



California Independent
System Operator Corporation

January 9, 2008

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Response to Certain Rehearing Requests in Docket No. ER08-1113-001.

Dear Secretary Bose:

On September 19, 2008, the Federal Energy Regulatory Commission issued an order in the above captioned proceeding.¹ Requests for rehearing of the *September 2008 Order* were filed on October 20, 2008. Enclosed for filing in the above-referenced docket is the California Independent System Operator Corporation's (CAISO) Motion for Leave to Respond to Rehearing Requests, the Response to Certain Rehearing Requests and Motion for Clarification. Thank you for your assistance in this matter.

Respectfully submitted,

/s/ Anna McKenna

Anna McKenna
Counsel for the California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400
Fax: (916) 608-7296

¹ *California Indep. Sys. Operator Corp.*, 124 FERC ¶ 61,271 (2008).

were filed by thirteen parties.³ Certain of the protests to the Compliance Filing (*e.g.*, those alleging CAISO is engaging in a collateral attack on the *September 2008 Order*) further support the request for clarification. This Response is intended to assist the Commission in its decision making process.

II. MOTION FOR LEAVE TO RESPOND TO REHEARING REQUESTS AND MOTION FOR CLARIFICATION

Responses to rehearing requests generally are not permitted.⁴ The CAISO respectfully requests waiver⁵ of sections of the Commission's Rules of Practice and Procedure⁶ prohibiting responses to Requests for Rehearing in order to respond to certain aspects of the rehearing requests submitted in this proceeding. Good cause exists for the waiver. The amount of material filed in this proceeding is voluminous and complex. The entities that request rehearing challenge almost every aspect of the *September 2008 Order*. In its response, the CAISO does not respond to every rehearing request. The CAISO does not suggest that these requests have merit. Rather, the CAISO's response addresses those instances where the CAISO believes a rehearing request misstates or mischaracterizes either the record or the *September 2008 Order*. In these circumstances, the CAISO believes that its response will help the Commission in its decision making process and that its request is consistent with Commission precedent. For example, in *Dominion Cove Point LNG LP and Dominion Transmission Inc.*,⁷ the Commission stated:

While [movant Washington Gas Light Company or "WGL"] is correct that our rules do not permit answers to request for rehearing, we may, for good cause

³ Comments were filed by IID, NCPA, Powerex, SCE, SVP, and the California Department of Water Resources State Water Project (DWR/SWP). Protests were filed by IID, LADWP, MID, NCPA, Redding, SMUD, TANC, TID, and WAPA.

⁴ See 18 C.F.R. § 385.213(a)(2) and 18 C.F.R. § 385.713(d)(1) (2008).

⁵ Waiver is requested pursuant to 18 C.F.R. § 385.101(e).

⁶ 18 C.F.R. § 385.213(a)(2) and 18 C.F.R. § 385.713(d)(1).

⁷ 118 FERC ¶ 61,007 (2007).

shown, waive a rule. We find good cause to do so in this instance. WGL's request for rehearing challenges virtually every aspect of the June 16 Order addressing the issue of the increased gas leaks on WGL's system, and we believe that the answers do provide information that assists us in the decision-making process. Accordingly, we will accept Cove Point LNG/Dominion's and the LTD-Shippers' answers to the rehearing requests.⁸

This proceeding is similar to the *Dominion Cove Point LNG* proceeding with respect to the rehearing requests and the CAISO asks that the Commission grant its Motion for Leave to Respond to Rehearing Requests. This Response addresses many challenges put forth by the participants, many of which were already articulated in the protests filed previously in this proceeding prior to the *September 2008 Order*.

In addition, in light of some of the interpretations of the *September 2008 Order* contained in the rehearing requests and the protests on the CAISO's November 25, 2008 compliance filing, CAISO also requests that the Commission clarify certain aspects of the *September 2008 Order*.⁹ CAISO's request for clarification is submitted pursuant to 18 C.F.R. § 385.212 of the Commission's Rules of Practice and Procedure.

