UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	**)** **)**	**Docket No. ER10-966-000**

ANSWER OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
TO COMMENTS

Pursuant to Rule 213 of the Federal Energy Regulatory Commission's (Commission) Rules of Practice and Procedure, 18 C.F.R. § 385.213 (2009), the California Independent System Operator Corporation (ISO) hereby files an answer to comments submitted by Southern California Edison (SCE) in response to the ISO's March 31, 2010, tariff amendment in the above captioned proceeding (March 31 Filing).[1] As explained below, the Commission should accept the March 31 Filing with the additional clarifications requested by SCE to which the ISO agrees as as discussed further below.

I. BACKGROUND

On April 1, 2009, the ISO commenced operations under its new nodal, two-day settlement market design. Under this new market design, after the market has cleared and prices are posted, the ISO may correct financially binding prices if the ISO identifies an invalid market solution or invalid prices in an otherwise valid market solution due to data input failure or hardware or software failure, or if a result is inconsistent with the provisions of the ISO Tariff. Price corrections are conducted

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[1] A number of parties also filed interventions to this proceeding with no comments or protests: Northern California Power Agency; Modesto Irrigation District; NRG Companies; Pacific Gas and Electric Company; Cities of Anaheim, Azusa, Banning, Colton, Pasadena and Riverside, CA; and California Department of Water Resources State Water Project.

through the price validation process conducted by the ISO during the price correction time horizon, which is currently the first five days after the relevant market clears. Prices that apply to demand, which includes both internal demand and exports from the ISO grid, are also subject to such price corrections.

After the start of the new market, market participants brought to the ISO's attention the following issue: when prices for demand are corrected in the upward direction after the market clears, in certain cases, Scheduling Coordinators with cleared demand bids are subject to prices higher than the prices they submitted in their bid curve. As explained in the March 31 Filing, this discrepancy can expose Scheduling Coordinators to higher costs from using the ISO grid than they were willing to incur based on their submitted bids.

In response to stakeholder concerns, the ISO developed a proposal to minimize exposure of demand bids to the impact of price corrections. The proposal addresses the concerns raised by market participants through a simple "make-whole" mechanism that can be readily implemented on June 1, 2010. The proposed "make-whole" mechanism would apply to all demand, including internal demand and exports, cleared in the integrated forward market, and all export schedules cleared in the hour-ahead scheduling process.[2] In the event the ISO conducts a price correction such that market clearing prices are adjusted upward, cleared demand schedules affected by the price correction will not be settled at the corrected price,

[2] It is important to note that under the current market design, the ISO does not clear internal load bids in the hour-ahead scheduling process, nor does it clear internal load or export bids in the real-time market. Therefore, the proposal is limited to the demand bids that are cleared through the ISO markets. In addition, the proposal approved by the Board of Governors in February of 2010 included a similar treatment for virtual supply bids impacted by price corrections. This part of the proposal will be included in the ISO's tariff filing to implement convergence bidding to be filed later this year.

but will instead be settled at an alternative derived price. The derived price, referred to as the Price Correction Derived LMP, reflects the value of the make-whole payment necessary to ensure a Scheduling Coordinator is not adversely impacted by a subsequent price correction that results in a price above its accepted bid prices. The Price Correction Derived LMP will be calculated specifically for the Scheduling Coordinator whose cleared demand, internal demand, and export bids are impacted by the upward price correction.

II. ANSWER

The proposal put forth by the ISO was widely supported by stakeholders during the stakeholder process, which preceded the March 31 Filing. In addition, no intervenor in this proceeding has protested the ISO's filing. SCE also supports the ISO's filing but requests certain additional clarifications as discussed below. Although SCE did not raise these comments during the tariff stakeholder process, the ISO believes they do not materially alter the filed tariff and provide helpful clarifications. If the Commission accepts the proposed clarifications offered by the ISO in response to SCE's requests as further discussed below, the ISO will submit a compliance filing containing the amended tariff sheets to include the requested clarifications.

SCE requests that the Commission require the ISO to revise its tariff language to clearly state that the self-schedule portion of a Scheduling Coordinator's demand or export bid is not eligible to receive a make-whole payment as a result of an ex-post price correction. SCE asserts that the language as currently written does not differentiate between the economic portion of a Scheduling Coordinator's bids curve and any self-scheduled amounts. The language only states that the make-whole payment will be determined by the "area between the resource's CAISO Demand or Export Bid curve and the corrected LMP" and that including language that explicitly excludes self-scheduled demand from the make-whole payment determination would remove any ambiguity or confusion as to the megawatts eligible for such payments.

