy Types**

WPTF asserts that the CAISO has not addressed WPTF's concerns regarding undefined Energy types in BPM Section 7.2.3.5. WPTF states that it recognizes that at times there will be a dispatch related to ramping or residual Energy, and in these instances, a designation such as "NOBID" would be sufficient to indicate to Scheduling Coordinators that their dispatch Energy instruction reflects that type of Energy; however, a designation of "TBD" would, by its plain English meaning, suggest that the Energy type is not yet determined. WPTF asserts that the CAISO should be directed to define and use within the BPM a designator that would clearly specify that such Energy is Energy being dispatched ramping or to deal with other physical constraints so that Energy settlements are unambiguous. WPTF states that if the CAISO makes this clarification, WPTF would agree that no MRTU Tariff language is needed.<sup>79</sup> The CAISO will remove the TBD reference in the BPM for Market Operations and will propose any changes for an appropriate label should the need for an additional category arise in the future.

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<sup>79</sup> *Id.* at 27-28.

**7. The CAISO Will Include Language in the MRTU Tariff Regarding the Actions the CAISO Will Take in the Event of a Market Disruption**

WPTF asserts that, during the September Technical Conference, the CAISO expressed its willingness to add Tariff language reflecting the specific actions the CAISO will take in the event of a Market Disruption, which are listed in BPM Section 6.4.4. WPTF argues that the CAISO erroneously states in the November 15 Response that the existing language in Tariff Sections 7.6 and 7.7 is sufficient on this issue. WPTF states that the CAISO should be required to include in the MRTU Tariff a summary of the actions listed in BPM Section 6.4.4.<sup>80</sup>

Upon further consideration of the issue, the CAISO agrees that it should add to the MRTU Tariff a summary of the actions it could take in the event of a Market Disruption. The CAISO will add such a summary in a future MRTU Tariff filing.

**8. The Commission Should Accept Tariff Section 39.7.2.1 as Revised in the November 15 Response and as Clarified in the Instant Filing**

WPTF argues that the CAISO's proposed deletion from Tariff Section 39.7.2.1 of the schedule for updating the Competitive Path Assessment ("CPA") annually requires explanation and support. WPTF contends that the Commission should reject the CAISO's proposed change to the Section 39.7.2.1 language and should require the CAISO to update the CPA annually.<sup>81</sup>

The CAISO proposed to delete the MRTU Tariff language prescribing annual updates because the Commission has directed the CAISO to make seasonal designations

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<sup>80</sup> *Id.* at 28-29.

<sup>81</sup> *Id.* at 29-31.

beginning the second year of MRTU. While the CAISO could calculate and post seasonal designations once a year to comply with the annual designation language, the CAISO will instead calculate and post designations each season to ensure that the most recent information is used in making these seasonal designations. However, this will not be the practice until the second year of MRTU. Rather than include language regarding the annual calculation and posting of designations that will be outdated within a year, the CAISO deleted the language to facilitate a more frequent posting in subsequent years without necessitating an MRTU Tariff change to update the language on annual to reflect the seasonal posting. Nevertheless, to resolve this issue, the CAISO would have no objection to adding the following sentence to Section 39.7.2.1: "The CAISO will calculate and post path designations not less than once prior to the start of MRTU, and not less than four times each year thereafter to provide timely seasonal path designations."

**9. No Further Modifications are Needed to Tariff Section 31.2**

PG&E notes that the CAISO proposes to modify Section 31.2 of the MRTU Tariff in order to describe the RMR determination process as "automated." PG&E contends that proposed Section 31.2 of the Tariff must be modified, by replacing the phrase "The RRD process is the automated process for determining RMR" with the original phrase, "The RRD process determines RMR," because, as described in Section 6.5.1 of the BPM for Market Operations, the RMR process is not necessarily automated.<sup>82</sup>

As discussed in the November 15 Response, the CAISO modified this language in Section 31.2 in response to comments made at the September Technical Conference that

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<sup>82</sup> PG&E at 7-8.

that the language was confusing because it suggested that the RRD process *was* the process for dispatching RMR Units. The CAISO offered the change to refer to this process as the *automated* process for dispatching RMR Units in order to distinguish it from the *manual* process for dispatching RMR Units, noting that Section 41 of the MRTU Tariff clearly states that RMR is dispatched either through the MPM-RRD process or through manual RMR Dispatches. The CAISO believes that the Tariff as a whole provides the clear authority and no further change is needed.

