

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

California Independent System)	Docket Nos. ER06-615-003
Operator Corporation)	ER06-615-005
)	ER06-615-009

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

Pursuant to Rules 212 and 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. §§ 385.212 and 385.213 (2006), the California Independent System Operator Corporation (“CAISO”) respectfully submits this Motion for Leave to Answer and Answer to the Requests for Rehearing and Motions for Clarification of the Commission’s June 25, 2007 Order On Compliance Filings (“June 25 Order”).¹ As explained below, the requests for rehearing and clarification filed by Bonneville, IID, MWD, and CCSF do not withstand scrutiny and should be denied.

The Commission’s determinations with regard to the CAISO’s compliance filings of November 20, 2006 and December 20, 2006 on the issues presented by the intervenors should be sustained. The CAISO has properly implemented the

¹ *California Independent System Operator Corp.*, 119 FERC ¶ 61,313 (2007). These include the following pleadings filed on July 25, 2007: Request for Rehearing of the City and County of San Francisco (“CCSF”); Request of the Imperial Irrigation District for Clarification or, in the Alternative, Rehearing (“IID”); Request for Rehearing by the Metropolitan Water District of Southern California (“MWD”); and Petition for Rehearing of the Bonneville Power Administration (“Bonneville”).

requirements of the Commission's directives from its orders on the Market Redesign and Technology Upgrade ("MRTU") initiative.²

I. MOTION FOR LEAVE TO ANSWER

Although an answer is permitted to Requests for Clarification, the CAISO recognizes that, unless authorized by the Commission, Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2), precludes an answer to a Request for Rehearing. In applying Rule 213(a)(2), the Commission has accepted answers that are otherwise prohibited by this rule if such answers clarify the issues in dispute³ or assist the Commission's resolution of the matter.⁴ Good cause exists in this case to permit the CAISO to respond to the requests for rehearing in this proceeding. This Answer will assist the Commission's resolution of the issues presented by providing for a complete and accurate record at a time when timely resolution of these important issues is critical.⁵ To that end, the CAISO's answer only addresses issues that serve to correct misconceptions raised in rehearing requests or otherwise help clarify the record.

² See *California Independent System Operator Corp.*, 116 FERC ¶ 61,274 (2006) ("September 21 Order"), *on reh'g California Independent System Operator Corp.*, 119 FERC ¶ 61,076 (2007).

³ *Southwest Power Pool, Inc.* 89 FERC ¶ 61,284 at 61,888 (2000); *Eagan Hub Partners, L.P.*, 73 FERC ¶ 61,334 at 61,929 (1995).

⁴ *El Paso Electric Company*, 72 FERC ¶ 61,292 at 62,256 (1995).

⁵ See, e.g., *Michigan Elec. Transmission Co., LLC*, 106 FERC ¶ 61,129 at 61,452 (2004) (allowing responses "as they provide additional information that assists the Commission in the decision-making process"); *PJM Interconnection, L.L.C.*, 104 FERC ¶ 61,031 at 61,077 (2003) (admitting answer "since it will not delay the proceeding, will assist the Commission in understanding the issues raised, and will insure a complete record upon which the Commission may act").

II. ANSWER OF THE CAISO

A. BPA's Request To Clarify the Commission's Refund Authority Is Unnecessary

BPA takes issue with footnote 48 of the June 25 Order, which states that the Commission can examine the rates of non-jurisdictional utilities to the extent that they impact the rate of jurisdictional utilities. Although this statement is indisputably correct, BPA nevertheless asks the Commission to either delete it or supplement it by adding a statement about a subject on which the footnote was carefully silent – *i.e.*, the payment of refunds by non-jurisdictional entities.⁶ BPA's clarification would be inappropriate.

The Commission's footnote accurately summarizes the judicial precedent that it cites.⁷ Contrary to BPA's suggestion, this precedent was *upheld* by the D.C. Circuit's decision in *Transmission Agency of Northern California et al. v. FERC* ("TANC").⁸ It is unnecessary, therefore, to delete the footnote.

The additional statement that Bonneville is requesting about payment of refunds addresses a subject on which the Commission's footnote was silent and Bonneville's requested language appears to be overbroad. While Bonneville is correct that the Commission cannot directly order a governmental entity to provide refunds, the Commission does have authority to direct the CAISO to administer its generally applicable tariff provisions that require it to offset or recoup amounts owed by any Scheduling Coordinator, including non-

⁶ BPA at 1-3.

