

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

California Independent System) Docket No. ER02-1656-030
Operator Corporation)

**MOTION FOR LEAVE TO FILE ANSWER AND ANSWER OF
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION TO
COMMENTS AND PROTESTS**

I. INTRODUCTION

On May 13, 2005, the California Independent System Operator Corporation (“CAISO”) filed its Further Amendments to the California Independent System Operator Corporation’s Amended Comprehensive Market Redesign Proposal” in the captioned proceeding. On July 1, 2005, the Federal Energy Regulatory Commission (“Commission”) issued an *Order On Further Amendments To The California Independent System Operator’s Comprehensive Market Design Proposal* (“July 1 Order”). In its July 1 Order, the Commission, *inter alia*, directed the CAISO to file, within 30 days of the July 1 Order, a full explanation of the alleged infeasibility to implement convergence bidding simultaneously with the Day-Ahead market. The Commission also stated that the CAISO should include in that filing a date when it would be feasible for the CAISO to implement convergence bidding. July 1 Order at P 174.

On August 2, 2005, the CAISO submitted its compliance filing regarding the implementation of convergence bidding as part of the CAISO’s MRTU market redesign (“Compliance Filing”). Only three parties submitted comments and/or

protests regarding the Compliance Filing.¹ Pursuant to Rules 212 and 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §§ 385.212, 385.213, the CAISO hereby requests leave to file an answer, and files its answer, to the comments and protests submitted in response to the Compliance Filing.²

For the reasons set forth below and in the Compliance Filing, the Commission should: (1) accept the CAISO's plan for addressing convergence bidding, as outlined in the Compliance Filing, and (2) not require the CAISO to implement convergence bidding in MRTU Release 1 because that would significantly delay MRTU implementation.

II. ANSWER TO PROTESTS

IEP requests that the Commission direct the ISO to implement convergence bidding in Release 1 of MRTU or, at a minimum, direct the ISO to implement convergence bidding by a date certain as close as possible to the Release 1 implementation date, e.g., April 1, 2007. IEP Protest at 16-17. IEP also urges that, to the extent the MRTU Release 1 date slips past April 2007, the Commission should require the ISO to include convergence bidding in Release 1. *Id.* at 16.

The Commission should not require implementation of convergence bidding as part of MRTU Release 1 because that would significantly delay MRTU

¹ Comments and/or protests were submitted by the following entities: Powerex Corp. ("Powerex"); Williams Power Company, Inc. ("Williams"); and the Independent Energy Producers Association ("IEP").

² The CAISO requests waiver of Rule 213 (18 C.F.R. § 385.213) to permit it to file this answer. Good cause for this waiver exists here because the answer will aid the Commission in understanding the issues in the proceeding, provide additional information to assist the Commission in the decision-making process, and help to ensure a complete and accurate record in this case. See, e.g., *Entergy Services, Inc.*, 101 FERC ¶ 61,289, at 62,163 (2002); *Duke Energy Corporation*, 100 FERC ¶ 61,251, at 61,886 (2002); *Delmarva Power & Light Company*, 93 FERC ¶ 61,098, at 61,259 (2000).

implementation based on the current status of systems and software development, resource availability and the testing schedule. Even assuming *arguendo* that the CAISO and market participants had already finalized a convergence bidding design, requiring such feature to be included in MRTU Release 1 would likely delay Release 1 implementation until late Fall of 2007.³ As the Commission and virtually every market participant has recognized, the CAISO's current market design is fatally flawed and needs to be replaced as soon as possible. Requiring the CAISO to survive through yet another summer (*i.e.*, the summer of 2007) without having implemented MRTU just so convergence bidding can be included in MRTU Release 1 is neither prudent nor reasonable under these circumstances. The eastern independent system operators implemented their day-ahead markets without incorporating convergence bidding into the initial design, and there is no legitimate reason to preclude the CAISO from doing the same. Any convergence bidding mechanism could be implemented as part of MRTU Release 2, and that would allow the CAISO to implement a needed Day-Ahead market and correct the especially problematic features of the current market design prior to Summer of 2007.