III. ANSWER

A. The Commission's Adoption Of Default Pricing Points Is Just And Reasonable

In the *September 2008 Order*, the Commission accepted the use of the default pricing points under the IBAA proposal.¹⁰ Several entities request rehearing of the Commission's approval of the default pricing points.¹¹ SMUD alleges that:

⁸ *Id.* at P 10 (citations omitted).

⁹ *See* discussion in Section IV, *infra*.

¹⁰ *September 2008 Order* at PP 82-92.

¹¹ *See, e.g.*, TANC Rehearing Request at 63-71; TID Rehearing Request at 19-20; SMUD Rehearing Request at 31-41; and WAPA Rehearing Request at 4.

[t]he Commission’s finding that “[a]bsent more specific information, such as that provided in an alternative pricing arrangement under an MEEA, the CAISO must make an assumption about the location of an external resource,” Order at P 42, provides no logical basis for its conclusion that the CAISO default pricing mechanism makes *reasonable* assumptions about the location of external resources sold by SMUD into the CAISO market. *Id.* at P 82. On the contrary, the Commission’s conclusion arbitrarily ignores undisputed evidence – the CAISO’s own admission – that it applied the knowingly false assumption that *all* SMUD sales into the CAISO markets are from sources in the Pacific Northwest.¹²

Similarly, TANC claims that:

The ISO’s single-hub IBAA pricing methodology incorrectly assumes, for instance, that all imports from the COTP are the least valuable to the ISO, and that the location of internal resources supporting an export transaction to the SMUD and TID BAAs is the most valuable to the ISO. The IBAA proposal also allows the ISO to program the LMP using false assumptions that do not reflect actual flows and to ignore the level of information that the ISO already has available to it.

* * * *

The Commission’s acceptance of the ISO’s disputed and flawed assumption regarding Captain Jack default pricing point for imports was also in error, because of the dire consequences such an assumption would have on the neighboring BAAs, and because there was no basis in the record to confirm that using this assumption would meet the ISO’s objectives.¹³

The Commission did not ignore information or undisputed evidence as stated by SMUD and TANC. As set forth below, there is ample evidence confirming that the Commission’s approval of a single proxy bus with the default pricing points is just and reasonable.

1. The Use of a Single Proxy Bus With Default Pricing Points Is a Just and Reasonable Means of Meeting CAISO’s Objectives

The Commission’s approval of a single proxy bus approach with two default pricing points has several important factual underpinnings all of which are in the record. The following

¹² SMUD Rehearing Request at 34 (emphasis in original).

¹³ TANC Rehearing Request at 65, 66.

facts are undisputed and support the reasonableness of the Commission's determination regarding the default pricing points:

- (a) in a LMP regime the location of resources matters and this fact is true for resources internal to the CAISO Controlled Grid and for those resources external to the CAISO Controlled Grid used to implement interchange transactions;¹⁴
- (b) in order to determine the impact of an interchange transaction on the CAISO Controlled Grid and thus to determine the price, it is necessary to specify the location at which generation external to the CAISO Balancing Authority Area (BAA) will be increased or decreased to support the change in scheduled interchange;¹⁵
- (c) CAISO neither controls the dispatch, nor knows the location of the generation and loads located within the IBAA that are dispatched to implement interchange transactions, and therefore cannot ensure that an interchange transaction scheduled day-ahead at any particular Intertie Scheduling Point is consistent with the location of the external generation and loads actually dispatched to implement the interchange transaction in real time.¹⁶
- (d) if CAISO established multiple pricing points for interchange transactions within the SMUD-TID IBAA, market participants would have an incentive to schedule transactions along a contract path external to the CAISO BAA to the pricing point with the most favorable price;¹⁷
- (e) use of a single hub mechanism with default pricing points for interchange transactions between the CAISO and the SMUD-TID IBAA *eliminates* the inappropriate scheduling incentives that come with having multiple pricing points for interchange transactions between the CAISO and the IBAA;¹⁸ and
- (f) CAISO's decision to use a single proxy bus hub with default pricing points was a direct result from the unwillingness of SMUD and the other IBAA Entities¹⁹ to

¹⁴ See, e.g., Exhibit ISO-3, Testimony of Dr. Harvey at 12, 16.

¹⁵ *Id.* at 13.