**J. Issues Relating to the BPM for Managing Full Network Model**

SMUD requests clarification as to whether the CAISO intends to make available now the modifications to the security check procedures for access to the CRR Full Network Model (“CRR FNM”) that the Commission approved in its October 15 Order, or whether the CAISO intends to make the modifications available when MRTU is fully implemented.<sup>83</sup>

The CAISO stopped requiring security checks as a prerequisite for access to the CRR FNM, consistent with the directives in the October 15 Order, as soon as that Order was issued. In addition, the CAISO has revised the Non-Disclosure Agreement (“NDA”) applicable to distribution of the CRR FNM to delete language related to the security checks. This revised NDA has been posted on the CAISO Website.

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<sup>83</sup> SMUD at 1-2 (citing October 15 Order).

## II. CONCLUSION

For the reasons explained above, the Commission should accept the CAISO's proposed revisions to the MRTU Tariff as filed in its November 15 Response, with only those additional modifications discussed herein.

Respectfully submitted,

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Dated: December 7, 2007

**Attachment A - Blacklines**

**CAISO Reply Comments to November 15, 2007 BPM Technical Conference Filing**

**December 7, 2007**



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### **30.7.3.1 Validation Prior to Market Close and Master File Update.**

The CAISO conducts Bid validation in three steps:

Step 1: The CAISO will validate all Bids after submission of the Bid for content validation which determines that the Bid adheres to the structural rules required of all Bids as further described in the Business Practices Manuals. If the Bid fails any of the content level rules the CAISO shall assign it a rejected status and the Scheduling Coordinator must correct and resubmit the Bid.

Step 2: After the Bids are successfully validated for content, but prior to the Market Close of the DAM, the Bids will continue through the second level of validation rules to verify that the Bid adheres to the applicable CAISO Market rules and if applicable, limits based on Master File data. If the Bid fails any level two validation rules, the CAISO shall assign the Bid as invalid and the Scheduling Coordinator must either correct or resubmit the Bid.

Step 3: If the Bid successfully passes validation in Step 2, it will continue through the third level of validation where the Bid will be analyzed based on its contents to identify any missing Bid components that must be either present for the Bid to be valid consistent with the market rules contained in Article III of this CAISO Tariff and as reflected in the Business Practice Manuals. At this stage the Bid will either be automatically modified for correctness and assigned a status of conditionally modified or modified, or if it can be accepted as is, the Bid will be assigned a status of conditionally valid, or valid.

A Bid will be automatically modified and assigned a status of modified or conditionally modified Bid, whenever the CAISO inserts or modifies a Bid component. The CAISO will insert or modify a Bid component whenever (1) a Self-Schedule quantity is less than the lowest quantity specified as an Economic Bid for either an Energy Bid or Demand Bid, in which case the CAISO extends the Self-Schedule to cover the gap; (2) for non-Resource Adequacy Resources, the CAISO will extend the Energy Bid Curve using Proxy Costs to cover any capacity in a RUC Bid component, if necessary; and (3) for a Resource Adequacy Resource, the CAISO will extend the Energy Bid Curve using Proxy Costs to cover any capacity in a RUC Bid component and, if necessary, up to the full registered Resource Adequacy Capacity. The CAISO will generate a Proxy Bid or extend an Energy Bid or Self-Schedule to cover any

RUC Award or Day-Ahead Schedule in the absence of any Self-Schedule or Economic Bid components, or to fill in any gaps between any Self-Schedule Bid and any Economic Bid components to cover a RUC Award or Day-Ahead Schedule. To the extent that an Energy Bid to the HASP/RTM is not accompanied by an Ancillary Services Bid, the CAISO will insert an Spinning Reserve and Non-Spinning Reserve Ancillary Services Bid at \$ 0/MW for any certified Ancillary Services Operating Reserve capacity. The CAISO will also generate a Self-Schedule Bid for any Generating Unit that has a Day-Ahead Schedule but has not submitted Bids in HASP/RTM, up to the quantity in the Day-Ahead Schedule. Throughout the Bid evaluation process, the Scheduling Coordinator shall have the ability to view the Bid and may choose to cancel the Bid, modify and re-submit the Bid, or leave the modified, conditionally modified or valid, conditionally valid Bid as is to be processed in the designated CAISO Market.