The ISO agrees that the make-whole payments mechanism does not apply to the self-scheduled portion of the the demand or export bid. Under the self-scheduled portions of the demand or export bids, the Scheduling Coordinator does not submitted a price with its bid and, therefore, is considered to be a price-taker. Hence, it is not possible for their bid curve to become uneconomic as a result of the price correction given that there is no bid price to consider in the make-whole calculation.[3] In other words, the self-scheduled portions take the price as corrected and have not signaled a more economic price. This is captured in the calculation of the make-whole payment mechanism given that in calculating the make-whole payment the self-scheduled portions of the bid curve is not attributed any additional payment because there is no price differential between their bid price and the corrected LMP, which are one and the same. By so doing, the ISO ensures that the Price Correction Derived LMP captures the make-whole payment amounts that apply to bids rendered uneconomic as a result of the price correction, which as discussed above do not include an accounting of make-whole payments for self-scheduled demand.

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[3] As specified on page 4 of the Draft Final Proposal for this issue, the ISO has clarified that that self-scheduled load and export are price-takers, and clear at the corrected market clearing price. Therefore the concept of the make-whole payment does not apply to self-schedules. *See* http://www.caiso.com/271c/271cac5961570.pdf

To capture the clarification requested by SCE, the ISO agrees to make the following changes to Section 11.21.1:

> If the CAISO corrects an LMP in the upward direction pursuant to Section 35 that impacts Demand in the Day-Ahead Market and the HASP such that either a portion of or the entire cleared CAISO Demand or e~~E~~xport *Economic* Bid curve becomes uneconomic, then the CAISO will calculate and apply the Price Correction Derived LMP for settlement of CAISO Demand and exports for the affected resource in Section 11.2.1.2 and 11.2.1.4. The CAISO will calculate a Price Correction Derived LMP for each affected resource as follows: the total cleared MWhs of CAISO Demand or export in the Day-Ahead Schedule or HASP Intertie Schedule, as applicable, multiplied by the corrected LMP, minus the make-whole payment amount, all of which is divided by the total cleared MWhs of CAISO Demand or export in the Day-Ahead Schedule or HASP Intertie Schedule, as applicable. The make-whole payment amount will be calculated on an hourly basis determined by the area between the resource's CAISO Demand or Export Bid curve and the corrected LMP, which is calculated as the MWhs of each of the cleared bid segment in the Day- Ahead Schedule or HASP Intertie Schedule for the affected resource, multiplied by the maximum of zero or the corrected LMP minus the bid segment price. For the purpose of this calculation, the CAISO will not factor in a make-whole payment amount for Self-Scheduled CAISO Demand or exports.

The term *Economic Bid* is defined in Appendix A of the ISO FERC Electric Tariff as "A Bid that includes quantity (MWh or MW) and price ($) for specified Trading Hours." By inserting the specification that the derived LMP will be calculated when the Economic Bid curve becomes uneconomic, the ISO clarifies that the Self-Schedule portions are not included in the make-whole payment calculation. In addition, the last sentence the ISO proposes to add to Section 11.21.1, explicitly states that the self-schedules are not included in the calculation of the make-whole payment amounts then used to derive the Price Correction Derived LMP.

SCE also requests that the ISO clarify in the tariff as it does in the Transmittal Letter that any revenue shortfalls as a result of the application of this make-whole methodology will be captured through the allocation of non-zero amounts of the sum of imbalance energy, uninstructed imbalance energy, and unaccounted for energy in the real-time in accordance in Section 11.5.4 of the ISO Tariff. To include this clarification in the tariff the ISO proposes the addition of the following statement at the end of Section 11.21.1:

> Any non-zero amounts in revenue collected as a result of the application of the Price Correction Derived LMP will be captured through the allocation of non-zero amounts of the sum of Imbalance Energy, Uninstructed Imbalance Energy, and Unaccounted for Energy in accordance with Section 11.5.4.

III. CONCLUSION

For the reasons provided herein, the Commission should accept the tariff revisions as submitted by the ISO in the March 31 Filing and with the amendments further agreed to as discussed above.

Respectfully submitted,

/s/ Anthony J. Ivancovich

Anthony Ivancovich
Assistant General Counsel - Regulatory
Anna A. McKenna
Senior Counsel - Regulatory

The California Independent
System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400
Fax: (916) 608-7296

amckenna@caiso.com

Attorneys for the California Independent
System Operator Corporation

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CERTIFICATE OF SERVICE

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

Dated at Folsom, CA this 4th day of May, 2010.

/s/ Anna Pascuzzo
Anna Pascuzzo