

UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator     )  
Corporation   )     Docket No. ER10-188-000

ANSWER OF  
CALIFORNIA INDEPENDENT SYSTEM OPERATOR  
CORPORATION TO MOTIONS TO INTERVENE AND  
COMMENTS

**I. Introduction and Summary**

Pursuant to Rules 212 and 213 of the Commission’s Rules of Practice and Procedure,<sup>1</sup> the California Independent System Operator Corporation (“ISO”) respectfully submits its answer to the motions to intervene and comments submitted in Docket ER10-188. The ISO does not oppose the intervention of any of the parties that have sought leave to intervene in this proceeding. The requests for substantive modifications of the Grid Management Charge (“GMC”) in the comments, however, are unsupported. The Commission should, therefore, accept the proposed GMC extension and modification without condition or substantive modification.

**II. BACKGROUND**

**A. October 30, 2009 Filing**

On October 30, 2009, the ISO filed with the Commission an application to extend its current GMC until December 31, 2010, with one modification. The modification would revise the calculation of the market usage-forward energy

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<sup>1</sup> 18 C.F.R. §§ 385.212 and 385.213,

component of the GMC. As more fully described in the transmittal letter, the proposed GMC amendment would extend the current GMC, with the \$197 million revenue requirement cap, until December 31, 2010. This entails only one tariff revision: in Appendix F, Schedule 1, Part D, the year “2010” is changed to “2011.”

The ISO also has proposed to modify the market usage-forward energy charge. Appendix F, Schedule 1, Section A.7 of the ISO Tariff currently provides that “the rate for the Day-Ahead Market for Energy will be based on MWh of net Energy purchases or sales in the [Day-Ahead Market], offset by MWh of net Energy associated with Inter-[Scheduling Coordinator] Trades of Energy in the [Day-Ahead Market].” The ISO proposed to revise this language to (1) exclude inter-scheduling coordinator trades from the calculation; (2) refer to day-ahead energy schedules rather than purchases and sales; (3) eliminate “netting” of purchases and sales, or of supply schedules and demand schedules; and (4) calculate the charge based on the greater of total supply schedules or total demand schedules.

The proposed modifications to the market usage-forward energy charge address concerns raised by stakeholders in the previous GMC filing, and vetted in a stakeholder process leading up to the October 20 submission. In particular, the ISO’s proposal eliminates inter-scheduling coordinator trades from the calculation and allocation of the market usage-forward energy charge because these financial instruments do not figure into the market optimizations that

perform energy market clearing and congestion management and therefore do not utilize the market services recovered through the MUFEE charge as energy supply and demand schedules do.

Additionally, the ISO concluded that the use of a gross, rather than net, charge is most consistent with cost causation because all energy that participants submit in their bids as economic bids or self-schedules uses the energy market clearing and congestion management services of the ISO market systems and contributes to the administrative costs of the systems, regardless of whether the energy is bought and sold in the spot markets, or self-scheduled from a load-serving entity's own generation or a bilateral contract. Nonetheless, the ISO recognized that elimination of netting and adoption of an allocation rule based on the total of each scheduling coordinator's supply and demand schedules could result in substantial rate impacts for some scheduling coordinators. The ISO has therefore proposed to moderate such impacts by basing the allocation on the greater of a scheduling coordinator's supply or demand schedules, rather than on the absolute sum of its supply and demand schedules as a gross approach would do. The October 30 filing also contains necessary related tariff language modification that would change the current reference to "energy sales and purchases" to "energy schedules" in accordance with the above explanation.

## **B. Interventions**

Fifteen parties filed motions to intervene: Alliance for Retail Energy Markets; California Department of Water Resources State Water Project ("SWP");

Calpine Corp.; Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California; City of Santa Clara, California; Dynegy Morro Bay, LLC, et al.; Energy Producers and Users Coalition; M-S-R Public Power Agency; Modesto Irrigation District; Northern California Power Agency (“NCPA”); Pacific Gas & Electric Co.; Powerex Corp.; San Diego Gas & Electric. Co.; Southern California Edison Co.; and Transmission Agency of Northern California. Of these, seven filed comments. None filed a protest.<sup>2</sup> As noted above, the ISO does not object to any of the interventions.

### **III. ANSWER TO COMMENTS**

All but two of the comments filed were supportive of the proposed modification of the market usage-forward energy charge. A number of commenters stated their preference for a gross methodology, but accepted the proposed modification as an interim methodology until the ISO’s next cost-of-service study when, as noted in the transmittal letter, the ISO will review cost causation and allocation of the market usage-forward energy charge.

