

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

California Independent System) Docket No. ER09-1542-000
Operator Corporation)

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION ANSWER TO
COMMENTS**

Pursuant to Rule 213 of the Federal Energy Regulatory Commission's (Commission) Rules of Practice and Procedure, 18 C.F.R. § 385.213 (2009), the California Independent System Operator Corporation (ISO) hereby files an answer to Comments of the California Department of Water Resources State Water Project to the ISO's December 31, 2009 Compliance Filing in the above captioned proceeding (December 31 Compliance Filing), which was submitted in fulfillment of the Commission's directives in Paragraph 45 of the Commission's October 2 Order.¹ The Commission should accept the proposed and unopposed tariff language reflecting the requested high-level guidelines without imposing any further requirements as suggested by California Department of Water Resources State Water Project (SWP). In addition, the ISO will soon be seeking authority from its board of governors regarding the release of additional information related to the ISO's transmission constraints management and practices, which will complete the stakeholder process directed by the Commission. Following this last ISO-procedural requirement, the ISO will be submitting additional proposed tariff language to enable the provision of such information, which will fulfill all the requirements of the Commission's October 2 Order.

¹ *California Indep. Sys. Operator Corp.*, 129 FERC 1161,009 (2009) (October 2 Order).

I. Background

On August 3, 2009, pursuant to section 205 of the Federal Power Act, in the above referenced docket, the ISO filed amendments to its tariff to: (1) clarify that applicable generating units located outside the ISO's balancing authority area can be treated as regulatory must-take generation under the tariff; and (2) clarify the tariff language regarding the role of the full network model in enforcement of transmission constraints. On October 2, 2009, the Commission conditionally accepted the ISO's filing and proposed tariff revisions subject to additional requirements on compliance. Item (1) of the August 3 filing concerning regulatory must-take generation was accepted in the October 2 Order without further compliance requirements. Hence, the December 31 Compliance Filing addresses only item (2) concerning the role of the full network model and other matters related to the ISO's constraint enforcement practices.

The December 31 Compliance Filing is in fulfillment of the Commission's directives in paragraph 45 of the Commission's October 2 Order in this proceeding. Specifically, the ISO submitted high-level guidelines that reflect and govern over the ISO's transmission constraint management practices. Management of transmission constraints in this effort has come to refer to the practice of enforcing or not enforcing specific transmission constraints, the ISO's definitions and descriptions of such constraints, and the ISO's practice of adjusting constraints in its market operations. These high-level guidelines were drafted during the recent stakeholder process held in late 2009 in response to the Commission's October 2 Order. In addition, in its December 31 Compliance Filing the ISO explained that while the ISO and stakeholders had made significant strides in arriving to a draft final proposal regarding the information

release policy pertaining to the ISO's transmission constraints management and practices, that effort was not completed by the end of 2009. The ISO required additional time to complete this process and is now well on its way to completing this first phase of its information release policy initiative and seeking board-approval of the proposed information releases that were developed through this stakeholder process. This will complete the stakeholder process initiated last year to address release of information pertaining to transmission constraint management practices as requested by the Commission.

II. Answer

On January 20 and 21, 2010, three parties submitted comments supporting the ISO's recent efforts to determine through a stakeholder process additional information releases regarding the ISO's transmission constraints management practices. In addition, and importantly, commenting parties did not protest the high-level guidelines the ISO proposes to include in its tariff in the December 31 Compliance Filing. However, SWP requests that in response to the ISO's fulfillment of the Commission directives issued in the October 2 Order, that the Commission further require that the ISO: 1) not only continue "its efforts toward greater transparency, but also [] use the information gained to better integrate its engineering and its market software so that greater integration and accuracy of these programs will reduce the incidence of Market Disruption and the need to use Exceptional Dispatches;" and 2) "further explain the role of Participating Transmission Owners in transmission constraint management, particularly as it relates to (1) reliability; (2) nondiscriminatory transmission access and (3) costs and rates for transmission services."

