

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

California Independent System            )     Docket Nos. ER02-1656-024  
Operator Corporation                     )

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

**I. INTRODUCTION AND SUMMARY**

On December 8, 2004, the California Independent System Operator Corporation (“CAISO”) submitted for filing in the referenced docket its Proposal for Honoring Existing Transmission Contracts Under The California Independent System Operator Corporation’s Amended Comprehensive Market Design Proposal (“ETC Proposal” or December 8 filing”). On February 10, 2005, the Federal Energy Regulatory Commission (“Commission”) issued a *Guidance Order on Conceptual Proposal for Honoring Existing Transmission Contracts* (“February 10 Order”). In the February 10 Order, the Commission requested that the CAISO provide additional details on the “perfect hedge” approach for settlement of ETC schedules. On March 14, 2005, the CAISO made a filing to comply with the Commission’s directives in the February 10 Order (“March 14 Compliance Filing”). The March 14 Compliance Filing included settlement examples and answers to the questions posed by the Commission.

Eight parties submitted comments or protests concerning the March 14 Compliance Filing.<sup>1</sup> 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 regarding the March 14 Compliance Filing.<sup>2</sup> The comments and protests do not raise any legitimate issues that warrant rejection or modification of the ISO’s “perfect hedge” proposal, nor do they raise any issues that warrant a delay in Commission approval of the “perfect hedge” proposal. Indeed, most of the issues parties raise (1) do not pertain to the CAISO’s ETC Proposal, (2) do not impact ETC rights holders, (3) will be addressed in the stakeholder process that will be undertaken in connection with filing of the MRTU tariff, or (4) are being addressed in a different proceeding. The outcome of issues related to ETCs that will be addressed in the stakeholder process (e.g., the treatment of losses and costs other than congestion), as well as detailed Tariff language not addressed by the ETC Proposal or the March 14 Compliance Filing have not been prejudged in any way by the March 14<sup>th</sup> Compliance filing (and the ETC

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<sup>1</sup> Comments, and/or protests were submitted by the following entities: California Department of Water Resources State Water Project (“SWP”); California Municipal Utilities Association (“CMUA”); Cities of Anaheim, Azusa, Banning, Colton, and Riverside, California (“Southern Cities”); City of Los Angeles Department of Water and Power (“LADWP”); the Northern California Power Agency (“NCPA”); Modesto Irrigation District (“MID”); City of Santa Clara, California, Silicon Valley Power (“SVP”); and Transmission Agency of Northern California (“TANC”).

<sup>2</sup> The CAISO requests waiver of Rule 213 (18 C.F.R § 385.213) to permit it to make 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).

Proposal). Thus, the rights of ETC holders are fully protected by the CAISO's March 14 Compliance Filing (and the ETC Proposal).

Accordingly, for the reasons set forth below, in the December 8 Filing and in the March 14 Compliance Filing, the Commission should promptly approve the "perfect hedge" proposal in its entirety, without modification. This will enable the CAISO to proceed with MRTU systems and software development and maintain the current MRTU implementation schedule.

## **II. ANSWER**

### **A. The Commission Need Not And Should Not Wait Until Finalization Of CRR Details To Rule On The "Perfect Hedge" Proposal**

Several parties contend that they cannot evaluate the "perfect hedge" proposal because the CAISO has not completed its CRR study and has not shown how CRRs will serve as an effective hedge against congestion risk. NCPA at 1-3; CMUA at 2-3. Parties also claim that further explanation is required regarding the "paper CRR" concept. CMUA at 4; TANC at 6-7; NCPA at 2.