SWP and NCPA urged the Commission to preserve the present methodology or to modify the ISO’s proposal. These recommendations lack merit and the Commission should reject them.

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<sup>2</sup> Although the Energy Producers and Users Coalition has a section heading entitled “Basis for Intervention and Protest,” the filing actually includes no protest.

**A. Whether the Current Methodology for Calculating the Market Usage-Forward Energy Charge Is Just and Reasonable Is Irrelevant**

NCPA does not argue that the ISO's proposed methodology is unjust or unreasonable. Rather, it contends that the ISO has not shown that the proposed methodology is more just and reasonable than the existing methodology.<sup>3</sup> SWP similarly argues that the current methodology is just and reasonable, but that the proposed modification is unjust and unreasonable.

Whether the current methodology is just and reasonable – or even more just and reasonable than the proposed methodology – is, of course, irrelevant to whether the Commission should accept the ISO's proposal. Under Section 205 of the Federal Power Act, the ISO may implement any just and reasonable rate. Contrary to NCPA's implication,<sup>4</sup> it does not matter if the proposed rate is more or less reasonable than alternative rates.<sup>5</sup>

A utility is under no obligation to explain its reasons for revising existing tariff language, as SWP suggests it must;<sup>6</sup> the utility need only demonstrate that the change is just and reasonable. In this instance, the ISO fully explained its reasoning for the proposed tariff language in its transmittal letter. As noted in

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<sup>3</sup> NCPA Comments at 3-4.

<sup>4</sup> *Id.* at 6.

<sup>5</sup> See *New England Power Co.*, 52 FERC ¶ 61,090 at 61,336 (1990), *reh'g denied*, 54 FERC ¶ 61,055, *aff'd Town of Norwood v. FERC*, 962 F.2d 20 (D.C. Cir. 1992); citing *City of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984), *cert. denied*, 469 U.S. 917 (1984) (utility need establish that its proposed rate design is reasonable, not that it is superior to alternatives); *OXY USA, Inc. v. FERC*, 64 F.3d 679, 692 (D.C. Cir. 1995) (“[T]he Commission may approve the methodology proposed in the settlement agreement if it is ‘just and reasonable’; it need not be the only reasonable methodology or even the most accurate.”).

<sup>6</sup> SWP Comments at 7.

the transmittal letter, the amendment resulted from an extensive stakeholder process, is firmly based on the principle of cost causation and – as evidenced by the comments – enjoys wide support.

**B. Assessing the Market ETC Self-Schedules**

SWP argues that the ISO incurs costs only when it is required to buy resources to match an imbalanced demand or to sell an imbalanced supply to the market and not on the balanced portion of the scheduled energy. Thus, it contends that a gross methodology does not reflect cost causation and charges participants based on a measurement that is not indicative of the level of services provided by the ISO.<sup>7</sup>

SWP asserts that the market usage-forward energy charge should be based on purchases and sales, not on schedules. According to SWP, ETC self-schedules do not use the market service, do not impact the market outcome, and do not benefit from the market.<sup>8</sup>

SWP further contends that ETC schedules assist in managing congestion. It also argues that because the GMC already includes a charge for Existing Transmission Service, which is designed to recover the ISO's costs for scheduling transmission service, the fact that the ISO must manage the impacts of schedules on transmission service does not justify an additional charge.<sup>9</sup>

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<sup>7</sup> SWP Comments at 8.

<sup>8</sup> *Id.* at 9.

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

SWP argues that ETCs should be exempt from the MUFEE charge because ETC energy does not use the ISO's market usage-forward energy services. SWP contends that ETC schedules are balanced and the ISO does not need to commit generation units to service ETC demand or find a demand to consume ETC generation. According to SWP, ETC schedules are only constraints when the ISO optimizes the market, but are not part of the CAISO market.<sup>10</sup>

SWP's comments all arise from a fundamental misapprehension of the manner in which the ISO processes ETC self-schedules in the new markets. An ETC self-schedule comprises a demand self-schedule and a supply self-schedule. With only a few exceptions, the ISO's market processes ETC self-schedules in the same manner as other bids. The market optimization software treats all submitted supply and demand bids - including self-schedules - as separate "controls" (i.e., transactions that can be adjusted to reach a solution). The supply self-schedule and the demand self-schedule within a scheduling coordinator's submitted bid are not linked in any way in the running of the software.<sup>11</sup> For clearing the market, which includes congestion management as well as clearing energy and procuring ancillary services (i.e., the "integrated" concept behind IFM), all submitted supply and demand bids and self-schedules, including ETCs, must be taken into account in managing congestion and clearing the energy

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<sup>10</sup> *Id.* at 10-11.