The ISO submits that these additional requirements exceed the scope of the October 2 Order requirements because they do not pertain to the specific requirement in paragraph 45 of the October 2 Order, which is that the ISO develop and include in its tariff high-level guidelines for the management of transmission constraints in its markets. Nonetheless, the ISO takes this opportunity to clarify certain facts and the role of transmission constraint enforcement in its markets, which SWP misrepresent.

- A. SWP fails to articulate a rational basis for any augmentation of requirements the ISO's management of exceptional dispatch and market disruptions given the Commission's actions with regards to both these functions in other Commission-proceedings.

SWP's request that the Commission encourage the ISO to "use the information gained to better integrate its engineering and its market software so that greater integration and accuracy of these programs will reduce the incidence of Market Disruption and the need to use Exceptional Dispatches" is unnecessary and outside the scope of the actual compliance filing the Commission is addressing in this proceeding. In this effort to consider additional visibility into the ISO's transmission constraint practices, the ISO sought to provide greater visibility to participants on its practices. In its continued efforts to improve market performance, the ISO already evaluates the impact of constraints enforcement or adjustments on market outcomes, as well as the exceptional dispatch and market disruption data to determine whether market enhancements are needed. The ISO has already adopted elaborate processes,

including the realignment of its policy, implementation, and stakeholder engagement staff towards facilitating analysis and collaboration towards this very goal.²

The ISO understands the need for accurate modeling of transmission constraints and their enforcement and the important role these functions play in ensuring that the ISO market optimizations capture the actual state of the grid facilities to the maximum extent feasible so that the prices and schedules or dispatches produced by the market clearing process is feasible. The ISO also understands the relationship between enforcement of transmission constraints in its markets and the potential for exceptional dispatch based on what constraint are enforced in the market. However, it is not clear what additional requirements SWP seeks given that the ISO is already committed to ensure that the proper balance is struck between accurate modeling and appropriate use of exceptional dispatches to operate the ISO system. Indeed, extensive FERC-proceedings have already addressed not only that exceptional dispatches are transparent, but that the ISO continue to evaluate what market enhancements may be necessary to ensure that the ISO find market measures to operate its grid without an over reliance on exceptional dispatch.³

Further, it is also not at all evident what relationship exists between the enforcement of transmission constraints and market disruptions as suggested by SWP. Market disruptions occur because certain market functionality or process may fail to perform or are at risk of performing during market runs due to a software problems and

² An example of these efforts is the new series of stakeholder day-long meetings the ISO will be holding on a regular basis to address implementation and policy issues, in which a large part will be specifically focused on market performance and potential enhancements. See the agenda for the first meeting held on February 4, 2010 <http://www.caiso.com/2729/27299516fef0.pdf>.

³ See *California Indep. Sys. Operator Corp.*, 126 FERC ¶ 61,150 (2009) and continuing proceedings in FERC Docket No. ER09-1178.

the like. SWP fails to explain how the high-level guideline language proposed by the ISO or its actual enforcement or non-enforcement of transmission constraints could diminish the occurrence of market disruptions. Moreover, SWP fails to explain what requirements in addition to the requirements the Commission has already set forth as it pertains to the ISO's responsibility to address market disruptions over time in Docket Nos. ER06-615-000 and ER07-1257-000.

- B. SWP erroneously and misleadingly represents that the ISO's transmission constraints management practices compromise the ISO's ability to provide open access service on the grid facilities it controls.

SWP requests that the Commission require the ISO to further explain the role of Participating Transmission Owners in transmission constraint management, particularly as it relates to (1) reliability; (2) nondiscriminatory transmission access; and (3) costs and rates for transmission services. In making this request SWP seems to conflate a number of aspects of the ISO's operations. Therefore, the ISO clarifies the role of transmission constraints enforcement in its operations and the role of the transmission owner where the ISO lacks sufficient visibility.