These arguments are red-herrings that the Commission should not countenance. Under MRTU, ETC rights holders are not being allocated CRRs for their ETCs, and they do not need CRRs to hedge against any risk of congestion because they will be "protected" by the "perfect hedge" mechanism.<sup>3</sup> Stated differently, the "perfect hedge" mechanism is a substitute for CRRs, and the "perfect hedge" -- unlike CRRs -- will act as a full and complete hedge

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<sup>3</sup> Further, "paper CRRs" are not intended for the benefit of ETC rights holders; rather, the purpose of "paper CRRs" is to minimize the potential for adverse financial impacts of the "perfect hedge" on holders of CRRs. As indicated above, ETC rights holders are not being allocated CRRs. They are fully hedged against congestion by the "perfect hedge" mechanism.

against Day-Ahead and Real-Time congestion charges associated with ETC schedules and schedule changes that are consistent with ETC rights (including any congestion charges associated with the ETC schedule changes in the Hour-Ahead Scheduling Process). Because the issuance of CRRs has no bearing on the “perfect hedge” mechanism, there is no basis for delaying a decision on the “perfect hedge” mechanism.

Some parties also claim that further explanation is required regarding “paper CRRs.” CMUA at 4; TANC at 6-7; NCPA at 2. For example, TANC urges the Commission to require the CAISO to better explain the “paper CRR” proposal by “better explaining the potential impacts “paper CRRs will have on market participants. TANC at 6-7.

In its March 14 Compliance Filing, the CAISO answered all of the questions posed by the Commission regarding “paper CRRs” and explained how the “paper CRRs” will function. “Paper CRRs” are simply a vehicle to implement the “perfect hedge” and assure that the CAISO is properly accounting for the “perfect hedge” in its CRR allocation and auction process for non-ETC users of the transmission grid. In particular, “paper CRRs” are a natural consequence of the need to keep ETC rights holders whole and fully honor their contracts.<sup>4</sup>

The CAISO recognizes parties’ legitimate concerns about the potential impacts of this proposal and acknowledges that it is not possible at this time to develop definitive quantitative estimates of such impacts and, therefore, any

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<sup>4</sup> NCPA asks whether the CAISO intends to model “paper CRRs” as CRR options or CRR obligations. The CAISO intends to model “paper CRRs” as CRR obligations, essentially simulating what the allocation of CRRs to the ETC holders on a comparable basis to other load-serving entities would have looked like absent the “perfect hedge.”

assessment of impacts must be qualitative. It is crucial to emphasize, however, that any such qualitative assessment must compare potential impacts of the “perfect hedge” and associated “paper CRRs” against alternative approaches for fully honoring ETCs in the context of the MRTU market redesign. Such assessment should not make the error of comparing impacts of the CAISO’s proposal against any alternative that does not fully honor ETCs (e.g., the impact of implementing the “perfect hedge” versus not implementing it), because the latter is not realistic.

Given the unalterable fact that the CAISO must and will fully honor ETCs, the CAISO notes that its proposal has been determined, through a lengthy and thorough stakeholder process, to minimize and fairly distribute the adverse impacts of fully honoring ETCs on the markets and on non-ETC parties. In this regard, most parties to the stakeholder process agreed that the most fair manner of distributing these impacts would be to the market at large because the benefits of more efficient management of ETC rights are realized by the market at large. Moreover, as demonstrated in the CAISO’s December 8 Filing, the MRTU market design will perform much better -- and therefore non-ETC parties will be better off -- under the “perfect hedge” and “paper CRR” design than under the alternatives considered in the process, specifically, a complete set-aside of transmission capacity for ETCs on the CAISO internal transmission grid.

In any event, none of the parties submitting comments indicated why additional information regarding “paper CRRs” is needed to evaluate the “perfect

hedge” proposal, they merely claimed that additional information was needed.<sup>5</sup> The Commission should not permit conclusory statements without any underlying foundation to serve as the basis for delaying **conceptual** approval of the “perfect hedge” mechanism and potentially jeopardizing the MRTU implementation schedule. Further, details of the “perfect hedge” will be addressed and developed in the MRTU Tariff process, and stakeholders will be actively involved in that process. The lack of all such details should not preclude approval of the “perfect hedge” on a conceptual basis.

