

**Comments of the California Department of Water Resources
State Water Project on the California Independent System Operator's White Paper:
Post-Release 1 Market Redesign and Technology Upgrade Scoping Study**

On July 12, 2006, the California Independent System Operator, Inc. (CAISO) issued a White Paper entitled "Post-Release 1 MRTU Scoping Study." This paper addresses in part additional functionality that the CAISO asserts is highly desirable to enhance MRTU markets. The California Department of Water Resources - State Water Project (CDWR-SWP) applauds the CAISO staff for taking the initiative to address issues that are likely to require refinement as MRTU develops. CDWR-SWP intends to participate in further stakeholder discussions regarding Post-Release 1 MRTU issues. CDWR submits these comments to address a principle issue that CDWR-SWP believes the CAISO Board of Governors should address as soon as possible.

In its White Paper, the CAISO identifies several candidate features and functions to address in post Release 1 under MRTU, including issues that involve CDWR-SWP's ability to function in MRTU markets. The CAISO should be aware that by implementing MRTU without certain features, it may be undermining the ability of CDWR-SWP to function in MRTU markets, including the ability to respond to system needs. As Participating Load, CDWR-SWP currently has the ability to reduce load in connection with demand response programs. This functionality is essential not only for viable efficient power markets, but also for system reliability, as was shown during the recent heat wave that stressed the CAISO's electric power grid. MRTU presents an opportunity for the CAISO not only to ensure that its tariff facilitates such load reduction programs, but also to develop comprehensive wholesale demand response in CAISO markets.¹

1. Participating Load should be able to participate fully in the Day Ahead Markets.

The White Paper states that Participating Load is not permitted to bid in the Day Ahead market because under the initial design, it would be able to purchase energy in the Day Ahead market at the aggregated Load Aggregation Point ("LAP") price and sell back demand response – also in that market – at the nodal price.²

The current MRTU tariff filing has completely eliminated this concern. In its May 16, 2006 reply comments, CAISO explained, "As specified in Section 30.5.3.2, all Demand for Participating Loads are exempt from the requirement that Demand Bids are submitted and settled at the LAP. The CAISO reiterates that Participating Loads will be scheduled and settled at the nodal level, rather than the LAP level. . . ."³ In light of the CAISO's formal comments to FERC, there appear to be no valid reasons to exclude Participating Load from participating in the Day Ahead market or to allow Participating Load to

¹ CDWR-SWP notes that Other ISO/RTOs have developed extensive wholesale demand-side programs to employ price signals and compensation akin to those available to generators.

² See, CAISO July 12, 2006 White Paper at Issue 4.4.

³ *California Independent System Operator Corp.*, Docket No. ER06-615, Reply Comments of CAISO at p. 268 (filed May 16, 2006).

participate on the same basis as its generation counterparts.⁴ The CAISO Board of Governors should reconcile how postponing issue 4.4 – Participating Load demand response in Day-Ahead Market until a post-release 1 timeframe is consistent with prior revisions to MRTU eliminating the potential problems cited as reason for delay.

2. MRTU should be revised to restore to Participating Load the full functionality currently available to participate in Ancillary Services markets.

In its May 16, 2006 reply comments, the CAISO committed to FERC that “Release 1 of MRTU will include all the same features for Participating Loads that exist today.”⁵ The CAISO should ensure that commitment is honored with respect to all aspects of aggregation, gradation, bidding, scheduling, settlement, and other treatment for Participating Load.

CDWR-SWP currently schedules Participating Load in Load Groups. Under the current CAISO tariff, CDWR-SWP bids Participating Load as Non-Spinning Reserve Ancillary Services in the Day Ahead and Hour Ahead markets in increments of load drop, reflecting the capacity of one or several pumping units in a Load Group. Also some of the Load Groups contain pumping units from several pumping plants that are hydraulically linked. This fact means that pumping unit(s) of one pumping plant cannot shut down without shutting down unit(s) of other pumping plants in different locations—or else flooding or dewatering of the CDWR-SWP aqueduct may occur. However, under MRTU Release 1, CDWR-SWP bids would contain just a single segment, *i.e.*, Participating Load would be treated as either on or off with no intermediary operating point or bid. Additionally, Release 1 would not support aggregation of pumping plants, notwithstanding their hydraulically linked nature.

Absent revisions to the MRTU Release 1 proposal, CDWR-SWP Participating Load will be limited to participate in the CAISO market. In contrast, under the MRTU Release 1 proposal, generation will be able to be aggregated, provide increments of service, and of course participate in Day Ahead markets.

CDWR-SWP appreciates the CAISO’s discussions with CDWR-SWP about this matter and its ongoing efforts to honor its commitment to provide full functionality. At a minimum, full functionality should be restored for the Participating Load units most frequently bid into CAISO markets.⁶ In any event, CDWR-SWP recommends that the

⁴ CDWR-SWP notes that *all* software developments intended to accommodate generation should be viewed in terms of opportunities and nondiscrimination for Participating Load. For instance, when considering issue 4.12 ---- DEC Bidding Activity Rule on Final Day-Ahead Resource Schedules, the CAISO should also consider Demand Response. Participating Load should have the ability to offer to re-bid increases in pump load (equivalent to a generator’s decrement of energy) or to re-bid decreases in pump load (equivalent to a generator’s increment of energy) in the same window of time proposed for generation.

⁵ *California Independent System Operator Corp.*, Docket No. ER06-615, Reply Comments of CAISO at p. 323 (filed May 16, 2006).

⁶ This functionality would include including increments of demand adjustments (as opposed to the on/off proposal) and Participating Load aggregation (as opposed to proposed blanket prohibition of load aggregation).

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Board of Governors ensure that the CAISO take every action to remedy any software limitations, though manual solutions or otherwise, in order to restore Participating Load functionality as part of MRTU Release 1.