First, in requesting this additional explanation, SWP asserts that to its knowledge, the ISO's filing indicates for the very first time that the ISO may not enforce constraints "in instances where the CAISO lacks sufficient visibility of portions of the CAISO controlled grid (perhaps due to lack of telemetry in certain areas), it will not use its software, but rather will rely on the applicable Participating Transmission Owner (PTO)." This statement misleadingly creates a mistaken impression that this is the very first instance in which the ISO provides this explanation for one of the guidelines the ISO follows in determining whether or not the ISO should enforce certain constraints.

SWP's suggestion is wholly inconsistent with the record that reflects the ISO's explanation of this and the other guidelines it proposed to include in the ISO tariff in its December 31 Compliance Filing. Indeed, prior to and after the start of the new market design, the ISO has repeatedly informed market participants of its transmission constraints management practices both in its own documentation and Commission-proceedings.

Prior to the start of the new market design the ISO revised its Business Practice Manual for Management of the Full Network Model to describe more fully the procedures and guidelines the ISO follows in determining what transmission constraints should or should not be enforced in operating the ISO markets. These same guidelines continue to be in the ISO's Business Practice Manual (BPM) for the Full Network Model (FNM). The BPM for FNM provides a thorough explanation regarding the challenges the lack of visibility may pose and the ISO's guidelines to deal with these issues.⁴

On March 23, 2009, in the then pending market parameters proceeding, the specifically discussed the visibility limitations that require more careful consideration of whether or not the ISO should enforce specific constraints.⁵ Further, while SWP did not protest or comment on this aspect of this the ISO's March 23, 2009 filing, the ISO responded to other comments by further elaborating this aspect of its practices.⁶

More recently, after the Commission rejected its March 23 filing because it found it to be outside the scope of the compliance phase of market parameters proceeding,

⁴ BPM for FNM at pp.12-13 and Section 2.1.1.1 of the BPM.
<https://bpm.caiso.com/bpm/bpm/version/0000000000000004>

⁵ See Transmittal Letter accompanying March 23, 2009 Filing in Docket ER09-240 at pp. 9-10.

⁶ See California Independent System Operator Corporation Motion to File an Answer and Answer, filed April 28, 2009, in Docket No. ER09-240, at pp. 8-9.

the ISO began a new process to clarify tariff language that refers to enforcement of transmission constraints. Again, during this process, the ISO provided an opportunity for further discussion of its transmission constraints practices overall.⁷ This effort led to the Commission's directive to include in the ISO tariff high-level guidelines that reflect the ISO's transmission constraint management and practices.

Further, in recognition of requests by market participants for additional opportunity to discuss the ISO's practices, prior to submitting the December 31 Compliance Filing, the ISO structured its stakeholder process to specifically provide further opportunity for more discussion of its practices before launching into and proposing the high-level guidelines. On November 5, 2009, the ISO issued an initial paper to discuss its practices and in that paper again discussed its specific practice with respect to areas where it lacks sufficient visibility.⁸ On November 12, 2009, the ISO dedicated the first of its stakeholder meetings to describing its transmission constraint management practices and providing participants with an opportunity to question ISO engineers and operational staff to further stakeholder understanding regarding ISO guidelines and practices reflected in the BPM for FNM and a series of Technical Bulletins. Further, in drafting the high-level tariff language, the ISO drew primarily from its existing guidelines already reflected in the BPMs and Technical Bulletins.

⁷ The ISO posted these tariff changes for stakeholder review and comment on July 9, 2009. On July 21, 2009, stakeholders submitted comments. On July 23, 2009, the ISO held a conference call with stakeholders to discuss the proposed tariff changes. With respect to the proposed changes to the FNM-related language, the ISO received two sets of comments saying that while the parties did not oppose the language specifically, they raised questions regarding the broader issue of the setting and management of transmission constraints through the ISO markets.

⁸ See Issue Paper, Data Release & Accessibility Phase 1: Transmission Constraints, issued November 5, 2009, p. 8 (<http://www.caiso.com/245d/245d11208266d0.pdf>)

Clearly, before and right after the start of its new market design, the ISO has provided ample notice and explanation of these visibility limitations and its practice not to enforce constraints under such circumstances. At no time during this process did SWP express any concern regarding these practices, nor inquired further regarding how the ISO's practices work. Yet, at this juncture, SWP asserts that this is the first time they hear of this practice and inappropriately suggests the ISO has not met its compliance requirements and that the Commission should impose additional requirements before accepting the compliance filing.