**B. There Is No Valid Reason To Approve The “Perfect Hedge” Mechanism Only On An Experimental Basis**

The Southern Cities request that the Commission approve the ETC Proposal on an experimental basis only. The Southern Cities claim that this is necessary because there have been instances since the formation of the CAISO when market design elements have resulted in unanticipated costs or have not functioned as expected. Southern Cities at 4-5.

The Southern Cities have not enunciated a valid reason why the “perfect hedge” mechanism should be approved only on an experimental basis. The

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<sup>5</sup> At a conceptual level, non-ETC rights holders should compare the “perfect hedge” proposal with the way ETCs are handled today (*i.e.*, with an ETC transmission “set-aside” in the Day-Ahead). Non-ETC rights holders will be much better off with respect to their share of allocated and auctioned CRRs (which are purely Day-Ahead products) under the “perfect hedge” than they would be under an ETC transmission “set-aside” (because the paper CRRs are CRR Obligations and, as such, increase the volume of CRRs to be allocated to non-ETC rights holders compared to an ETC transmission “set-aside”). On the other hand, ETC rights holders should compare the “perfect hedge” to the alternative of receiving the “paper CRRs” (which the CAISO called ETC CRRs in a previous design). If the CAISO were to allocate paper CRRs to ETC rights holders, they would have to worry about potential revenue shortfall and the details of “paper CRR” allocation. However, that is not what the CAISO is proposing to do under the “perfect hedge.”

Southern Cities rely on nothing more than the mere, baseless speculation that the “perfect hedge” **may not** function properly. Applying this logic, every market design change the CAISO or any other independent system operator makes should be approved on an experimental basis only because the **possibility** exists that it will not function properly. That is not a legitimate basis to reject a proposal that is otherwise just and reasonable. In any event, the CAISO notes that the structure of its CRR release provides for monthly adjustments to CRR allocations. This will enable the CAISO to adjust the “paper CRR” set-aside in a timely manner if necessary. Further, if it were to turn out that the “perfect hedge” proposal was not functioning as anticipated, Southern Cities would be able to exercise their Section 206 rights to seek elimination of or changes to the mechanism.

Southern Cities also claim that the CAISO’s statement that non-ETC loads will be kept whole for Real-Time Congestion offsets for ETC holders is inaccurate.<sup>6</sup> Southern Cities at 5-6. The CAISO has never made that claim. In fact, the CAISO has made it clear that assuring that ETC holders will not pay for Real-Time congestion reduces the funds into the Real-Time neutrality account. The balance of that account (positive or negative) is allocated to all Real-Time non-ETC metered demand.<sup>7</sup>

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<sup>6</sup> Southern Cities state that, because revenues collected for transmission losses in excess of actual losses are to be credited to the CRR Balancing Account, and any amounts in the CRR Balancing Account that remain after payments of CRR revenues to CRR holders are credited against transmission revenue requirements (“TRRs”) recovered through the CAISO’s Access Charges, non-ETC loads effectively will bear the costs for the Real-Time Congestion offsets for ETC rightsholders through a reduced TRR credit.

<sup>7</sup> The CAISO notes that the “perfect hedge” works both ways, *i.e.*, it can generate costs or revenues to the neutrality account. For example, if the ETC schedule is increased after the Day-Ahead (within the limitations of the ETC right), but Real-Time congestion is in the opposite

