

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

California Independent System Operator Corporation))))	Docket No. ER08-1113-002
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**REQUEST FOR REHEARING AND REQUEST FOR CLARIFICATION OR IN THE
ALTERNATIVE REHEARING OF THE CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION**

I. INTRODUCTION

Pursuant to Rule 313 of the Federal Power Act (“FPA”), 16 U.S.C. § 8251, and Rules 212 and 713 of the rules and regulations of the Federal Energy Regulatory Commission (“FERC” or the “Commission”), 18 C.F.R. §§ 385.212 and 385.713 (2007), the California Independent System Operator Corporation (“the ISO”) hereby submits this Request for Rehearing and Request for Clarification or, in the alternative, Rehearing of the Commission’s March 6, 2009, Order on Compliance.¹

In its compliance filing to the Commission’s September 19, 2008 Order,² the ISO set forth the information needed under a Market Efficiency and Enhancement Agreement (“MEEA”) to verify whether the amount and location of the external resource(s) dispatched to implement an interchange transaction are the same as the amount and location of the resources identified in an MEEA and used to calculate the location-specific or MEEA-specific pricing.³ The ISO also set forth how it would use the information described in Section 27.5.3.2.2 to verify on an after-the-

¹ *Ca. Indep. Sys. Operator Corp.*, 126 FERC ¶ 61,207 (2009) (“*Order on Compliance*”).

² *See Cal. Indep. Sys. Operator Corp.*, 124 FERC ¶ 61,271 (2008) (“*September 2008 Order*”).

³ *See* Compliance Tariff Section 27.5.3.2.2. In this request for rehearing, when the ISO uses the terms “MEEA-specific pricing” or “MEEA-specific LMPs” it means non-default LMPs that are calculated using modeling in the ISO’s Full Network Model that assumes the location of the external resources dispatched to implement an interchange transaction is consistent with location of resources described in, and subject to, the MEEA.

fact basis the amount of sale to the ISO or purchase from the ISO under an MEEA.⁴ In its *Order on Compliance*, the Commission rejected all three proposed tariff sections capturing these requirements.⁵

As set forth in more detail herein, the ISO respectfully requests rehearing on the rejection of each section of the tariff and additional clarifications.⁶ Without the information required by Sections 27.5.3.2.2, 27.5.3.2.3, and 27.5.2.3.4, the ISO will be unable to determine whether the location of the external resource(s) actually dispatched to implement an interchange transaction is the same location as that of the external resources identified in the MEEA and used to calculate MEEA-specific locational marginal prices (“LMPs”). The central purpose of the IBAA proposal will be undermined and ISO ratepayers will be subject to unjust and unreasonable pricing for interchange transactions taking place under an MEEA and additional real-time uplift costs.

II. EXECUTIVE SUMMARY

The purpose of an MEEA is to allow for non-default, location-specific pricing of interchange transactions for an entity that owns or controls resources within the IBAA under certain circumstances. The MEEA signatory must provide the ISO with, *inter alia*, the location of the resources that will be used to implement interchange transactions between the Integrated Balancing Authority Area (“IBAA”) and the CAISO Controlled Grid (*i.e.*, the MEEA signatory must identify the external resources that will be increased to support a sale/import to the ISO and

⁴ See Compliance Tariff Sections 27.5.3.2.3 and 27.5.3.2.4, respectively.

⁵ The Commission directed the ISO to eliminate the data requirements proposed in Section 27.5.3.2.2 or “explain and support them to the Commission and file revised data requirements in a compliance filing within 60 days of the date of this order.” *Order on Compliance* at P 81. The also Commission stated that it “reject[s] the CAISO’s proposal to limit the maximum amount of imports and exports as set forth in proposed section 27.5.3.2.3 [and 27.5.3.2.4].” *Id.* at P 62.

⁶ As the Commission suggested, the ISO will explain and support the data requirements of Section 27.5.3.2.2 in its compliance filing. See *Order on Compliance* at P 81.

the external resources that will be reduced to support a purchase/export from the ISO). The ISO then also uses that information in its Full Network Model to calculate MEEA-specific LMPs for the interchange transactions using such resources.

A fundamental requirement for receiving non-default, MEEA-specific pricing is that the ISO must be able to verify that the resources dispatched to implement an interchange transaction *are the same resources identified in the MEEA*. The Commission recognized this principle in its *September 2008 Order*.⁷ Without the information required by Sections 27.5.3.2.2, 27.5.3.2.3, and 27.5.2.3.4, the ISO will be unable to determine whether the location of the external resource(s) dispatched to implement an interchange transaction is the same location as that of the external resources identified in the MEEA, thereby undermining the central purpose of the IBAA proposal to “verify the location and operation of the resources used to implement interchange transactions between the ISO-controlled grid and the IBAA.”⁸ In the *September 2008 Order* the Commission stated that:

[t]o support the goals of MRTU, it is critical for the CAISO to be able to predict the effect these interchange transactions will actually have on its markets. The Commission finds in this order that the CAISO’s IBAA proposal addresses these market flaws consistent with the goals of MRTU. For example, by using a more accurate representation of the locations of external resources used to implement interchange transactions in the CAISO’s full network model, the IBAA proposal will help to ensure that interchange transactions from the SMUD and Turlock balancing authority areas are appropriately valued for purposes of managing congestion on the CAISO-controlled grid, and reduce the likelihood of significant differences between scheduled flows and actual flows.⁹

Without the information required by Sections 27.5.3.2.2, 27.5.3.2.3, and 27.5.2.3.4, the ISO will not be able to value interchange transactions under an MEEA appropriately for the purpose of

⁷ See, e.g., *September 2008 Order* at PP 6, 35.

⁸ *September 2008 Order* at P 6.

⁹ *Id.* at P 5 (emphasis added).

managing congestion on the CAISO-controlled grid and will subject ISO ratepayers to unjust and reasonable pricing and inappropriate real time uplift costs.

What the Commission fails to recognize in the *Order on Compliance* is that to verify that resources subject to an MEEA actually were the resources dispatched to implement an interchange transaction, *it is not sufficient to simply verify the output of such resources.*¹⁰

Rather, the ISO must know: (i) whether the MEEA entity is engaging in purchases or sales within the IBAA, and (ii) whether the MEEA entity is engaging in purchases or sales between the IBAA and other BAAs (exclusive of the ISO BAA). Absent the ability to verify the amount of a purchase from or sale to the ISO under an MEEA, a seller may “receive an artificially high payment for relieving congestion that [the] interchange transaction [] cannot actually resolve, while the ISO must dispatch high cost internal generation to solve the transmission constraint in real time.”¹¹

The ISO respectfully requests rehearing or clarification on the following five issues.