⁷ See *Pacific Gas and Electric Co. v. FERC*, 306 F.3d 1112 (D.C. Cir. 2002).

⁸ 2007 U.S. App. LEXIS 17303 (July 20, 2007). In fact, the TANC court affirmed that FERC would have the authority to review the rates of non-jurisdictional entities under the typical Section 205 "just and reasonable" standard. *Id.* at *19-20.

jurisdictional entities.⁹ In addition, Bonneville can contractually commit itself to pay refunds.¹⁰ In any event, the additional statement requested by Bonneville inappropriately reaches beyond what the Commission can safely say.

B. The Commission’s Determinations With Respect To Transmission Ownership Rights Should Be Sustained

IID, MWD and CCSF challenge aspects of the compliance filings upheld by the June 25 Order concerning the treatment of Transmission Ownership Rights (“TORs”), which are facilities in the CAISO Control Area but which have not been turned over to the CAISO’s Operational Control and are not part of the CAISO Controlled Grid.¹¹ As discussed below, these challenges are without merit and the June 25 Order’s determinations with respect to TORs and Section 17 of the CAISO Tariff should be upheld. The CAISO also notes that certain of the issues presented do not challenge the CAISO’s compliance with the Commission’s September 21 Order but are instead challenges to the Commission’s policy determinations in the September 21 Order and the order on rehearing issued on April 20, 2007. IID, MWD, and CCSF did not seek rehearing of the April 20 Order. To the extent appeals have been filed, they will be decided

⁹ See CAISO Tariff Section 11.12.4 (“The ISO is authorized to recoup, set off and apply any amount to which any defaulting ISO Debtor is or will be entitled, in or towards the satisfaction of any of that ISO Debtor’s debts arising under the ISO Settlement and billing process”). See *generally TANC* at n. 9 (FERC has authority to dictate the terms under which non-jurisdictional entities participate in jurisdictional services or transactions).

¹⁰ *Bonneville Power Admin. v. FERC*, 422 F. 3d, 908, 916-17, 925-26 (9th Cir. 2005). See also, *Alliant Energy, Inc. v. Neb. Pub. Power Dist.*, Civ. 347 F.3d 1046, 1050 (8th Cir. 2003)(“[w]hen a contract provides that its terms are subject to a regulatory body, all parties to that contract are bound by the actions of the regulatory body. As a result, we are not enforcing the FERC order; instead, we are enforcing an agreement, which [Nebraska District] freely entered.”)

¹¹ Terms used herein with initial capitalization have the meanings set forth in the Master Definitions Supplement, Appendix A to the MRTU Tariff, unless otherwise provided.

by the courts, but do not stay the CAISO's need to comply.¹² The Commission should not countenance the attempt to revisit prior policy determinations through the vehicle of a compliance filing.

1. The Commission Appropriately Found that the CAISO Does Not Intend To Utilize IID's TOR Transmission Capacity

IID contends that the June 25 Order does not adequately respond to the issue of compensation for use of excess TOR capacity and states that the Commission should require the CAISO to negotiate in good faith with TOR holders regarding compensation in the event that it uses excess TOR capacity.¹³ IID's request is without foundation. The CAISO has stated repeatedly that it will not be utilizing TOR transmission capacity.

In the September 21 Order, the Commission stated:

It appears that Imperial's and San Francisco's assertions that the CAISO may sell or use unscheduled TOR capacity in the day-ahead and HASP without compensating the TOR holder stems from a misunderstanding. The CAISO explains that, to preserve TOR capacity, it will set-aside TOR capacity on interties by subtracting TOR capacity from the capacity available. Consequently, it does not appear that the CAISO intends to use or sell unscheduled TOR capacity and will honor all schedule changes by providing scheduling priority and using its Exceptional Dispatch authority under section 39.4.2. If, however, the CAISO does intend to make use of such unscheduled capacity, then we direct the CAISO to negotiate with the TOR holder concerning compensation and further details for such use.¹⁴ We direct the CAISO to provide further explanation in a compliance filing within 60 days of the date of this order.¹⁵

¹² See 18 C.F.R. 385.713(e).

¹³ IID at 4-5.

¹⁴ One option for the CAISO to consider is to issue CRRs to TOR holders so that TORs would be compensated for their transmission capacity in congested hours, even if they do not make use of the TOR capacity.

¹⁵ September 21 Order at P 994.