IEP, Williams and Powerex state that convergence bidding is necessary to address the issue of buyer market power and load under-scheduling in the Day-Ahead market (and reliance on the Real-Time market). IEP Protest at 15; Williams Protest at 4, n.11; Powerex Comments at 5. However, convergence bidding is not the only mechanism available to address this concern. As IEP recognizes, load under-scheduling can also can be addressed by raising the

³ However, at this time, a convergence bidding design has not been developed.

Real-Time bid cap. IEP Protest at 15. To that end, in its July 1 Order, the Commission increased the bid cap from \$250/MWh to \$500/MWh upon implementation of MRTU (with annual lockstep increases to \$750/MWh and \$1,000/MWh). The increased Real-Time bid cap should discourage load under-scheduling in the Day-Ahead pending implementation of any convergence bidding mechanism. Also, in the very near future, the CAISO intends to file a Tariff amendment to implement a requirement that load serving entities schedule 95% of their forecasted Demand in the Day-Ahead. This mechanism could be retained under MRTU until implementation of a convergence bidding mechanism, thereby addressing any load under-scheduling concerns. The CAISO submits that the increased bid cap, along with a Day-Ahead scheduling requirement, should adequately allay any concerns regarding the temporary lack of a convergence bidding mechanism and reduce any urgency for incorporating a convergence bidding mechanism into MRTU Release 1. Under these circumstances, there is no need to require the CAISO to implement convergence bidding with implementation of the Day-Ahead market, especially given that such a requirement would unduly delay implementation of other desperately needed market design changes.

The CAISO's plan for evaluating convergence bidding, as set forth in the Compliance Filing, will allow the CAISO to evaluate the issue thoroughly and vet the issue fully with stakeholders.⁴ The CAISO anticipates that, if it were to

⁴ IEP and Williams allege that the CAISO has failed to comply with the Commission's orders regarding convergence bidding and that CAISO's inaction has led to the infeasibility of implementing convergence bidding in MRTU Release 1. The Commission required the CAISO either to (1) include convergence bidding in its MRTU tariff filing, or (2) provide an explanation as

develop the details of a convergence bidding design by March 15, 2006, it would be feasible to implement such convergence bidding mechanism by Spring 2008.⁵

III. CONCLUSION

For the reasons set forth herein and in the Compliance Filing, the CAISO requests that the Commission (1) accept the CAISO's plan and schedule for addressing convergence bidding, and (2) not require the CAISO to implement convergence bidding in MRTU Release 1.

Respectfully submitted,

/s/ Anthony J. Ivancovich

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Filed: September 7, 2005

to why the CAISO cannot implement convergence bidding simultaneously with implementation of the Day-Ahead market and a date when convergence bidding could be implemented. By its Compliance Filing and the instant Answer, the CAISO has proposed and established a process by which it can provide the Commission with the requested information. Absent such a deliberate process, and taking into account operational concerns, audit requirements/timing, and the considerations identified in footnote 5 *infra*, any exact implementation date for MRTU Release 2 provided by the CAISO would be an estimate. The CAISO notes that, beginning in the Fall of 2004, the CAISO undertook an effort to re-validate and "lock-down" the market design elements proposed to be included in MRTU Release 1. This effort was necessary in order to conduct and conclude the vendor development phase of MRTU implementation. At that time, the CAISO initially raised the issue of convergence bidding with market participants, and they were polarized on this issue. The CAISO concluded that other design elements such as convergence bidding could, if appropriate, be implemented in a later MRTU Release 2.

⁵ As the CAISO indicated in its Compliance Filing, considerations affecting the actual implementation date of any convergence bidding mechanism would include, *inter alia*, resource availability (both the CAISO's and the vendor's), staging requirements and the status of other design features that the CAISO desires to include in a single MRTU Release 2.



CALIFORNIA ISO

California Independent
System Operator

September 7, 2005

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

**Re: California Independent System Operator Corporation
Docket Nos. ER02-1656-030**

Dear Secretary Salas:

Enclosed please find an electronic filing of a Motion to File Answer and Answer of the California Independent System Operator Corporation.

Thank you for your attention to this filing.

Respectfully submitted,

/s/ Anthony J. Ivancovich
Anthony J. Ivancovich

Counsel for the California Independent
System Operator Corporation

CERTIFICATE OF SERVICE

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

Dated this 7th day of September at Folsom, California.

/s/ Anthony J. Ivancovich
Anthony J. Ivancovich

Submission Contents

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