1. The ISO requests rehearing on the elimination of data requirements set forth in Section 27.5.3.2.2 required to verify the operation of a resource supporting an interchange transaction between the ISO and IBAA;¹²
2. The ISO requests rehearing regarding the elimination of Sections 27.5.3.2.3 (eligible imports) and 27.5.3.2.4 (eligible exports) that allow the ISO to verify whether the location and resources actually dispatched to implement the interchange transaction are the same as the location and resources identified in the MEEA and therefore whether a MEEA-specific price is appropriate;¹³

¹⁰ The ISO notes that an entity that owns or controls resources within the IBAA can engage in any type of transaction: it can serve load within the IBAA, it can bilaterally sell or purchase energy within the IBAA, it can bilaterally sell or purchase energy to or from entities in other BAAs (exclusive of the ISO BAA), and of course it can sell (import) or purchase (export) energy from the ISO BAA. The IBAA proposal and the MEEA rules do not limit in any way the ability of such an entity to use its resources in any manner it chooses. The issue arises only if an entity seeks to obtain MEEA-specific pricing.

¹¹ *September 2008 Order* at P 40.

¹² *Id.* at P 81.

¹³ *Id.*

3. Consistent with the *Order on Compliance*, the ISO will remove the last sentence of Section 27.5.3.2.2 that contains the restriction on MEEA-specific pricing when selling to and purchasing from the CAISO BAA in the same Trading Hour.¹⁴ However, the ISO requests clarification or, in the alternative, rehearing in order to implement the narrow restriction on MEEA-specific pricing discussed in the June 17 Filing;
4. The ISO requests clarification or, in the alternative, rehearing on the direction in Paragraph 35 of the *Order on Compliance* that an LMP provided to a MEEA signatory is to be reflective of the LMP at the nodes where a specific import or export between the IBAA and the ISO is demonstrated to be located,¹⁵ and
5. The ISO requests rehearing or, in the alternative, clarification on the need to clarify the use of the Term “Resource ID”.¹⁶

III. BACKGROUND

On June 17, 2008, the ISO submitted the IBAA proposal to the Commission (“June 17 Filing”). The IBAA proposal sought to enhance the management of congestion on the CAISO Controlled Grid by appropriately pricing and modeling interchange transactions, *i.e.*, imports and exports between the ISO and the IBAA. On September 19, 2008, the Commission issued an order, which conditionally accepted subject to modification, the ISO’s proposed tariff revisions to establish an IBAA to become effective upon implementation of MRTU. The *September 2008 Order* conditionally approved as just and reasonable the ISO’s configuration of the IBAA as a single hub with default modeling and pricing points for all interchange transactions between the ISO and the IBAA. In addition, the Commission authorized the ISO to enter into MEEAs with entities to establish non-default pricing or MEEA-specific pricing for external resources within the IBAA that are dispatched to implement interchange transactions between the ISO and the IBAA.¹⁷ On November 25, 2008, the ISO submitted tariff language to comply with the

¹⁴ *Id.*

¹⁵ *See Id.* at P 35.

¹⁶ *See Id.* at P 160.

¹⁷ *September 2008 Order* at P 6.

September 2008 Order. On March 6, 2009, the Commission issued its *Order on Compliance*, which conditionally accepts subject to modification the ISO's proposed tariff language.

IV. STATEMENT OF ISSUES AND SPECIFICATIONS OF ERROR/ CLARIFICATION

Pursuant to Rule 203(a)(7), 18 C.F.R. § 385.203(a)(7) and Rule 713, 18 C.F.R. § 385.713, CAISO submits the following statement of issues and specifications of error or clarification with respect to the *Order on Compliance*.

1. The elimination of data requirements in Section 27.5.3.2.2. In its *Order on Compliance*, the Commission directed the ISO to eliminate the data requirements proposed in Section 27.5.3.2.2 or “explain and support them to the Commission and file revised data requirements in a compliance filing within 60 days of the date of this order.”¹⁸ The ISO will explain and support the data requirements in Section 27.5.3.2.2 in its compliance filing. However, the ISO also requests rehearing of the Commission's rejection of the data requirements in Section 27.5.3.2.2 and the direction to file revised data requirements. The Commission's rejection of the data requirements is unjust and unreasonable given the ISO's need to identify whether the external resource(s) actually dispatched to implement an interchange transaction reflects the external location receiving the location-specific price.

In addition to interchange transactions, entities that control resources within the IBAA may engage in bilateral transactions within the IBAA and may import or export energy between the IBAA and other BAAs. Therefore, in order to determine whether an MEEA-specific price is appropriate for a transaction (or a portion of an interchange transaction), the ISO's information needs to include information about the *other transactions* engaged in by an MEEA signatory. Without the information, a transaction could receive the location-specific MEEA price even

¹⁸ *Order on Compliance* at P 81.

though the actual physical source that supports the transaction is far removed from the location of the resources identified in the MEEA. In other words, the ISO must be able to confirm that the dispatch of an MEEA signatory's other resources and/or other transactions is not substituted for the dispatch of the resources identified in the MEEA and that merit the MEEA-specific price. In addition, the ISO must be able to verify that the external resources subject to an MEEA are not being used for a purpose (or purposes) other than the interchange transaction with the ISO. An MEEA signatory may represent that it is dispatching resources identified in an MEEA to support an interchange transaction but in fact dispatch those resources to serve load or provide a sale to another IBAA entity or another BAA. If all or a portion of the resources identified in a MEEA are serving other needs and are not being used in an interchange transaction with the ISO, the resources should not be paid as if they had been used to implement an interchange transaction with the ISO. To ensure that the fundamental pricing goal of an MEEA is achieved, the ISO requires the additional data set forth in Section 27.5.3.2.2 (and the rules set forth in Sections 27.5.3.2.3, and 27.5.3.2.4).¹⁹

The data requirements in Section 27.5.3.2.2 (exclusive of the import/export restriction in the last sentence of the section) is information the ISO needs to confirm what can be sold to or purchased from the ISO and receive the pricing defined under an MEEA. The information includes: (i) the generation under the control of the MEEA signatory within the IBAA, (ii) the total energy purchased by the MEEA signatory from within the IBAA and from outside of the IBAA (excluding the ISO BAA), (iii) the load served by the MEEA signatory within the IBAA, and (iv) the total energy sold by the MEEA signatory within the IBAA and sold to other BAAs

¹⁹ The ISO emphasizes that it is the receipt of MEEA-specific pricing that creates the need for the information regarding a MEEA signatory's other transactions. If, for example, the CAISO only needed to verify net interchange amounts, then the net interchange obligation could be met by any of the entity's resources within the IBAA (or resources purchased from or sold to other BAAs) regardless of their location.

(excluding the ISO BAA).²⁰ On an after-the-fact basis, the ISO uses the real time amounts for each of these information categories to determine what was the amount of energy sold to or purchased from the CAISO should be settled at the MEEA-specific LMP(s).²¹ Without this information, the ISO cannot ensure that interchange transactions receive accurate LMPs or that ISO ratepayers are not subject to inappropriate pricing for interchange transactions under an MEEA.