<sup>11</sup> The only exception involves wheel-through schedules, where the optimization will ensure that the in and out schedules are of equal MWh. Even in this case, however, the submitted bids still figure into the market optimizations.

market, and any of them may be adjusted. Thus, ETC self-schedules are very much a part of the ISO's markets, and cause the ISO to incur *market-related* costs.

There are only two significant instances in which the ISO's markets treat ETC schedules differently.<sup>12</sup> First, the ISO validates ETC schedules before putting them into the market to ensure that they comply with their rights as specified by the relevant participating transmission owner. Second, the market software provides for an adjustment hierarchy so that the market will try to reach a reasonable solution by adjusting economic bids and non-ETC self schedules (other than reliability must run and transmission ownership rights schedules) before ETC schedules, thus giving ETCs a significant degree of scheduling priority. These features do not in any way reduce the impact that ETC self-schedules have on the operation of the ISO markets and, therefore, do not provide any basis for reducing the exposure of ETC schedules to the market usage-forward energy charge.

There is no basis for SWP's argument that ETCs assist the ISO in managing congestion. SWP contends that ETCs specify a particular quantity of transmission service to which the parties to the contract agree, thereby ensuring the CAISO that the ETC holder cannot request more than specified in the contract. An ETC does nothing of the sort. An ETC holder will schedule more or less than the ETC capacity according to its load needs and its supply availability;

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<sup>12</sup> In addition to these differences with respect to the running of the ISO markets ETCs are, of course, treated quite differently in settlements. They are not, for example, subject to transmission access charges or congestion charges.



the only constraint imposed by the ETC is a limit on the amount that can be scheduled under the terms of the ETC rights, which provide the scheduling priority noted above and exemption in settlement from transmission access and congestion charges. The fact that scheduling coordinators for holders of ETC rights can submit self-schedules in quantities that exceed the MWh amount of their rights is why the ISO software systems must include validation rules and procedures.

SWP also argues that, to the extent that an ETC holder does not use all of its contracted capacity in the Day-Ahead market, the unused contract amount could be freed up for the CAISO's benefit in mitigating congestion. This is not, however an advantage of ETCs. Rather, this fact only puts ETC schedules on a more comparable footing to other schedules in terms of the congestion management burden imposed on the ISO. Prior to the ISO's comprehensive market redesign, the inability of the ISO to schedule on unused ETC capacity significantly complicated congestion management by causing "phantom congestions."<sup>13</sup> By providing that the ISO could schedule on the unused capacity, the market reforms simply eliminated a problematic and unnecessary burden.

Indeed, it could be argued that the special treatment of ETC self-schedules actually *adds* to the cost of operating the ISO's forward markets. Additional resources are necessary in order to perform the additional validation steps

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<sup>13</sup> See, e.g., *Cal. Indep. Sys. Operator Corp.* 109 FERC ¶ 61,301 at PP 17-21(2004).

required to ensure that submitted ETC self-schedules comply with the parameters of their actual rights. Further, the need to enforce a complicated hierarchy of scheduling priorities makes the software more complicated and reduces the efficiency of market solutions. There is thus no merit to the argument that ETC self-schedules do not affect the costs of operating the ISO's forward market, and, accordingly, it is just and reasonable to allocate the market usage-forward energy charge based on all market energy schedules, including ETC schedules, as the ISO has proposed.

#### IV. CONCLUSION

For the reasons described above, the ISO requests that the Commission accept the ISO's revised Grid Management Charge without modification.

Respectfully submitted,

/s/ Michael E. Ward  
Michael E. Ward

Nancy Saracino  
General Counsel  
Judith Sanders  
Senior Counsel  
California Independent System  
Operator Corporation  
151 Blue Ravine Road  
Folsom, CA 95630

Sean A. Atkins  
Michael E. Ward  
Alston & Bird LLP  
The Atlantic Building  
950 F Street, NW  
Washington, DC 20004

Counsel for the California Independent System Operator Corporation

## CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for the above-referenced 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, 2009.

/s/Daniel Klein  
Daniel Klein