¹⁶ See Transmittal Letter to the IBAA Filing at 9; Exhibit ISO-3, Testimony of Dr. Harvey at 13.

¹⁷ Exhibit ISO-3, Testimony of Dr. Harvey at 7; Exhibit ISO-2, Testimony of Dr. Hildebrandt at 10.

¹⁸ Exhibit ISO-1, Panel Testimony of Mark Rothleder and Dr. Price, at 58; Exhibit ISO-2, Testimony of Dr. Hildebrandt at 10.

¹⁹ The term "IBAA Entities" in the IBAA Filing is a collective reference to the SMUD Balancing Authority (BA), the TID BA, Western and TANC. TANC, in turn, is a joint powers agency authorized by Section 6502 of the California Government Code and is composed of the California cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah; the Plumas-Sierra Rural Electric Cooperative; SMUD; MID; and TID.

exchange data with CAISO regarding the location and dispatch of external resources used to implement interchange transactions.²⁰

The failure of SMUD, TANC and others to acknowledge that the reasonableness of the default pricing points is related directly to CAISO's lack of information regarding the location and dispatch of the external resources used to implement an interchange transaction (information that SMUD, TANC and others possess) is a fundamental flaw in their requests for rehearing. As outlined above, the lack of information that CAISO expects to receive regarding interchange transactions is established clearly in the record²¹ and it is a central fact that underlies the Commission's approval of the default pricing points as just and reasonable. The *September 2008 Order* is replete with references that the default pricing points are reasonable *absent better information*:

- (a) “[a]bsent more specific information, such as that provided in an alternative pricing arrangement under an MEEA, the CAISO must make an assumption about the location of an external resource”;²²
- (b) “[i]n response to commenters who claim that the proposal will result in incorrect LMPs, we recognize that absent specific locational information of resources supporting an external transaction, the CAISO must make assumptions in its modeling and pricing calculations. We find that it is reasonable that the CAISO make assumptions that more accurately model actual power flows in order to calculate prices according to its LMP methodology rather than use unverifiable data that it knows to be incorrect”;²³ and
- (c) “[t]he IBAA proposal’s default pricing is a reasonable way for the CAISO to manage congestion absent more specific information about resources supporting interchange transactions.”²⁴

²⁰ See, e.g., Transmittal Letter to the IBAA Filing at 6 (“the unwillingness of the IBAA Entities to exchange more useful data has been singularly instrumental in the CAISO’s decision to propose a default modeling and pricing approach (which operates in the absence of data allowing the CAISO to verify the location and dispatch of the external resources used to implement interchange transactions)”).

²¹ See, e.g., Transmittal Letter to the IBAA Filing at 5-8.

²² *September 2008 Order* at P 42 (emphasis added).

²³ *Id.* at P 44 (emphasis added).

²⁴ *Id.* at P 84 (emphasis added); see also *id.* at PP 86, 90, 120, and 148.

Significantly, using a single proxy bus with the default pricing points eliminates the inaccurate scheduling incentive problem that is the result of a lack of information.²⁵ None of the rehearing requests dispute this basic fact (*i.e.*, that the default pricing points eliminates the inaccurate scheduling incentive problem); rather, they (i) complain that the CAISO proposal has other inefficiencies, and (ii) then propose a solution that would leave the multiple pricing point / inaccurate scheduling problem unaddressed. Dr. Harvey described the position of the IBAA Entities as requiring CAISO:

to pay a price calculated based on the most favorable assumptions to them regarding the location of the generation supporting imports from their Balancing Authority Area in all circumstances, regardless of whether or not the imports are actually supported by generation whose location warrants the higher price. It should be kept in mind that there is no symmetric obligation on the SMUD-TID IBAA entities to buy power offered by CAISO sellers based on a transparent pricing model. Instead, the SMUD-TID IBAA entities are free to buy power from CAISO sellers or refuse to buy power from CAISO sellers based on these parties subjective evaluation of the congestion and other impacts of such imports on their systems.²⁶

In short, there is a rational relationship between the harm to CAISO ratepayers (*i.e.*, the unreasonable pricing that would result from pricing interchange transactions at multiple hubs without information regarding the location and dispatch of the external resources used to implement the transactions) and the mechanism approved by the Commission to avoid that harm (the use of a single proxy bus with default pricing points). The Commission has an obligation to protect CAISO ratepayers from paying inappropriate prices and unnecessary uplift charges

²⁵ See Exhibit ISO-2, Testimony of Dr. Hildebrandt at 16; see also Exhibit ISO-1, Panel Testimony of Mark Rothleder and Dr. Price at 58-59.