2. The elimination of the tariff language in Sections 27.5.3.2.3 (eligible imports) and 27.5.3.2.4 (eligible exports). The ISO requests rehearing of the Commission’s rejection of the tariff language regarding eligible imports and eligible exports. The Commission erred in rejecting these tariff provisions.

First, the *Order on Compliance* appears to interpret these tariff sections as being associated with the import/export restriction in the last sentence of Section 27.5.3.2.2 (that would have prohibited an entity receiving an MEEA-specific LMP when the entity simultaneously was importing to and exporting from, the ISO BAA during any Trading Hour).²² However, the purpose of the tariff language in Sections 27.5.3.2.3 and 27.5.3.2.4 is not related to the sale/purchase restriction in the last sentence of Section 27.5.3.2.2 (which the ISO agrees to eliminate).

Second, and more importantly, in order to determine whether an IBAA resource(s) was dispatched to implement an interchange transaction, it is not sufficient to simply verify the

²⁰ See Section 27.5.3.2.2.

²¹ See Sections 27.5.3.2.3 (imports) and Section 27.5.3.2.4 (exports). While the MEEA entity make additional sales to or purchases from the ISO, the additional transactions that are not subject to a MEEA will be settled based on the default modeling and pricing points used for interchange transactions.

²² See Order on Compliance at P 62 (“We hereby reject the CAISO’s proposal to disallow MEEA pricing for hours where a MEEA signatory simultaneously imports to and exports from the CAISO on the basis that it is inconsistent with the Commission’s September 19 Order and the CAISO has failed to justify such a divergence from its original proposal here. Similarly, we reject the CAISO’s proposal to limit the maximum amount of imports and exports as set forth in proposed section 27.5.3.2.3” (emphases added)).

output of such resources. Rather, the ISO must know whether the MEEA signatory is engaging in (i) purchases or sales within the IBAA, and (ii) purchases (imports) or sales (exports) between the IBAA and other BAAs (exclusive of the ISO BAA). The information and process set forth in Sections 27.5.3.2.3 and 27.5.3.2.4 will permit the ISO to confirm whether an IBAA resource was dispatched to implement an interchange transaction and settle such transactions at the MEEA-specific price. Without this information, the ISO cannot ensure accurate LMPs for interchange transactions under an MEEA or that ISO ratepayers will not face inappropriate pricing. The ISO respectfully asks the Commission to grant rehearing and approve of the tariff language in Sections 27.5.3.2.3 and 27.5.3.2.4.

3. Limitation on MEEA-specific pricing. Consistent with the Commission's direction in the *Order on Compliance*, the ISO will remove the restriction in the last sentence of Section 27.5.3.2.2 that would prohibit an entity receiving an MEEA-specific LMP when the entity is importing to, and exporting from, the ISO BAA during any Trading Hour. The ISO does not challenge the Commission's determination.²³ However, the ISO seeks clarification or, in the alternative, requests rehearing on whether the ISO may implement the restriction on MEEA-specific pricing that is contained in the June 17 Filing and discussed by Dr. Harvey and Dr. Hildebrandt in their testimony.

As discussed in the testimony of Dr. Harvey and Dr. Hildebrandt, the ISO proposes the following restriction on receiving MEEA-specific pricing. For imports to the ISO BAA, the MEEA signatory would not receive MEEA-specific pricing in any period in which the MEEA signatory is: (i) selling energy to the ISO system, *and* (ii) buying energy that originates from

²³ See *Order on Compliance* at P 61 (where the Commission states that: (i) the ISO's original IBAA proposal did not propose to limit MEEA pricing in the manner proposed by the ISO; (ii) the Commission did not limit the availability of actual pricing if an entity simultaneously imports and exports power; and (iii) the ISO provides no Commission precedent supporting its claim that eastern markets disqualify volumes where there are simultaneous imports and exports).

other BAAs (exclusive of the ISO BAA) to the SMUD-TID IBAA. The pricing rule would restrict MEEA pricing for the volume of energy sold to the ISO that is equal to the volume of energy purchases from other BAAs (exclusive of the ISO BAA). For exports from the ISO BAA, the MEEA signatory would not receive MEEA-specific pricing in any period in which a MEEA signatory is: (i) buying energy from the ISO system, *and* (ii) selling energy from the SMUD-TID IBAA for delivery to other BAAs (exclusive of the ISO BAA). The pricing rule would restrict MEEA pricing for the volume of energy purchased from the ISO that is equal to the volume of energy sold for export to other BAAs (exclusive of the ISO BAA).

The two proposed restrictions would prohibit MEEA-specific pricing in circumstances where ISO is not be able to verify that the resource used to implement the interchange transaction is the resource located at or near the Pricing Node (or Pricing Nodes) established in the MEEA. This proposal is reasonable and consistent with the ISO's June 17 filing. It also advances the main purpose of the IBAA proposal to ensure that ISO ratepayers are not subject to inappropriate pricing for interchange transactions, and to allow the ISO to reflect and model the actual resources used to implement interchange transactions between the ISO and IBAA. These restrictions are discussed in the testimony of Dr. Harvey and Dr. Hildebrandt in the June 17 Filing and are the same restrictions contained in Interface Pricing Agreements certain entities have executed with PJM.²⁴ In short, an MEEA signatory should not receive MEEA-specific pricing if it cannot demonstrate and the ISO cannot verify that the resource used to implement the interchange transaction is the resource located at or near the Pricing Node (or Pricing Nodes) established in the MEEA.

²⁴ See discussion in Section V.A., *infra*. See also June 17 Filing, Exhibit ISO-3, Testimony of Dr. Harvey at 38-40; and Exhibit ISO-2, Testimony of Dr. Hildebrandt at 17.

4. The Commission’s direction that ISO clarify that a MEEA-specific price will reflect the LMP at the nodes where the specific import to, or export from, the ISO is located. In the *Order on Compliance* the Commission directed the ISO to clarify that the “price provided to a MEEA signatory will be reflective of the LMP *at the nodes where a specific import or export between the SMUD-Turlock IBAA and the CAISO is demonstrated to be located.*”²⁵ If the Commission’s statement regarding “LMP at the nodes where a specific import or export . . . is demonstrated to be located” means the LMPs should reflect the location of the external resources the MEEA signatory uses to implement the interchange transaction, then the ISO agrees with the Commission and requests the Commission clarify that the MEEA-specific prices will reflect the external pricing nodes established in the MEEA.

On the other hand, if the Commission’s statement regarding where an “import or export is located” means LMPs determined at (or near) the location of the Intertie Scheduling Points (“ISPs”) on the ISO Controlled Grid, then the ISO requests rehearing. For the purpose of reflecting the impact and value of interchange transactions on the CAISO Controlled Grid, the external pricing nodes and LMPs should reflect the location of the resources identified in the MEEA.