Southern Cities misunderstands the CAISO's proposal for the treatment of Real-Time congestion charges and losses over-collection. The logic of this proposal was fully explained in the CAISO's previous filings and refutes the concern expressed by Southern Cities. First, over-collected loss revenues in Real-Time will not be placed into the CRR balancing account, but will be refunded directly to Real-Time metered demand, including both ETC and non-ETC metered demand because, as the proposed by the CAISO, both categories of Real-Time metered demand pay these charges.<sup>8</sup> Thus, the management of these revenues is kept completely separate from the "perfect hedge" mechanism. Second, Real-Time congestion charges will be managed through a completely separate balancing account dedicated exclusively to this purpose and in which only non-ETC Real Time transactions will be included. That is, Real-Time congestion charges will be implicitly collected from the Real-Time settlement of non-ETC transactions by virtue of their Real-Time energy settlement and will be refunded to Real-Time non-ETC metered demand. ETC transactions covered under contractual rights will be exempt through the "perfect hedge" which would zero out the congestion component of the Real-Time price difference between

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direction of the ETC right, this will give rise to counterflow revenues (because the supply and demand sides of the schedule change would each be settled at the relevant Real-Time price) that the ETC rights holder must refund (the refund will go to the neutrality account). The same situation will occur if the ETC rights holder reduces its forward schedule, but Real-Time congestion exists in the same direction as the ETC right. Absent the "perfect hedge" the ETC rights holder would keep these additional revenues (thereby resulting in a loss for the non-ETC rights holders compared to the "perfect hedge").

<sup>8</sup> The CAISO notes that if it is determined, in the forthcoming stakeholder process, that any modification to this proposal for managing Real Time loss over-collections is warranted, the CAISO will file the appropriate modifications in the MRTU Tariff.

the ETC source and sink in the Real-Time energy settlement. Thus, the ETC transactions neither pay into nor receive a refund from this dedicated account.

Southern Cities also claim that implementation of the “perfect hedge” proposal may undermine the price signals expected to be sent by the LMP market design. Southern Cities at 6. The CAISO has previously acknowledged that the ETC Proposal will not eliminate all inefficiencies on the CAISO-Controlled Grid. However, the CAISO has erred on the side of fully honoring ETCs. The ETC Proposal reduces market inefficiencies to the maximum extent possible given the CAISO’s overarching goal of honoring ETCs. Further, although the “perfect hedge” will not eliminate all market inefficiencies, it will produce a market that is far more efficient than one in which the CAISO is required to “set-aside” ETC capacity on the internal transmission network on a Day-Ahead basis. The December 8 Filing clearly delineated the significant problems associated with that approach, and no intervenor demonstrated otherwise. In that regard, “setting-aside” capacity on the internal network would add undue and burdensome complexity to the modeling process and the market design and would produce market inefficiencies that are significantly greater than those created by the “perfect hedge.” Further, transmission efficiency will be greatly improved as a result of the ISO’s proposal. The Commission recognized these benefits in the February 10 Order when it found that the ETC Proposal “makes additional capacity available in the day-ahead and subsequent markets for use by other users of the system, reduces the likelihood and magnitude of

phantom congestion, and promotes the convergence of day-ahead and real-time prices. February 10 Order at P 35.

The CAISO notes that, in its order on MISO's grandfathered agreements, the Commission recognized that, although the mechanism adopted by the Commission would result in some inefficiencies (*i.e.*, additional costs being imposed on non-GFA customers), it would result in a more reliable and efficient market overall. *Midwest Independent Transmission System Operator, Inc.* 108 FERC ¶61,236 at P 89. The same reasoning applies here.

**C. Functioning Of The “Perfect Hedge” In Instances Where The Day-Ahead Market Grid Configuration Differs From the Real-Time Grid Configuration Due To Transmission Outages**

The Southern Cities also state that the CAISO's “perfect hedge” explanation does not address the situation where the Day-Ahead market grid configuration differs significantly from the Real-Time grid configuration due to transmission outages. Southern Cities at 6. Set forth below is an example showing how the “perfect hedge” would work in a situation where transmission is derated. This concept is applicable for transmission outages as well.