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### **30.7.6 Validation and Treatment of Ancillary Services Bids.**

#### **30.7.6.1 Validation of Ancillary Services Bids.**

Throughout the validation process described in Section 30.7, the CAISO will verify that each Ancillary Services Bid conforms to the content, format and syntax specified for the relevant Ancillary Service. If the Ancillary Services Bid does not so conform, the CAISO will send a notification to the Scheduling Coordinator notifying the Scheduling Coordinator of the errors in the Bids as described in Section 30.7. When the Bids are submitted, a technical validation will be performed to verify that the bid quantity of Regulation, Spinning Reserve, or Non-Spinning Reserve does not exceed the available certified Ancillary Services capacity for Regulation, or Operating Reserves on the Generating Units, System Units, Participating Loads and external imports/exports bid. The Scheduling Coordinator will be notified within a reasonable time of any validation errors. For each error detected, an error message will be generated by the CAISO in the Scheduling Coordinator's notification screen, which will specify the nature of the error. The Scheduling Coordinator can then look at the notification messages to review the detailed list of errors, make changes, and resubmit if it is still within the CAISO's timing requirements. The Scheduling Coordinator is also notified of successful validation. If a resource is awarded or has qualified Self-Provided Ancillary Services in the Day-Ahead Market, if no Energy Bid is submitted to cover the awarded or Self-Provided Ancillary Services by the Market Close of HASP and the RTM, the CAISO will generate

or extend an Energy Bid as necessary to cover the awarded or Self-Provided Ancillary Services capacity using the registered values in the Master File and relevant fuel prices as described in the Business Practices Manuals for use in the HASP and IFM. If an AS Bid or Submission to Self-Provide an AS is submitted in the Real-Time for Spinning or Non-Spinning Reserve without an accompanying Energy Bid at all, the AS Bid or Submission to Self-Provide an Ancillary Service will be erased. If an AS Bid or Submission to Self-Provide an AS is submitted in the Real-Time Market for Spinning and Non-Spinning Reserves with only a partial Energy Bid for the AS capacity, the CAISO will generate an Energy Bid for the uncovered portions. For Generating Units with certified Regulation capacity, if there no Bid for Regulation in the Real-Time Market, but there is a Day-Ahead award for Regulation Up or Regulation Down or a submission to self-provide Regulation Up or Regulation Down, respectively, the CAISO will generate a Regulation Up or Regulation Down Bid at the default Ancillary Service Bid price of \$ 0 up to the certified Regulation capacity for the Generating Unit minus any Regulation awarded or self-provided in the Day-Ahead. If there is a Bid for Regulation Up or Regulation Down in the Real-Time Market, the CAISO will increase the respective Bid up to the certified Regulation capacity for the Generating Unit minus any Regulation awarded or self-provided in the Day-Ahead.

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### **31.3.1.2 Treatment of Ancillary Services Bids in IFM.**

As provided in Section ~~30.7.6.28, x.x~~ the CAISO shall co-optimize the Energy and Ancillary Services Bids in clearing the IFM. ~~#To the extent that capacity subject to an Ancillary Services Bid submitted in the Day-Ahead Market is not associated accompanied with an Energy Bid, there is no co-optimization, and therefore, no opportunity cost associated with that resource for that Bid for all or part of the Ancillary Services capacity being offered in the Day-Ahead Market, the CAISO shall use either all or part of the Ancillary Services Bid to use the available capacity that is not covered by an Energy Bid and the no opportunity cost is assumed in the co-optimization of Energy and Ancillary Services and for the purposes of calculating the Ancillary Services Marginal Price as specified in Section 11.10.11x.x.x. When the capacity associated with the Energy Bid overlaps with the quantity submitted in the Ancillary Services Bid, then the Energy Bid will be used to determine the opportunity cost, if any, in the co-optimization to the extent of the overlap. In the event that an Energy Bid does accompany an Ancillary Services Bid, to the~~

~~extent that the Energy Bid does not cover the entire capacity of the resource's output, the Ancillary Services capacity starts at the end of the Energy Bid Curve and the optimization make use of the full capacity of the resource.~~ Therefore, the capacity that will be considered when co-optimizing the procurement of Energy and Ancillary ~~s~~Services from Bids available capacity is any in the IFM will consider capacity up to the total capacity of the resource ~~as reflected~~offered in the Ancillary Services Bid as derated through SLIC, if at all. In the case of Regulation, the capacity that will be considered is the lower of the capacity of the resource offered in the Ancillary Services Bid ~~up to~~or the upper Regulation limit of the highest Regulating Range as contained in the Master File.

\* \* \*

## **CERTIFICATE OF SERVICE**

I hereby certify that I have served the foregoing document upon the parties listed on the official service list in the captioned proceeding, 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 Washington, D.C. this 7<sup>th</sup> day of December, 2007.

/s/ Bradley R. Miliauskas  
Bradley R. Miliauskas