5. The need to clarify the use of the Term “Resource ID”. In the *Order on Compliance*, the Commission directs the ISO “to address TANC’s concerns on compliance by clarifying the definition of Resource IDs to ensure that any transactions that face charges for losses from TANC or Western could be tracked or by using another, more appropriate, defined term.”²⁶ The ISO requests clarification that use of the term Resource ID is appropriate to track these transactions. Absent this clarification, the ISO requests rehearing concerning this issue.

²⁵ *Order on Compliance* at P 35 (emphasis added).

²⁶ *Order on Compliance* at P 160.

The definition of “Resource ID” quoted in TANC’s protest (and set forth in Paragraph 159 of the *Order on Compliance*) is in error; it quotes the definition of a “Resource Adequacy Resource” not the definition of “Resource ID”.²⁷ The actual definition of Resource ID indicates that it is an appropriate mechanism to use to track interchange transactions between the IBAA and the ISO BAA that use the California Oregon Transmission Project (“COTP”) and that face charges for losses from TANC or Western.

V. REQUESTS FOR REHEARING AND CLARIFICATION²⁸

In the *Order on Compliance*, the Commission rejected the proposed tariff provisions in Sections 27.5.3.2.2, 27.5.3.2.3, and 27.5.3.2.4.²⁹ Section 27.5.3.2.2 sets forth the information the ISO needs to verify whether the amount and location of the external resource(s) dispatched to implement an interchange transaction are the same as the amount and location of the external resources identified in a MEEA and used to calculate the location-specific or MEEA-specific price. Sections 27.5.3.2.3 and 27.5.3.2.4 set forth how the ISO will use the information described in Section 27.5.3.2.2 on an after-the-fact basis to verify the amount of a sale to the ISO or the amount of a purchase from the ISO under a MEEA. The Commission’s rejection of the tariff provisions is in error and the ISO respectfully requests rehearing of the elimination of each provision. Without the information required by these tariff sections, the ISO will not be able to value the interchange transactions under an MEEA appropriately for the purpose of managing

²⁷ Compare the December 16, 2008 Protest of TANC at 9-10 (and *Order on Compliance* Paragraph 159) with the definition of Resource Adequacy Resource in Appendix A of the MRTU Tariff at First Revised Sheet No. 932.

²⁸ Rehearing of the *Order on Compliance* is appropriate. Rehearing is required “when the later order modifies the results of the earlier one in a significant way, raising objections to the rehearing order that are substantially different from those raised against the original one.”²⁸ The MEEA rules were not in existence when the *September 2008 Order* issued. Rehearing of the Commission’s rejection of MEEA rules -- proposed for the first time on compliance -- is appropriate.

²⁹ The Commission directed the ISO to eliminate the data requirements proposed in Section 27.5.3.2.2 or “explain and support them to the Commission and file revised data requirements in a compliance filing within 60 days of the date of this order.” *Order on Compliance* at P 81. The also Commission stated that it “reject[s] the CAISO’s proposal to limit the maximum amount of imports and exports as set forth in proposed section 27.5.3.2.3 [and 27.5.3.2.4].” *Id.* at P 62.

congestion on the CAISO-controlled grid and will subject ISO ratepayers to unjust and reasonable pricing and inappropriate real time uplift costs.

A. In Order to Verify that the Location of the External Resources Dispatched to Support an Interchange Transaction Is the Same as the Location of the External Resources Identified in the MEEA and Used to Calculate the MEEA-specific LMPs, the ISO Must Know the Other Obligations and Transactions of the MEEA Signatory Within the IBAA and Between the IBAA and Other BAAs.

It is fundamental to the IBAA proposal that in order to receive MEEA-specific pricing, the ISO must know the location of the external resources within the IBAA that are dispatched to implement the interchange transaction and be able to verify the dispatch of those resources.³⁰ In order to verify that the location of the external dispatched resources is the same as the modeling location established in the MEEA (and used to calculate LMPs), it is not sufficient to simply verify the output of the external resource(s) subject to the MEEA.

An MEEA signatory must demonstrate, and the ISO needs to confirm, that an interchange transaction is implemented using the same external resources as those identified in the MEEA and not from some other source. In addition to controlling resources within the IBAA, MEEA signatories also may engage in bilateral transactions within the IBAA and may buy or sell energy between the IBAA and other BAAs. Therefore, in order to determine whether a MEEA-specific price is appropriate for an interchange transaction (or some portion of an interchange transaction), the ISO must have information about the other transactions engaged in by an MEEA signatory. In other words, the ISO must be able to confirm that bilateral sales or purchases by the MEEA signatory or imports/exports between the IBAA and other BAAs are not substituted for the dispatch of the resources identified in the MEEA that merit the MEEA-specific price. Consequently, the ISO requires the additional data and settlement rules set forth

³⁰ See, e.g., *September 2008 Order* at P 6, 35.

in Sections 27.5.3.2.2, 27.5.3.2.3, and 27.5.3.2.4. The Commission's elimination of these provisions in the *Order on Compliance* is in error. The ISO requests that the Commission grant rehearing and approve the tariff provisions as described herein.

1. The Commission's Elimination of Data Requirements in Section 27.5.3.2.2 Is Not Appropriate; the ISO Needs the Information To Verify What Is Sold To or Purchased From the ISO Pursuant to an MEEA

In the *Order on Compliance*, the Commission directed the ISO to eliminate the data requirements proposed in Section 27.5.3.2.2 or “explain and support them to the Commission and file revised data requirements in a compliance filing within 60 days of the date of this order.”³¹ The ISO will explain and support the data requirements in Section 27.5.3.2.2 in its compliance filing. However, the ISO also requests rehearing of the Commission's rejection of the data requirements in Section 27.5.3.2.2 and the need to file revised requirements.

The categories of information in Section 27.5.3.2.2 include: (i) the generation under the control of the MEEA signatory, (ii) the total energy purchased by the MEEA signatory from within the IBAA, (iii) the total energy purchased by the MEEA signatory from outside of the IBAA (excluding the ISO BAA), (iv) the load served by the MEEA signatory within the IBAA, (v) the total energy sold by the MEEA signatory within the IBAA, and (vi) the total energy sold by the MEEA signatory to other BAAs (excluding the ISO BAA).³² Without the information in Section 27.5.3.2.2 (and the rules in Sections 27.5.3.2.3 and 27.5.3.2.4), the ISO will not be able to verify that the location of the external resource(s) dispatched to support an interchange transactions is the same as the location of the external resources identified in the MEEA and used to calculate the MEEA-specific LMPs.

³¹ *Order on Compliance* at P 81.

³² *See* Section 27.5.3.2.2.