**Day-Ahead Assumptions**

- This is a radial, 3-node network (A-B-C) with total transfer capabilities of 1,000 MW from A to B and 300 MW from C to B. A and C are generation nodes and B is a load node.
- There are four Scheduling Coordinators: SC1, SC2, SC3 and SC4.
- SC2 has a 100 MW ETC from A to B.
- The final DA schedules breakdown as follows:
  - SC1 = 550 MW injection at node A, 400 MW withdrawal at node B, and 0 MW at node C
  - SC2 = 100 MW injection at node A, 100 MW withdrawal at node B, and 0 MW at node C

- SC3 = 400 MW injection at node A, 500 MW withdrawal at node B, and 0 MW at node C
- SC4 = 0 MW at node A, 0 MW at node B, and 0 MW at node C
- System losses of 50 MW are served by SC1 and are included in its final DA schedule at node A. Total injections at node A = 1,050 MW. Total withdrawals at node B = 1,000 MW. Node C is scheduled at zero.
- The LMPs at node A and B break down into the following marginal cost components: Marginal Energy ( $MCE_A$ ) = \$40, Marginal Congestion ( $MCC_A$ ) = \$0, Marginal Loss ( $MCL_A$ ) = \$0,  $MCE_B$  = \$40,  $MCC_B$  = \$9, and  $MCL_B$  = \$4. Node A is assumed to be the reference bus. The LMP at node C is ignored due to its final Day-Ahead schedule being zero.
- 900 MW of CRR obligations associated with the transmission from A to B have been allocated in the following quantities: SC1 = 400 MW and SC3 = 500 MW
- 100 MW of CRR obligations have been “retained” by the ISO in accordance with SC2’s 100 MW ETC.
- Note a positive/negative settlement translates as a Payable to ISO/Payable to SC.
- Note a positive/negative MW schedule corresponds to an injection/withdrawal into/out of the A-B-C network.

### **Day-Ahead Energy Settlement**

<b>SC</b>	Source MW	$MCE_A$	Source \$	Sink MW	$MCE_B$	Sink \$	Total \$
SC1	550	\$40	(\$22,000)	(400)	<b>\$40</b>	\$16,000	(\$6,000)
SC2	100	\$40	(\$4,000)	(100)	\$40	\$4,000	\$0
SC3	400	\$40	(\$16,000)	(500)	\$40	\$20,000	\$4,000
<b>Total</b>							(\$2,000)

The balance of (\$2,000) is offset by a debit adjustment to the CRR Balancing Account. This amount represents the actual cost of losses.

### **Day-Ahead Congestion Settlement**

<b>SC</b>	Source MW	$MCC_A$	Source \$	Sink MW	$MCC_B$	Sink \$	Total \$
SC1	550	\$0	\$0	(400)	<b>\$9</b>	\$3,600	\$3,600
SC2	100	\$0	\$0	(100)	\$9	\$900	\$900
SC2	Perfect Hedge Adjustment						(\$900)
SC3	400	\$0	\$0	(500)	\$9	\$4,500	\$4,500
<b>Total</b>							\$8,100

The congestion costs for SC2 are reversed in accordance with the Day-Ahead “perfect hedge” device. SC1 and SC3 are charged a total of \$8,100 for Day-Ahead congestion.

### **DA CRR Obligation Accrual**

<b>SC</b>	Source MW	MCC <sub>A</sub>	Source \$	Sink MW	MCC <sub>B</sub>	Sink \$	Total \$
SC1	400	\$0	\$0	(400)	<b>\$9</b>	(\$3,600)	(\$3,600)
ISO	100	\$0	\$0	(100)	\$9	(\$900)	(\$900)
ISO	Perfect Hedge Adjustment						\$900
SC3	500	\$0	\$0	(500)	\$9	(\$4,500)	(\$4,500)
<b>Total</b>							<b>(\$8,100)</b>

A total of \$8,100 is payable to CRR obligation holders, namely, SC1 and SC3. As stated above, this is fully funded by the Day-Ahead congestion revenue.<sup>9</sup> The “paper” CRR obligations are not settled.