Nevertheless, while it is not clear what relief SWP seeks from the Commission, to the extent that they seek further explanation of the ISO's practice, the Commission need not issue such a requirement because the ISO again provides additional explanation in order to clarify some of the concepts SWP seems to have confounded in its comments.

SWP erroneously suggests that the ISO's practice of not enforcing transmission constraints in running its markets results in the erosion of the ISO's independent operation of the facilities that have been transferred for the ISO's control. SWP's statements are entirely unfounded and seem to be based on a fundamental misunderstanding of the ISO's operations of the facilities it controls, the role of the ISO markets in doing so, and the function of transmission constraints enforcement.

The enforcement or non-enforcement of transmission constraints through the market optimization runs is a tool used by the ISO to ensure that the ISO will dispatch, schedule, and price resources consistent with the characteristics and the state of the transmission grid. Such actions, while they are important for ensuring ISO markets clear with feasible solutions, they are not the totality of the actions the ISO takes to

operate the transmission grid. It is incorrect to suggest that a decision not enforce transmission constraints where there is insufficient visibility leaves the participating transmission owner in control to dispatch resources on their system. To the contrary, even if the ISO does not enforce the transmission constraints in the market, the ISO continues to operate the system and dispatch resources on the system to manage congestion in an open, transparent and non-discriminatory manner.

The fact that the ISO may not enforce certain transmission constraints in the market software due to lack of visibility requires that the ISO work closely with the transmission owner to ensure that the ISO correctly identifies the state of the grid. This does not mean, as suggested by SWP, that the ISO dispatches resources on the instruction of the transmission owner. Rather, the ISO continues to rely on the information received from its state estimator and the visibility provided through communications with the transmission operations side of the transmission owner's operations to ensure that the resources the ISO dispatches adequately resolve congestion on such facilities. The role of the transmission owner in this case is to provide visibility regarding conditions on that part of the grid that would have been otherwise provided by automated communications equipment, as is done elsewhere on the integrated grid.

To the extent that the ISO can actually enforce such constraints through the ISO market, the ISO takes every action to do so. To the extent that it is not possible to enforce such constraints through the market reliably, the ISO makes use of exceptional dispatch to dispatch resources necessary to reliably operate that part of the grid. The transmission owner plays no decision-making role in the dispatch decisions of the ISO

regarding whether such actions are ultimately taken through the operation of the market or through exceptional dispatch.

The transmission owner's role in this case with respect to reliability is the same as it is for all other transmission facilities. Under normal operations the ISO relies on its market and exceptional dispatch authorities to operate the system. The lack of visibility through automated means does not compromise the ISO's ability to operate the system reliably, nor does it imply that the ISO should hand over such operations to the transmission owner. The only difference is that because of the lack of communication facilities that otherwise would provide direct visibility to certain parts of the system, in these cases the ISO and the transmission owner communicate manually to convey this information.

The enforcement or non-enforcement of transmission constraints is entirely unrelated to the structure of the transmission access charge for access to the ISO grid. The transmission access charge reflects the cost of accessing the entire grid controlled by the ISO. Even those facilities that may lack communication equipment that provides the ISO market systems direct visibility are available to users of the grid. Because the ISO does not have point-to-point service on its system, the only requirement for using the grid is to pay the access charge and then schedule load and generation resources at locations where the entity represents such resources. SWP's suggestion that the ISO's practice of whether to enforce or not enforce transmission constraints leads to discriminatory service on the ISO system is entirely unfounded.

V. Conclusion

For the reasons provided herein, the Commission should accept the tariff revisions submitted by the ISO in the December 31 Compliance Filing.

Respectfully submitted,

/s/ Anna A. McKenna

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CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service lists for the above-referenced 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 at Folsom, CA this 5th day of February, 2010.

/s/ Jane Ostapovich
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