The following example illustrates why the ISO needs the information in Section 27.5.3.2.2 and why, for example, merely knowing the output of a resource subject to an MEEA is not sufficient to determine whether the resource was dispatched to implement an interchange transaction. Assume a MEEA signatory owns 200MW of generation within the IBAA and serves 200MW of metered load within the IBAA, but also has a 50 MW sale to the CAISO. If the only information the ISO were to receive under the MEEA is the output of the generation subject to the MEEA (*i.e.*, the 200MWs), then the only thing the ISO would be able to verify is whether the interchange transaction is at or below the output of the generation. The ISO would know nothing about the MEEA signatory's load or other sources of supply that the MEEA signatory may actually be using to support the 50 MW sale to the ISO. The MEEA signatory could receive an MEEA-specific price even though the generation controlled by the MEEA signatory and subject to the MEEA might have been needed to serve load within the IBAA and the 50 MW sale to the CAISO was made possible by 50 MW purchased from resources in another BAA that are not subject to the MEEA. This outcome would not be just and reasonable because it would subject the ISO ratepayers to the unreasonable interface pricing and the increased costs that the IBAA proposal is intended to avoid. As explained in the *September 2008*

Order:

external sellers may receive an artificially high payment for relieving congestion that their interchange transactions cannot actually resolve, while the CAISO must dispatch high cost internal generation to solve the transmission constraint in real time.³³

³³ *September 2008 Order* at P 40.

Continuing with the example in which the MEEA signatory purchases 50MWs of energy from another BAA³⁴ (exclusive of the ISO BAA), without the information in Sections 27.5.3.2.2 (and the rules in Sections 27.5.3.2.3, and 27.5.3.2.4), the ISO cannot determine whether the location of the 50MWs dispatched to implement the interchange transaction was from the location of the 200MW of generation identified in the MEEA or from a location outside of the IBAA. Similarly, if the MEEA signatory purchases 50MWs of energy from another entity that has scheduled energy to a delivery point within the IBAA, the ISO could not determine the location of the resource actually dispatched to support the bilateral purchase by the MEEA signatory.³⁵ Without the ISO's proposed informational requirements and related restrictions, an MEEA signatory could increase its bilateral purchases within the IBAA or imports from other BAAs in order to increase the amount of sales it seeks to make to the ISO at MEEA-specific prices based on the location of the generation it controls within the IBAA. The problem with this outcome is that the ISO is not receiving the locational benefit of energy dispatched from the resources identified in the MEEA to support an interchange transactions but would still pay an LMP as if it were. Again, without the information in Section 27.5.3.2.2, the ISO will not know whether an MEEA price is appropriate and will not be able to settle the transaction appropriately. The ISO urges the Commission to grant rehearing and approved the tariff language in 27.5.3.2.2 absent the last sentence in the Section containing the import/export limitation, which the ISO agrees to remove.

³⁴ The 50MW purchase also could come from another resource within the IBAA over which the MEEA signatory does not have control and that is not subject to the MEEA.

³⁵ Even if the ISO received e-tags for the 50 MW bilateral purchase, this information would not provide a means of verifying the actual source of generation supporting the 50 MW schedule, since information on the source of a schedule on e-tags may simply represent a trading or scheduling point and often reflects only one point on a string of portfolio-based trades and schedules made on a contract path basis. Absent the ISO's information requirements and pricing rules, An MEEA signatory could easily sleeve transactions sourced outside of the IBAA and claim an MEEA specific LMP.

2. The Commission's Elimination of Tariff Sections 27.5.3.2.3 and 27.5.3.2.4 Is Not Appropriate; the Process Set Forth in these Sections is Necessary to Determine What Is Sold to and Purchased from the ISO Given the Other Uses of an MEEA Signatory's Owned or Controlled Resources

The process set forth in Sections 27.5.3.2.3, and 27.5.3.2.4 is necessary in order to determine the amount of energy sold or purchased pursuant to a MEEA. As noted previously, in addition to controlling resources within the IBAA that may be used to support interchange transactions with the ISO, entities within the IBAA may serve load within the IBAA, may engage in bilateral transactions, and may buy or sell energy between the IBAA and other BAAs. Consequently, the process set forth in Sections 27.5.3.2.3, and 27.5.3.2.4 is necessary to ensure proper pricing and settlement of transactions under an MEEA.

The ISO notes that while these Sections use the term “eligible”, the ISO does not dictate or determine the amount energy sold or purchased by an MEEA signatory. Rather, the transactions that receive MEEA-specific pricing will be based on the MEEA signatory’s own decisions regarding the use of its resources. Indeed, the ISO’s pricing rules do not limit the amount of additional sales to or purchases from the CAISO that the MEEA signatory may make beyond those eligible for MEEA-specific pricing. Instead, the pricing rules simply apply default IBAA pricing to sales to or purchases that are not supported by resources specified in an MEEA.

Fundamentally, the ISO needs to know physically what was and was not sold to (or purchased from) the ISO under an MEEA. Using a sale to the ISO as the example, an MEEA signatory cannot have sold to the ISO the output of generation that served load within the IBAA,³⁶ an MEEA signatory cannot have sold to the ISO the output of generation sold to third parties within the IBAA;³⁷ and an MEEA signatory cannot have sold to the ISO the output of

³⁶ See, Section 27.5.3.2.3(b)

³⁷ *Id.*

generation sold to third parties outside of the IBAA (and outside of the ISO BAA).³⁸ These conclusions are obvious, but the ISO must know about the MEEA signatory's other transactions in order to determine what was properly sold to the ISO or purchased from the ISO under an MEEA.

Without the information specified in Sections 27.5.3.2.3 and 27.5.3.2.4, the ISO will not be able to determine what was sold or purchased pursuant to an MEEA and/or whether the location of the resources dispatched to make the sale is the same as the location of the resources specified in the MEEA. The purpose of the IBAA proposal is to appropriately model and price interchange transactions. Given that interchange transactions are only one possible use (out of many) for an MEEA signatory's resources located within the IBAA, the ISO must have the information regarding an MEEA signatory's other obligations and transactions during the period of the interchange transaction in order to properly determine the amounts sold or purchased pursuant to an MEEA.

The issue is not whether the ISO is attempting to limit or restrict the transactions an MEEA signatory may enter into (in fact, there are *no* limitations or restrictions); rather, the only issue is whether MEEA-specific pricing should apply to the interchange transactions entered into by the MEEA signatory. For MEEA-specific pricing to be appropriate, the ISO must verify that the external resources dispatched to support an interchange transaction are the same external resources specified in the MEEA and used to calculate the MEEA-specific LMPs. If the location of the dispatched resources is not the same as location of the resources specified in the MEEA, then MEEA-specific pricing should not apply.

³⁸ *Id.*

Finally, the ISO notes that Sections 27.5.3.2.3 and 27.5.3.2.4 are applicable to all different types of MEEA signatories, *e.g.*, an entity that owns or has rights to a single generation resource within the IBAA, an entity that owns or has rights to a multiple generation resources within the IBAA, a load serving entity within the IBAA, or any combination thereof. The ISO appreciates that a particular MEEA signatory might have a zero value for a particular category of information. For example, a generator may not have an obligation to serve load within the IBAA and therefore may only have sales within the IBAA and sales to other BAAs. The data requirements in the tariff language are broad enough to apply to various types of MEEA entities.