²⁶ Exhibit ISO-3, Testimony of Dr. Harvey at 22-23 (emphasis added). Interchange transactions are voluntary sales and purchases; no one is forcing the IBAA Entities either to transact with the CAISO markets and/or provide information to the CAISO.

associated with inaccurate scheduling and pricing of interchange transactions.²⁷ The Commission's approval of the default pricing points is just and reasonable. The suggestion of the IBAA Entities to use multiple pricing points for interchange transactions is inferior because it would leave the poor scheduling incentives in place and the potential harm to CAISO ratepayers unaddressed.

2. The Selection of the Default Pricing Points Is Reasonable

The Commission found in the *September 2008 Order* that:

the use of default import and export pricing points in the single hub approach is reasonable. We find that the CAISO's assumptions are reasonable given the available information on interchange transactions. As described in the CAISO filing, the CAISO has appropriately chosen to make an assumption that imports are likely to flow through Captain Jack and exports are likely to flow through the SMUD hub.²⁸

The Commission also noted that CAISO believed its proposal was necessary based on its experience in running the market and the need to manage congestion on the CAISO Controlled Grid.²⁹

SMUD claims that the Commission's finding that CAISO must make an assumption provides no logical basis for the Commission's conclusion that the default pricing points that were chosen were reasonable.³⁰ SMUD also claims that the Commission accepted the

²⁷ CAISO notes that the CPUC also is concerned about protecting against market anomalies associated without verifiable information from external entities. See *September 2008 Order* at P 148 ("As the California PUC points out, adjacent balancing authority areas may have significant impacts on flows in the CAISO, and without verifiable information from the external entities, the CAISO needs this proposal to protect against unwanted market anomalies. We find that CAISO has identified potential market problems absent the proposal, and that the proposal is a reasonable means to address those problems").

²⁸ *September 2008 Order* at P 82.

²⁹ *Id.*

³⁰ SMUD Rehearing Request at 34.

“knowingly false assumption that *all* SMUD sales into the CAISO markets are from sources in the Northwest.”³¹ SMUD’s claims are in error.

First, the Commission recognized that CAISO: “does not assert that *all* interchange transactions are sourced at Captain Jack. Rather, in the absence of additional information, it asserts that Pacific Northwest resources are likely to support interchange transactions since they are generally less expensive.”³² Second, the selection of the default pricing points was based on reasonable assumptions by the CAISO given the lack of information. The resources in the Pacific Northwest are generally less expensive than the resources in California and it is a reasonable assumption that entities within the SMUD-TID IBAA will procure generally less expensive power available from the Pacific Northwest.³³ With imports coming from the Pacific Northwest, the Captain Jack Substation represents a reasonable approximation of the location of the resources likely to be used to support a scheduled interchange transaction (import).³⁴ For interchange transactions that are exports to the 300 mile long SMUD-TID IBAA, the CAISO reasoned that such exports will generally be used to serve load and that the SMUD-Hub is the area with the greatest amount of the load in the SMUD-TID IBAA.³⁵ The CAISO respectfully requests that the Commission deny the rehearing requests regarding the Commission’s approval of the default pricing points.

³¹ *Id.* (emphasis in original); *see also* TANC Rehearing Request at 65.

³² *September 2008 Order* at P 83 (emphasis in original).

³³ Exhibit ISO-1, Panel Testimony of Mark Rothleder and Dr. Price at 60-61.

³⁴ *Id.*

³⁵ *Id.* at 61.