In its compliance filing in November 2006, the CAISO confirmed that the Commission's understanding was correct:

The Commission also ordered the CAISO to provide further explanation regarding whether it intends to (1) use or sell unscheduled TOR capacity 30, or (2) honor all schedule changes by providing scheduling priority and using its Exceptional Dispatch authority. As the CAISO explained in its answer to requests for clarification or rehearing filed with the Commission on November 7, 2006, the CAISO does not intend to use or sell unscheduled TOR capacity.¹⁶

It is unwarranted for IID to claim that “[t]he CAISO has not explained how it will use excess TOR capacity and thus it has failed to adequately address this issue in its Compliance Filings.”¹⁷ The CAISO has stated clearly that it does not intend to utilize TOR capacity that is not part of the CAISO Controlled Grid. The CAISO also explained in its answer to IID's protest to the compliance filings:

The CAISO also wishes to address the proposal by IID that the CAISO be required to compensate the TOR holder if the CAISO's redispatch of non-TOR resources in Real-Time to accommodate valid changes to TOR Self-Schedules in Real-Time somehow is determined to make use of “excess” TOR capacity to do so. It appears that IID wants to have its cake and eat it too. Even if the CAISO's special efforts to accommodate Real-Time changes to TOR Self-Schedules actually were to use the TOR capacity to accommodate those TOR rights, it is hard to fathom how the TOR holder could make the claim that it should be paid extra for the use of its own rights in order for the CAISO to undertake the extra work to make the special accommodation. Second, the treatment of unscheduled parallel flows in Real-Time is the subject of standard procedures of WECC, which do not provide for compensation. It would be a logistical nightmare for the CAISO and other transmission operators in the Western Interconnection to attempt to calculate unscheduled flows on each other's systems in Real-Time and to calculate compensation. The CAISO submits that this would be unreasonable – and that it seems unlikely that IID would be willing to provide reciprocal compensation to the CAISO whenever IID power should flow over the CAISO Controlled Grid. The CAISO

¹⁶ November 2006 compliance filing at 25.

¹⁷ IID at 4.

submits that the foregoing explanation should also address the questions raised by MWD regarding this matter in its comments.¹⁸

IID claims that this statement represents the CAISO's intention to utilize IID's TOR capacity without compensation. To the contrary, the CAISO simply provided a straightforward explanation that it intends to redispatch within the CAISO Control Area to permit IID to use its own TOR capacity and that any unscheduled flows would be no different than those that occur as a result of other interconnect transmission system operations in the WECC, including IID's own operations, for which there is no compensation.

The Commission's reasoned and well-supported determination in the September 21 Order is correct. IID has offered no basis for the Commission to require negotiations for a service the CAISO does not intend to utilize.

2. Sections 17.1.1 and 17.1.6 Provide Necessary Procedures In the Event of a Dispute Over TRTC Instructions

IID challenges FERC's finding that Sections 17.1.1 and 17.1.6 provide a reasonable and orderly process to address disputes among joint TOR holders and non-jurisdictional TOR holders.¹⁹ IID proposes that the Commission direct the CAISO to amend the CAISO Tariff to require the CAISO to operate the subject transmission lines as those lines have been historically operated.²⁰ IID's proposed change is unworkable and offers no basis to overturn the acceptance of Sections 17.1.1 and 17.1.6.

The CAISO receives TRTC Instructions in order to be informed about the TOR rights it must accommodate in its operation of the CAISO Control Area. If

¹⁸ CAISO Answer filed on January 16, 2007 at 52-53.

¹⁹ IID at 5-6.

²⁰ *Id.* at 6.

there is a dispute between two entities as to the nature of those instructions, the CAISO must have a means to operate in the interim, pending resolution of the disagreement. The CAISO's proposal, as accepted by the Commission, was straightforward and consistent with the process for resolution of potential disputes involving TRTC Instructions for ETCs: (1) if the dispute is between a Participating Transmission Owner and a TOR holder, the CAISO will follow the instructions of the Participating Transmission Owner on an interim basis. If the dispute is between two TOR holders, the CAISO will follow the instructions of the majority owner.

IID's proposal to operate the lines as they have been historically operated fails to recognize that the purpose of the TRTC Instructions is to translate the historical rights and operations into the new CAISO market design. If there is a dispute about the instructions it means there is, most probably, a dispute about the underlying historical operations and rights. Most importantly, the CAISO does not want to be the judge as to what the rights are under these historical agreements. Sections 17.1.1 and 17.1.6 provide an orderly process for conveying to the CAISO the information it must have to operate the system, while at the same time accommodating TOR rights. The June 25 Order should be affirmed on this issue.