For all of the above reasons, the Commission's rejection of Sections 27.5.3.2.3 and 27.5.3.2.4 was in error.³⁹ The provisions are necessary so that the ISO can verify what was sold to (or purchased from) the ISO BAA under an MEEA and necessary to determine the correct payment to (or receivable from) the MEEA signatory.⁴⁰ The ISO urges the Commission to grant rehearing and approve the tariff language in 27.5.3.2.3 and 27.5.3.2.4.

B. The ISO Agrees to Remove the Import/Export Restriction in Section 27.5.3.2.2 and Requests Rehearing In Order To Implement the Narrow Restriction on MEEA-Specific Pricing Discussed in the June 17 Filing and Contained in Eastern Interface Pricing Agreements

In the *Order on Compliance*, the Commission appears to have considered the ISO's proposed import/export limitation (in the last sentence of Section 27.5.3.2.2) and tariff language in Sections 27.5.3.2.3 and 27.5.3.2.4 (regarding eligible imports and eligible exports) as related efforts to limit the availability of MEEA-specific LMPs for interchange transactions. For example, the Commission states that:

. . . the CAISO's limits on quantities of transactions eligible for MEEA pricing are not justified by the CAISO and do not comply with the Commission's

³⁹ See *Order on Compliance* at P 62.

⁴⁰ The payment or charge is product of the MEEA-specific LMP multiplied by the amount of energy sold or purchased.

September 19 Order. First, the CAISO’s original IBAA proposal did not propose to limit MEEA pricing in the manner proposed by the CAISO; nor did the Commission in the September 19 Order limit the availability of actual pricing based on a formula [in Sections 27.5.3.2.3 and 27.5.3.2.4] or if an entity simultaneously imports and exports power [the restriction in Section 27.5.3.2.2]. . . . The CAISO’s proposed limitations do not appear to satisfy such balancing. Further, the CAISO provides no Commission precedent supporting its claim that eastern markets disqualify volumes where there are simultaneous imports and exports.⁴¹

Similarly, in the next paragraph the Commission states that:

[w]e hereby reject the CAISO’s proposal to disallow MEEA pricing for hours where a MEEA signatory simultaneously imports to and exports from the CAISO on the basis that it is inconsistent with the Commission’s September 19 Order and the CAISO has failed to justify such a divergence from its original proposal here. Similarly, we reject the CAISO’s proposal to limit the maximum amount of imports and exports as set forth in proposed section 27.5.3.2.3. Therefore, we will require the CAISO to remove reference to the import/export limitation and the maximum import/export limitations on eligible MEEA quantities from its tariff.⁴²

Contrary to the Commission’s discussion of these provisions, the sale/purchase limitation in the last sentence of Section 27.5.3.2.2 and tariff language in Sections 27.5.3.2.3 and 27.5.3.2.4 are independent from one another and have different purposes.

The ISO agrees to remove the restriction in the last sentence of Section 27.5.3.2.2 consistent with the Commission’s direction.⁴³ However, the ISO requests clarification that it has the authority to implement two specific rules regarding MEEA-specific pricing. These rules are contained in the June 17 Filing and are discussed by Dr. Harvey and Dr. Hildebrandt in their testimony. The circumstances under which receiving a MEEA-specific LMP should not be allowed are as follows:

⁴¹ *Order on Compliance* at P 61 (emphases and parenthetical information added).

⁴² *Order on Compliance* at P 62 (emphases added).

⁴³ The specific language reads as follows: “Based on the historical hourly data identified above, if during any Trading Hour in which the CAISO has determined that an MEEA signatory (or any of its Affiliates or any other organization under its control) imports to and exports from the CAISO Balancing Authority Area, all of the MEEA signatory’s imports to and exports from the CAISO Balancing Authority Area will be settled using the default IBAA price specified in Appendix C, Section G.1.1 for the corresponding volume and time period.”

- For imports to the ISO system, the MEEA entity should be restricted from receiving MEEA-specific pricing in any period in which the MEEA signatory is: (i) selling energy to the ISO system, *and* (ii) buying energy that originates from other BAAs (exclusive of the ISO BAA) and is delivered to the SMUD-TID IBAA.
- For exports from the ISO system, the MEEA entity should be restricted from receiving MEEA-specific pricing in any period in which a MEEA signatory is: (i) buying energy from the ISO system, *and* (ii) selling energy from the SMUD-TID IBAA for export to other BAAs (exclusive of the ISO BAA).

These proposed restrictions are much narrower than the restriction on importing to and exporting from the ISO in the same Trading Hour that the Commission rejected in the *Order on Compliance*. Equally important, the two restrictions advance the fundamental purpose of the IBAA proposal because the restrictions would not apply MEEA-specific pricing in circumstances where the ISO cannot verify that the resource used to implement the interchange transaction is the IBAA resource specified in the MEEA and used to calculate the MEEA-specific LMPs.

As noted above, Dr. Harvey and Dr. Hildebrandt discuss these restrictions in their testimony. Regarding MEEAs, Dr. Harvey states that:

[t]he CAISO’s proposal to establish additional pricing points for transactions sourced in the SMUD or TID Balancing Authority Areas – if the selling entities agree to provide additional information to the CAISO enabling the CAISO to have reasonable assurance that the transaction schedules will be supported by changes in generation within those Balancing Authority Areas – is also consistent with existing eastern practices.⁴⁴

Dr. Harvey discusses the Interface Pricing Arrangements PJM entered into with Duke Energy;⁴⁵ Progress Energy Carolinas;⁴⁶ and North Carolina Municipal Power Agency.⁴⁷ Dr. Harvey emphasizes that the interface pricing agreements have a number of provisions *limiting*

⁴⁴ June 17 Filing, Exhibit ISO-3, Testimony of Dr. Harvey at 38.

⁴⁵ See January 5, 2007 Duke Energy Carolinas (“DEC”) Interface Pricing Arrangements. The arrangements can be found at: <http://www.pjm.com/~media/documents/agreements/duke-pricing-agreement.ashx>.