### **Day-Ahead Loss Settlement**

<b>SC</b>	Source MW	MCL <sub>A</sub>	Source \$	Sink MW	MCL <sub>B</sub>	Sink \$	Total \$
SC1	550	\$0	\$0	(400)	\$4	\$1,600	\$1,600
SC2	100	\$0	\$0	(100)	\$4	\$400	\$400
SC3	400	\$0	\$0	(500)	\$4	\$2,000	\$2,000
<b>Total</b>							<b>\$4,000</b>

Note that the balance of \$4,000 is the marginal loss collection. It should be noted that this is not the marginal loss over-collection, which is \$2,000.

### **CRR Balancing Account Activity (for CAISO internal tracking)**

<b><u>Description</u></b>	<b><u>Debit</u></b>	<b><u>Credit</u></b>	<b><u>Total</u></b>
DA Energy Settlement	\$2,000	\$0	\$2,000
DA Congestion Settlement	\$0	(\$8,100)	(\$8,100)
DA CRR Obligation Payout	\$8,100	\$0	\$8,100
DA Loss Settlement	\$0	(\$4,000)	(\$4,000)
<b>Total</b>			<b>(\$2,000)</b>

<sup>9</sup> The CAISO clarifies that although this example covers one hour, the CAISO does not actually settle with the CRR holders on an hourly basis even though the CAISO keeps track of their CRR revenue entitlement every hour and implicitly charges them for congestion (or pays for counterflow schedule congestion relief) on an hourly basis (by virtue of the Day-Ahead energy settlement). Actual clearance of CRR obligations would occur on a monthly and yearly basis. The ETC rights holders are the only transmission users whose Day-Ahead congestion charges are reversed (paid out of the CRR balancing count) every hour (by definition there will be enough congestion rent collected every hour to pay them back what they are implicitly paying). The main purpose of “paper CRRs” is to avoid releasing too many CRRs to non-ETC users, and at the same time release as many CRRs as possible to non-ETC users (taking advantage of ETC counterflows).

In this particular example, the balance of (\$2,000) represents the over-collection of losses. This balance would be applied to any future unfunded accruals on Day-Ahead CRR obligations at month-end and year-end. If after these steps there were still a remaining balance at the end of the year, it would be allocated pro-rata to the Participating Transmission Owners based on their annual Transmission Revenue Requirements (“TRRs”).

**Real-Time Assumptions**

- The total transfer capability from A to B is reduced to 900 MW in Real-Time.
- The Real-Time LMPs and metered quantities are constant across the six 10-minute intervals of the trade hour.
- Differentiation of imbalance energy as either Instructed or Uninstructed Energy will be ignored in this example. Redispatch MWs, due to the Real-Time derate from A to B, are reflected within the generation deviations at Node A and Node C.
- The LMPs at node A, B, and C break down into the following marginal cost components:  $MCE_A = \$38$ ,  $MCC_A = \$0$ ,  $MCL_A = \$0$ ,  $MCE_B = \$38$ ,  $MCC_B = \$11$ ,  $MCL_B = \$4$ ,  $MCE_C = \$38$ ,  $MCC_C = \$11$ ,  $MCL_C = \$3$ . Node A is assumed to be the reference bus.
- SC2 submits a valid post-DA decrement of 20 MW to the ISO.
- Deviations are based on the following schedule and meter data:

SC	Node	Schedule	Meter Data	Deviation
SC1	A	550	522	(28)
SC1	B	(400)	(430)	(30)
SC2	A	100	72	(28)
SC2	B	(100)	(80)	20
SC3	A	400	351	(49)
SC3	B	(500)	(490)	10
SC4	C	0	105	105
Total		50	50	0

- Note that the sum of the injections at node A and node C remain at 1,050 MW and the total withdrawals at node B remain at 1,000 MW, the same as in the Day-Ahead.