3. No Further Modifications to Section 17.2.1 Beyond Those Required In the June 25 Order Are Warranted

IID takes issue with the Commission's finding that the "MRTU Tariff clearly provides that firm schedules have priority over non-firm schedules" with respect to the treatment of unscheduled or excess TOR capacity and requests that the

CAISO be required to amend Section 17.2.1 to “clearly provide that a firm schedule has a higher priority than a non-firm schedule so as to eliminate any ambiguities during System Emergencies.”²¹ The June 25 Order required that the CAISO modify Section 17.2.1 consistent with a modification ordered with respect to the comparable provision governing ETCs so that the TOR holder would be required to comply with CAISO Dispatch Instructions and operating orders in the event of a System Emergency, unless the instruction or order would conflict with the express terms of the agreement or would impair public health or safety. The CAISO submits that no further revisions to Section 17.2.1 are warranted.

First, the Commission has correctly noted that the priority for TOR Self - Schedules is preserved under Section 34.10 of the CAISO Tariff. As the Commission stated in the September 21 Order:

We find it reasonable to give TORs scheduling priority second only to RMR dispatches necessary to maintain the stability and reliability of the CAISO-controlled grid. This scheduling priority reasonably balances TOR holder’s rights to use their facilities with the necessity of maintaining the reliability of the CAISO system.²²

Section 34.10 places TOR Self-Schedules ahead of ETC Self-Schedules, Regulatory Must-Run Generation and Regulatory Must-Take Generation Self-Schedules, Participating Load increases, Day-Ahead Supply Schedules, HASP Self-Schedules, and HASP or Real-Time Economic Bids.

Second, the CAISO added Section 17.2 which states specifically that the “CAISO will accommodate TORs, so that the holders of TORs will receive the same priorities (in scheduling, curtailment, assignment, and other aspects of

²¹ IID at 3-4.

²² September 21 Order at P 997.

transmission system usage) to which they are entitled under any applicable Existing Contract or other agreements pertaining to the operation of their TOR.”

Third, the purpose of Section 17.2.1 is to address emergencies. In such situations, the CAISO must respond in accordance with Good Utility Practice. While the CAISO must respect the boundaries of existing agreements, including TOR agreements, it must also be permitted to issue whatever instructions are necessary to address the emergency and restore stable and reliable system operations.

The Commission’s determination that the MRTU Tariff accords TOR Self-Schedules an appropriately high priority is well-founded. No further changes are required to ensure the TOR rights are honored. Most importantly, the CAISO must retain the flexibility, within the boundaries already established by the Commission in the April 20 and June 25 Orders, to respond fully and effectively in the event of a System Emergency.

4. The Commission Did Provide an Explanation as to Why Section 17.3.2 Is Reasonable.

Finally, IID argues that FERC has not provided a reasoned explanation of its decision to approve the CAISO’s proposal in Section 17.3.2 to remove any scheduling priority for a TOR Self-Schedule if the TOR Self-Schedule is not balanced, stating that, at a minimum, the balanced portion of an unbalanced TOR Self-Schedule and that which is within the specified TRTC Instruction capacity should retain scheduling priority.²³ IID’s claim is unfounded. The Commission has articulated: (1) why TOR holders should be required to submit

²³ IID at 6-7.

balanced Self-Schedules; (2) why it is reasonable not to accord scheduling priority for unbalanced Self-Schedules; and (3) how the CAISO Tariff will continue to hold TOR Self-Schedules financially harmless for the balanced portion of the Self-Schedule.

In the September 21 Order, the Commission stated:

We disagree with Metropolitan's assertion that TOR schedules need not be balanced. It is reasonable for the CAISO to require balanced schedules for TOR holders in order to fully honor their transmission rights. If injections and withdrawals are not balanced, then the CAISO must manage the resultant energy excess or shortfall on the CAISO-controlled grid. It would be inequitable for the TOR holder to lean on the CAISO system in this manner and cause unfair cost consequences to the CAISO's market participants. In addition, the TOR schedule must balance in order for the CAISO to reverse associated congestion charges using the perfect hedge as noted above.²⁴

In the June 25 Order, the Commission found:

Imperial argues that the balanced portion of an unbalanced TOR self-schedule should retain scheduling priority. We disagree. Under section 17.3.2.2 if the TOR self-schedule is not balanced, or under section 17.3.2.3, the TOR self-schedule exceeds the capacity limits of the TOR, as reflected in the TRTC Instructions, the CAISO will remove any scheduling priority for the entire self-schedule, but will reverse the congestion charges associated with the balanced portions during the settlement process. Under this proposal, although the TOR self-schedule loses its priority, it retains the financial protection for the balanced portion of the self-schedule. We find this treatment equitably balances the CAISO's automated process of validating TOR self-schedules using the TRTC Instructions with upholding the contractual rights of the TOR holder with respect to financial protection for congestion costs. This treatment is also consistent with the CAISO's proposed treatment of ETCs under section 16. As a result, to the extent that the CAISO determines that the TOR self-schedule is not balanced, we find it reasonable for the CAISO to remove the scheduling priority for the entire TOR self-schedule. We therefore accept the

²⁴ September 21 Order at P 991.

CAISO's proposed tariff language under section 17.3.2.2 and 17.3.2.3 with no further modifications.²⁵

IID is simply incorrect in asserting that the Commission has not provided a reason for its acceptance of the CAISO Tariff. Recognition of the need to strike a balance between the CAISO's automated validation process and the need to respect the TOR rights is reasonable. It is not the Commission that would be compromising the scheduling priority as IID suggests,²⁶ rather it would be IID or any other TOR holder who does not provide the appropriate Self-Schedule that contains a balance between supply and demand. TOR holders should be encouraged to submit Self-Schedules within these parameters.

5. MWD's Concerns About Section 17.3.3 Are Unfounded

MWD contends that the June 25 Order did not address MWD's specific concern that Section 17.3.3 is incomplete because it does not provide that TORs will be settled at a Custom LAP. MWD also argues that the June 25 Order's statement that TORs will be settled at Custom LAP prices if the "contract governing the TOR so provides," is wrong because it goes beyond the CAISO's proposal and is nonsensical, given that TORs derive from ownership of a transmission line, not a contract.²⁷

In the September 21 Order, the Commission determined:

Contrary to Metropolitan's assertion, section 30.5.3.2(a) provides for nodal pricing for settlement of load under TOR self-schedules, "consistent with the submitted TRTC Instructions." This reflects the actual location of load on the CAISO-controlled grid, rather than at the default LAP. As noted above, the TOR receives the perfect

²⁵ June 25 Order at P 304.

²⁶ IID at 6.

²⁷ MWD at 3-5.

hedge, which reverses the day-ahead and real-time congestion charges associated with the schedule.²⁸

The June 25 Order reiterated:

Section 30.5.3.2(a) states that ETC or TOR self-schedules may not be submitted or settled at the LAP unless the TRTC Instructions so provide. Therefore, if the contract governing the TOR so provides, then the TOR will be settled at a custom LAP price which is consistent with the CAISO's prior representation. In addition, we further note that since the submission of its compliance filing, the CAISO, in a separate proceeding, submitted further revisions to section 17.1.4 regarding the informational requirements for TRTC Instructions. Under revised section 17.1.4 (which was accepted, subject to the outcome of this proceeding), the TRTC Instructions must include "... for each Point of Delivery the eligible sinks ... [which] include Load PNodes, Custom Load Aggregation Points and System Resources)." Sections 11.5.7.1 and 11.2.1.5 address the reversal of congestion costs for all source and sink pairs associated with valid and balanced source and sink TOR self-schedules. Because the CAISO has further defined a sink to account for custom load aggregation points, we conclude that no further modification is necessary to section 17.²⁹

Under MRTU, Energy delivery to the Demand location provided under ETC or TOR rights will be settled based on Custom LAP prices. Section 17.3.3 is not all inclusive with regard to the Settlement treatment of TORs but refers to Section 11.2.1.5 and 11.5.7.1 as noted by the Commission. There is also no "additional ambiguity" as suggested by MWD.³⁰ Under Section 30.5.3.2(a), TOR Self-Schedules submitted in accordance with the TRTC Instructions are an exception to the requirement that Demand Bids be settled at the LAP (unless presumably the TRTC Instruction is to use the LAP price). As the Commission determined, no additional tariff changes are necessary to address this issue.

²⁸ September 21 Order at P 100.

²⁹ June 25 Order at P 327.

³⁰ MWD at 4.