⁴⁶ See February 13, 2007 Progress Energy Carolinas (“PEC”) Inc. Interface Pricing Arrangements. The arrangements can be found at: <http://www.pjm.com/~media/documents/agreements/pec-pricing-agreement.ashx>.

the circumstances in which DEC, PEC, and NCMPA generation can receive agreement-specific pricing (the equivalent of MEEA-specific LMPs).⁴⁸ Dr. Harvey then explains that:

[t]he point of these restrictions is that if these entities are not purchasing power from outside their Balancing Authority Area, then any increase in exports to PJM must be supported by an increase in generation located within their Balancing Authority Area. Conversely, any decrease in imports from PJM must be supported by a decrease in generation within their Balancing Authority Area.⁴⁹

The two narrow restrictions that ISO is requesting to implement are the *same restrictions* contained in each of the Interface Pricing Arrangements PJM has with DEC, PEC, and NCMPA and discussed by Dr. Harvey and Dr. Hildebrandt.⁵⁰ Dr. Hildebrandt notes that the specific details of the pricing agreements or MEEAs will have to be developed on a case-by-case basis and states that:

. . . . the special agreements between PJM and several entities discussed in Dr. Harvey’s testimony illustrate several key elements that should be included in such agreements to mitigate the concerns identified with the sub-hub approach. First, the data that must be made available under these agreements includes the entire portfolio of the subject entity and its affiliates, including load and generation data, and information regarding all bilateral transactions entered into by the entity. Second, the agreements must establish clear conditions that must be met for the entity to receive the special pricing, rather than the default price. For example, under the PJM agreements, if an entity makes spot market purchases [from other entities outside of PJM] while simultaneously selling to PJM, the entity is not eligible to receive a special price for any sales to PJM.⁵¹

In sum, the two restrictions are consistent with the fundamental purpose of the IBAA proposal and will help to (i) ensure that ISO ratepayers are not subject to inappropriate pricing

⁴⁷ See March 19, 2007 North Carolina Municipal Power Agency (“NCMPA”) Number 1 Interface Pricing Arrangement. The arrangements can be found at: <http://www.pjm.com/~media/documents/agreements/electricities-pricing-agreement.ashx>.

⁴⁸ June 17 Filing, Exhibit ISO-3, Testimony of Dr. Harvey at 39.

⁴⁹ *Id.* (emphasis added).

⁵⁰ See each PJM Interface Pricing Arrangement at Paragraph 4 regarding sales (imports) to PJM and at Paragraph 6 regarding purchases (exports) from PJM. The citation to the agreements DEC, PEC, and NCMPA have with PJM are set forth in notes 29, 30, and 31, *supra*.

⁵¹ June 17 Filing, Exhibit ISO-2, Testimony of Dr. Hildebrandt at 17 (emphasis and parenthetical information added).

for interchange transactions and (ii) better reflect and model the actual resources used to implement interchange transactions with the IBAA. The restrictions would accomplish these goals by not applying MEEA-specific pricing in circumstances where the ISO cannot verify that the resources used to implement the interchange transaction are the IBAA resource or resources specified in the MEEA and used to calculate the MEEA-specific LMPs.

The ISO notes that on December 2, 2008, PJM filed with the Commission a new methodology for interface pricing that provides its stakeholders with a range of pricing options. The new methodology replaces the Interface Pricing Arrangements discussed by Dr. Harvey and Dr. Hildebrandt in the June 17, 2008 Filing. In its filing PJM states that it will:

define and revise, as appropriate, 'Interface Pricing Points' for purposes of calculating LMPs for imports from or exports to external balancing authority areas. Interface pricing points may represent individual external balancing authority areas, aggregates of multiple external balancing authority areas, or portions of external balancing authority areas. This provision shall not, however, preclude PJM from entering into agreements with owners of external resources providing, pursuant to Section 1.12 of Schedule 1, for dynamic scheduling of such resources at prices determined under such agreements.⁵²

While the Interface Pricing Arrangements discussed by Dr. Harvey and Dr. Hildebrandt have expired by their own terms, they have been replaced by a new PJM methodology. The significant points for this request for rehearing are that: (i) PJM's new methodology addresses the same issues and is consistent with the provisions in the DEC, PEC, and NCMIPA Interface Pricing Arrangements, (ii) PJM retains the option of entering into individual agreements with owners of external resources, and (iii) there is a continuing need for such interface pricing arrangements.

⁵² December 2, 2008 Filing Letter in Docket ER09-369 at 5.

1. The Proposed Restriction on MEEA-Specific Pricing in Section 27.5.3.2.5

If the Commission grants the ISO's request for clarification, the ISO will place the restrictions in a new section 27.5.3.2.5 in the Tariff. Section 25.5.3.2.5 would read as follows:

Based on the real time data in the CAISO's EMS and data provided to CAISO pursuant to a MEEA, interchange transactions pursuant to a MEEA will be settled using the default IBAA price specified in Appendix C, Section G.1.1 in the following circumstances:

(a) in any period in which the MEEA signatory is: (i) selling (importing) energy to the CAISO system, *and* (ii) buying energy that originates from other BAAs (exclusive of the CAISO BAA) that is delivered to the SMUD-TID IBAA. The default IBAA pricing will apply only to that amount of the sale (import) to the CAISO system equal to the amount by the purchase (import) from other BAAs (exclusive of the CAISO BAA) that is delivered to the SMUD-TID IBAA;

(b) in any period in which a MEEA signatory is: (i) buying (exporting) energy from the CAISO system, *and* (ii) selling energy for export from the SMUD-TID IBAA to other BAAs (exclusive of the CAISO BAA). The default IBAA pricing will apply only to that amount of the purchase (export) from the CAISO system equal to the amount by the sale (export) from the SMUD-TID IBAA to other BAAs (exclusive of the CAISO BAA); and

For sales to the ISO, the following example of an MEEA signatory demonstrates how this tariff language works: an MEEA signatory with 800 MW of generation resources within the IBAA that qualifies for MEEA-specific pricing schedules an 800 MW sale to the ISO and also purchases 200 MW from outside IBAA. Absent any other sales in or exports from the IBAA by the MEEA entity, the MEEA signatory will receive the MEEA specific LMP for 600 MW and not 800 MW. The reason for this outcome is that the MEEA signatory can only demonstrate the location and operation of 600 MW of resources within the IBAA to support the sale.

For purchases from the ISO, the following example demonstrates how this tariff language works: an MEEA signatory with 800 MW of generation resources within the IBAA purchases 800MW of generation from ISO while also making a sale for export to another BAA of 200 MW. All else being equal the MEEA signatory will receive the MEEA-specific LMP for 600

MW and not 800 MW. The additional 200 MW will be subject to default pricing. The reason for this outcome is that the MEEA signatory can only demonstrate the location and operation of 200 MW of resources within the IBAA to support the sale.

2. The Proposed Restriction on MEEA-Specific Pricing in Section 27.5.3.2.5 Addresses a Different Issue Than the Provisions in Section 27.5.3.2.3 and 27.5.3.2.4

Finally, the ISO notes that the restriction on receiving MEEA-specific pricing in the situations set forth above (*i.e.*, proposed Section 27.5.3.2.5 and discussed by Dr. Harvey and Dr. Hildebrandt in the June 17 Filing) is separate or distinct from the purpose of Sections 27.5.3.2.3 and 27.5.3.2.4 discussed earlier. While proposed Section 27.5.3.2.5 and Sections 27.5.3.2.3 and 27.5.3.2.4 all are concerned with the amount of interchange transactions that receive MEEA-specific pricing, they address different situations.