**Real-Time Energy Settlement**

SC	Node A			Node B			Node C			Total \$
	Source MW	MCE <sub>A</sub>	Source \$	Sink MW	MCE <sub>B</sub>	Sink \$	Source MW	MCE <sub>C</sub>	Source \$	
SC1	(28)	\$38	\$1,064	(30)	<b>\$38</b>	\$1,140	0	\$38	\$0	\$2,204

SC2	(28)	\$38	\$1,064	20	\$38	(\$760)	0	\$38	\$0	\$304
SC3	(49)	\$38	\$1,862	10	\$38	(\$380)	0	\$38	\$0	\$1,482
SC4	0	\$38	\$0	0	\$38	\$0	105	\$38	(\$3,990)	(\$3,990)
Total										\$0

No adjustment to the Metered Demand Account is required.

### **Real-Time Congestion Settlement**

SC	Node A			Node B			Node C			Total \$
	Source MW	MCC <sub>A</sub>	Source \$	Sink MW	MCC <sub>B</sub>	Sink \$	Source MW	MCC <sub>C</sub>	Source \$	
SC1	(28)	\$0	\$0	(30)	\$11	\$330	0	\$11	\$0	\$330
SC2	(28)	\$0	\$0	20	\$11	(\$220)	0	\$11	\$0	(\$220)
SC2	Perfect Hedge Adjustment									\$220
SC3	(49)	\$0	\$0	10	\$11	(\$110)	0	\$11	\$0	(\$110)
SC4	0	\$0	\$0	0	\$11	\$0	105	\$11	(\$1,155)	(\$1,155)
Total										(\$935)

The perfect hedge adjustment of \$220 is essentially the payback of the Real-Time counterflow congestion revenue the ETC rights holder would keep absent perfect hedge. Because the ETC schedule is reduced by 20 MW, it effectively creates a Real-Time counterflow of 20 MW with an implicit counterflow revenue of  $\$11 \times 20 = \$220$  that the ETC rights holder must refund.

Another way to look at this is that in the energy and congestion settlement, the schedule reduction of 20 MW at A has a replacement cost that is lower than the revenue associated with incremental load schedule relief of 20 MW at B resulting in a net revenue for the ETC rights holder. The refund to the non-ETC Metered Demand under the “perfect hedge” mechanism is appropriate because the CAISO had perfectly hedged the ETC schedule in the Day-Ahead at a level that happens to be above the ETC right as it transpires within the ETC scheduling time frame (which is generally up to 20 minutes before the hour, prior to control area checkout).

**The balance of (\$935) is offset by a debit adjustment to the Non-ETC Metered Demand as shown below:**

$$SC1 = \$935 \times 430/920 = \$437.01$$

$$SC3 = \$935 \times 490/920 = \$497.99$$

Where Non-ETC Metered Demand = 430 MW + 490 MW = 920 MW

**Real-Time Loss Settlement**

SC	Node A			Node B			Node C			Total \$
	Source MW	MCL <sub>A</sub>	Source \$	Sink MW	MCL <sub>B</sub>	Sink \$	Source MW	MCL <sub>C</sub>	Source \$	
SC1	(28)	\$0	\$0	(30)	<b>\$4</b>	\$120	0	\$3	\$0	\$120
SC2	(28)	\$0	\$0	20	\$4	(\$80)	0	\$3	\$0	(\$80)
SC3	(49)	\$0	\$0	10	\$4	(\$40)	0	\$3	\$0	(\$40)
SC4	0	\$0	\$0	0	\$4	\$0	105	\$3	(\$315)	(\$315)
Total										(\$315)

The balance of (\$315) is offset by a debit adjustment to the Metered Demand. The allocation is as follows:

$$\begin{aligned} \text{SC1} &= \$315 * 430/1000 = \$135.45 \\ \text{SC2} &= \$315 * 80/1000 = \$25.2 \\ \text{SC3} &= \$315 * 490/1000 = \$154.35 \end{aligned}$$

Where Metered Demand = 430 MW + 80 MW + 490 MW = 1000 MW

**D. The Issues Raised By SWP Are Already Being Addressed In Another Proceeding**

SWP states that the CAISO is currently charging ETC rights holders for inter-Zonal congestion managed through the must-offer process. SWP at 1. SWP claims that ETC rights holders should not be bearing any of these “secret” congestion charges incurred as a result of the dispatch of must-offer generation. *Id.* at 4.