6. The Proposed Treatment for Losses on TORs in the CAISO Control Area Is Reasonable

CCSF argues that the Commission erred in accepting the CAISO's proposal in Section 17.3.3(2) to impose a charge for losses on TOR transactions at the cost of Marginal Losses based on the differential(s) of LMPs located at the source(s) and sink(s) identified in the TOR transaction. CCSF contends that the Commission's rationale for accepting this proposal, that it is a "reasonable accommodation between honoring TOR holders' rights over non-CAISO-controlled facilities and sending accurate price signals," does not apply to CCSF because of its unique status as the owner of facilities subject to the Raker Act.³¹

The Commission has articulated its policy justifications for the use of Marginal Losses in general:

We deny requests for rehearing regarding the assessment of marginal losses to Scheduling Coordinators of ETC contracts. Under the MRTU Tariff, the CAISO will incorporate marginal losses into LMP, and Scheduling Coordinators will be assessed marginal losses for all transactions, including those associated with ETC contracts. We continue to find this marginal loss assessment reasonable because it treats CAISO-controlled grid users consistently and reflects cost causation principles. As we stated previously, incorporating marginal losses into LMP is important for assuring least cost dispatch and establishing nodal prices that accurately reflect the cost of supplying load at each node. This is because marginal loss dispatch recognizes the differing physical losses from individual generators to the CAISO load centers through a set of LMP adjustments at each generator and load bus. In contrast, average loss dispatch fails to take into account the fact that dispatching generating units located further away from load centers on the grid causes the CAISO's system to incur more electric losses than dispatching generators located closer to the load center. Therefore, assessing marginal losses to ETCs is consistent with cost causation principles because it reflects the

³¹ CCSF at 3-5.

losses to the CAISO system caused by the movement of power from the ETC's generation source to its load sink. Assessing ETCs marginal losses will thus support least cost dispatch and the accuracy of nodal price signals.³²

The CAISO notes that the conclusion that the assignment of marginal losses to TORs "is a reasonable accommodation between honoring TORs holder's rights over non-CAISO-controlled facilities and sending accurate price signals" does not originate in the June 25 Order. Rather it is from P 458 of the April 20 Order on rehearing.

Regarding Imperial's argument that TOR holders are using their own grid and consequently should not be subject to marginal losses, we disagree. Even though the TOR holder might be using its own facilities and the TOR facilities are not a part of the CAISO, they are integrally connected to the CAISO grid, and any TOR transactions that are subject to marginal losses involve injections and withdrawals from the CAISO grid. Because marginal losses apply at the interface to the CAISO grid just as they would for any other import or export on the CAISO grid, the fact that the TOR is not a part of the CAISO grid is irrelevant. In this sense, the application of marginal losses to TORs is no different from the application of marginal losses to other import and export schedules. Consequently, we deny Imperial's request for any special treatment for TORs, and affirm our prior determination that assessment of marginal losses to TORs, except where the loss percentage is stipulated in a bilateral agreement that the CAISO must honor, is a reasonable accommodation between honoring TOR holders' rights over non-CAISO-controlled facilities and sending accurate price signals.³³

As to CCSF's argument that it is immune from price signals because under the Raker Act it self-schedules hydroelectric energy for its own use and cannot bid it into the markets,³⁴ the CAISO submits that CCSF is taking too narrow a view as to what constitutes a need to send accurate price signals. A

³² April 20 Order at P 453 (footnotes omitted).

³³ April 20 Order at P 458 (footnotes omitted).

³⁴ CCSF at 3.

fundamental predicate of the new market design is to use a single model that accurately represents use of the CAISO system and to use a common set of pricing provisions, including treatment of losses. That one participant based on an individual set of circumstances may or may not have the same incentive as another to respond to the price signals does not render the overall approach unjust and unreasonable.

While CCSF's facilities are not part of the CAISO Controlled Grid, they are part of the CAISO Control Area and CCSF's use of those facilities does generate losses and has an effect on other entities taking service under the CAISO Tariff in the CAISO Control Area. Treating entities within the Control Area on a consistent basis, unless doing so would contravene a pre-existing contract, ensures non-discriminatory pricing consistency based on the most accurate representation of actual grid usage. The Commission should not grant rehearing on this issue.

III. CONCLUSION

WHEREFORE, for the reasons stated above, the Commission should deny the requests for rehearing or clarification and the June 25 Order should be affirmed.

Respectfully submitted,

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Dated: August 9, 2007

CERTIFICATE OF SERVICE

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

Dated this 9th day of August, 2007 at Folsom in the State of California.

/s/ Anna A. McKenna

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