Section 27.5.3.2.3 deals with an MEEA signatory's use (or uses) of its generation within the IBAA which means that the generation could not have been sold to the ISO (*i.e.*, an MEEA signatory's generation serving load within the IBAA could not have been sold to the ISO, a MEEA signatory's generation sold within the IBAA could not have been sold to ISO, and a MEEA signatory's generation sold to other BAAs could not also have been sold to ISO). Consistent with Section 27.5.3.2.3, any generation of the MEEA signatory that served these other purposes could not have been used to sell energy to ISO. However, Section 27.5.3.2.3 does not deal with a MEEA signatory's *purchases from other BAAs* when the MEEA signatory also is selling to ISO. This situation is addressed by the one of the restrictions in proposed Section 27.5.3.2.5.

Similarly, Section 27.5.3.2.4 deals with a MEEA signatory's use (or uses) of its generation within the IBAA which means that the generation could not have been reduced to accept a purchase from the ISO (*i.e.*, a MEEA signatory's generation that served load within the

IBAA could not also have been reduced to accept a purchase from the ISO, a MEEA signatory's generation sold within the IBAA could not also have been reduced to accept a purchase from the ISO, and a MEEA signatory's generation sold to other BAAs could not also have been reduced to accept a purchase from the ISO). Consistent with Section 27.5.3.2.4, any generation of the MEEA signatory that served these other purposes could not have been reduced to accept a purchase from the ISO. However, Section 27.5.3.2.4 does not deal with a MEEA signatory's *sales to other BAAs* when the MEEA signatory also is purchasing from the ISO. This situation is addressed by the one of the restrictions in proposed Section 27.5.3.2.5.

In summary, an MEEA signatory should not receive MEEA-specific pricing if it cannot demonstrate or the ISO cannot verify that the resources used to implement the interchange transaction are the same resources identified in the MEEA and used to calculate the MEEA-specific price. For all of these reasons, the ISO requests that the Commission clarify that the ISO may submit tariff language set forth above. In the event the Commission denies the ISO's request for clarification, the ISO respectfully requests rehearing of the *Order on Compliance*.

C. The Commission's Direction that a MEEA-Specific Price Reflect the LMP at the Nodes Where the Import or Export Is Located Is Reasonable If the Commission Is Referring to the LMPs that Reflect the Location of the IBAA Resource the MEEA Signatory Uses to Implement an Interchange Transaction

In its *Order on Compliance*, the Commission stated that an actual price under an MEEA “is to be reflective of the LMP at the nodes at which the actual import or export of energy associated with a particular interchange transaction has been demonstrated to have taken place.”⁵³ The Commission also required the ISO to clarify that the price provided to a MEEA signatory:

⁵³ *Order on Compliance* at P 34.

. . . will be reflective of the LMP at the nodes where a specific import or export between the SMUD-Turlock IBAA and the CAISO is demonstrated to be located. The CAISO should make a compliance filing reflecting this change within 60 days of the date of this order.⁵⁴

If the phrase “reflective of the LMP at the nodes where *a specific import or export . . . is demonstrated to be located*” means the LMPs that reflect the location of the IBAA resources the MEEA signatory uses to implement the interchange transaction, then the ISO agrees with the Commission. On the other hand, if the phrase means an LMP determined at the location of the Intertie Scheduling Points (“ISPs”) on the ISO system, then ISO disagrees with the Commission and requests rehearing of the Commission’s determination.

As an initial matter, LMPs calculated to reflect IBAA resources under an MEEA are applied only to the volumes of transactions and service measured at the ISPs on the ISO Controlled Grid. In other words, the ISO is only pricing service over, and managing congestion on, the ISO Controlled Grid. Nonetheless, in order to reflect the impact and value of an interchange transaction on the ISO Controlled Grid, the MEEA-specific LMPs should reflect of the location and subsequent flows of the resources the MEEA signatory uses to implement the interchange transactions. The ISO believes that this is what the Commission meant in Paragraph 35 of the *Order on Compliance* and will clarify the point in its compliance filing.

However, if the Commission’s statement in Paragraph 35 were to mean that the external LMPs applicable to transactions under a MEEA should reflect that the external resources are located near the ISPs (*i.e.*, regardless of their actual location), then the ISO requests rehearing of the Commission’s requirement. If this were the Commission’s meaning, the statement is in error and the Commission should grant ISO’s rehearing request. The LMPs established pursuant to a

⁵⁴ *Order on Compliance* at P 35 (emphasis added).

MEEA should reflect the location of the external resources the MEEA entity uses to implement the interchange transactions.

D. The Use of the Term "Resource ID" Is Appropriate to Facilitate Adjustments to Losses Associated with Imports that Use the California Oregon Transmission Project ("COTP") and For Which Transmission Agency of Northern California or the Western Area Power Administration Has Charged for Losses

In the *Order on Compliance*, the Commission directs ISO "to address TANC's concerns on compliance by clarifying the definition of Resource IDs to ensure that any transactions that face charges for losses from TANC or Western could be tracked or by using another, more appropriate, defined term."⁵⁵ The ISO requests clarification or in the alternative rehearing of this requirement.

The definition of "Resource ID" quoted in TANC's protest (and set forth in Paragraph 159 of the *Order on Compliance*) is in error; TANC quoted the definition of a "Resource Adequacy Resource" not the definition of "Resource ID" and the Commission relied on TANC's mistake.⁵⁶ The actual definition of Resource ID tariff reads as follows:

Identification characters assigned by the CAISO to Generating Units, Loads, Participating Loads, System Units, System Resources, and Physical Scheduling Plants.⁵⁷

The correct definition of Resource ID indicates that it is an appropriate mechanism to use to track interchange transactions between the SMUD-TID IBAA and the ISO BAA that use the COTP and that face charges for losses from TANC or Western consistent with the *September 2008 Order* and *Order on Compliance*. The ISO requests that the Commission accept this clarification. If the Commission does not accept this clarification then the ISO requests that the

⁵⁵ *Order on Compliance* at P 160.

⁵⁶ Compare the December 16, 2008 Protest of TANC at 9-10 (and *Order on Compliance* Paragraph 159) with the definition of Resource Adequacy Resource in Appendix A of the MRTU Tariff at First Revised Sheet No. 932.

⁵⁷ ISO Tariff, Appendix A Master Definitions Supplement, Fourth Replacement Volume No. II, Original Sheet No. 932.

Commission grant rehearing because its directive is based on an incorrect definition of the term “Resource ID”.

VI. CONCLUSION

For the reasons discussed above, the ISO respectfully requests that the Commission grant the requests for rehearing or clarification as set forth herein.

Respectfully submitted,

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Dated: April 6, 2009

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 captioned 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 Folsom, California this 6th day of April, 2009.

Anna Pascuzzo
Anna Pascuzzo