The purpose of the CAISO's ETC Proposal was not to relitigate the appropriateness of the CAISO's filing in Amendment No. 60 to revise its allocation of minimum load compensation costs included under the Must-Offer allocation. The issues raised by SWP are being addressed in the hearing scheduled in Docket No. ER04-835, and nothing in the CAISO's ETC Proposal is

intended to affect the outcome of that proceeding.<sup>10</sup> SWP should not be permitted to use the instant filing to prejudice the outcome of that docket.

The CAISO has sought to address a discrete set of issues in its December 8 Filing (and in the March 14 Compliance Filing), in order to reasonably proceed on a parallel course with its software development. Amendment No. 60 and the must offer cost allocation address a myriad of concerns other than ETC rights to ensure that Must Offer expenses are assigned based on proper cost-causation principles. One issue in dispute is whether Must Offer costs are congestion costs. The CAISO recognizes that both the future stakeholder discussion of ETC cost-related issues as well as its overall preparation of the MRTU tariff will be informed by the outcome of the Amendment No. 60 docket and other ongoing proceedings. For present purposes, it is important that SWP have a proper forum to pursue these important issues. SWP has that forum in the Amendment 60 proceeding. Thus, there is no reason to modify or delay implementation of the current ETC proposal to address matters being considered elsewhere (or matters such as non-congestion charges that will be discussed in the MRTU stakeholder process.

#### **E. Other Issues Raised By Parties**

MID expresses concern that the costs of implementing the “perfect hedge” may be allocated to ETC rights holders. The CAISO confirms that that ETC congestion costs will not be allocated to ETC rights holders under the “perfect hedge” mechanism. Issues associated with non-congestion costs will be

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<sup>10</sup> Indeed, SWP has attached to its Comments a pleading filed in the Amendment No. 60 proceeding which shows that the issues it raises herein are being addressed in the Amendment No. 60 proceeding.

addressed in the pre-Tariff stakeholder process and are not pre-judged by the March 14 Compliance Filing.

SVP raises some issues pertaining to ETC schedule validation. SVP at 3-6. These issues are not pertinent to the “perfect hedge” proposal or the March 14 Compliance Filing. In any event, such issues will be addressed in the pre-Tariff stakeholder process.

LADWP requests that the Commission give special instructions to the CAISO on the line loss issue that will be addressed in the stakeholder process. LADWP at 3-4. This issue too does not pertain to the “perfect hedge” proposal or the March 14 Compliance Filing. The issue will be addressed in the pre-Tariff stakeholder process, and the Commission should not pre-judge that process.

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### III. CONCLUSION

Wherefore, for the foregoing reasons, the CAISO respectfully requests that the Commission expeditiously accept the CAISO's "perfect hedge" proposal on a conceptual basis without modification. The "perfect hedge" represents an effective and efficient means of honoring ETCs. Accordingly, the CAISO urges the Commission to act expeditiously to enable the CAISO to continue with the detailed implementation of the redesigned market.

Respectfully submitted,

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**/s/ Anthony J. Ivancovich**  
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Date: April 19, 2005



April 19, 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 No. ER02-1656-024**

Dear Secretary Salas:

Enclosed please find an electronic filing of the Motion for Leave to File Answer and Answer of the California Independent System Operator Corporation to Motions to Intervene, Motions to Rejects, Comments, and Protests.

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 electronically served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Folsom, CA, this 19<sup>th</sup> day of April, 2005.

**/s/ Anthony J. Ivancovich**  
Anthony J. Ivancovich