3. The Approval of the Default Pricing Points Is Not a Departure From Existing Commission Policy on Recourse Rates

SMUD notes that the Commission found “the alternative pricing arrangement offered by the CAISO in exchange for the sharing of information is an *integral* part of the CAISO’s proposal,”³⁶ and that SMUD may “receive a more favorable pricing structure [only] *if* it is willing to provide the CAISO with information allowing the CAISO to verify the location and operation of the resources used to implement interchange transactions between the CAISO-controlled grid and the IBAA,”³⁷ SMUD then states:

[b]ut under existing Commission precedent, a default pricing mechanism for tariff service *independently* must be just and reasonable. *Natural Gas Pipeline Negotiated Rate Policies and Practices*, 104 FERC ¶ 61,134 (2003) (requiring pipelines that offer customers the opportunity to execute negotiated rate agreements the option of a just and reasonable “recourse rate”). And, particularly given the Commission’s own finding that, at least in some circumstances, the IBAA proposal creates “an artificially low price for energy,” Order at P 120, the Commission’s approval of the IBAA proposal is an unexplained departure from its existing policy on recourse rates.³⁸

In accepting the default pricing points in the *September 2008 Order*, the Commission rejected SMUD’s argument that “the CAISO has failed to offer the IBAA entities a just and reasonable recourse rate in the event they are unable to reach agreement on an MEEA.”³⁹

The rejection of SMUD’s argument is appropriate. SMUD’s analogy comparing the default pricing points to a recourse rate under the Commission’s Negotiated Rate Policy⁴⁰ is inapt. The Commission’s Negotiated Rate Policy, in relevant part, permits:

interstate pipelines under Part 284 of the Commission’s regulations to negotiate rates with a shipper that vary from the otherwise applicable cost of service

³⁶ SMUD Rehearing Request at 35 (citing to the *September 2008 Order* at P 6 (emphasis added by SMUD)).

³⁷ *Id.* (emphasis added by SMUD).

³⁸ *Id.* (citations included and emphasis in original).

³⁹ *September 2008 Order* at P 190.

⁴⁰ *See Natural Gas Pipeline Negotiated Rate Policies and Practices*, 104 FERC ¶ 61,134 (2003).

pipeline tariff, subject to certain limitations, such as the Commission’s prohibition against pipelines negotiating terms and conditions of service. Moreover, under the Commission’s policy, pipelines must permit shippers to opt for use of a traditional cost of service “recourse” rate instead of requiring them to negotiate for rates for any particular service.⁴¹

The Commission’s Negotiated Rate Policy involves cost of service rates for transportation service and allows a pipeline to negotiate rates with shippers that vary from the “otherwise applicable cost of service” rate. The availability of the recourse rate (*i.e.*, the cost of service rate) prevents pipelines from exercising market power by assuring that the customer can fall back to cost-based, traditional service if the pipeline unilaterally demands excessive prices or withholds service.⁴² The analogous rates for electric utilities are cost of service transmission rates; in the CAISO’s case, it is the transmission access charge.

In contrast to cost of service rates, the rates under the IBAA proposal (both the LMPs calculated at the default pricing points and the LMPs applicable under a negotiated MEEA) are market based rates. In other words, contrary to SMUD’s argument, the “default pricing points” under the IBAA proposal are not analogous to a cost of service “recourse rate” under the Commission’s Negotiated Rate Policy.

Moreover, the Commission acceptance of the default pricing points is an example of the Commission fulfilling its duty to protect CAISO ratepayers under the Federal Power Act. Just and reasonable rates must be within a zone of reasonableness, and judging whether any particular rate proposal is within the zone of reasonableness requires a balancing of the interests of both the investor and consumers.⁴³ Utility customers have been said to be a “prime constituency” of the

⁴¹ *Id.* at P 2 (emphases added).

⁴² *Id.*

⁴³ *Federal Power Comm’n v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944) (*Hope*).

Commission.⁴⁴ The Commission is not “bound to the use of any single formula or combination of formulas in determining rates”⁴⁵ and the Commission can use market based rates to ensure that rates are just and reasonable.⁴⁶ The principle justifying market based rates as just and reasonable is that:

[i]n “a competitive market, where neither buyer nor seller has significant market power, it is rational to assume that the terms of their voluntary exchange are reasonable, and specifically to infer that the price is close to marginal cost, such that the seller makes only a normal return on its investment.”⁴⁷

In approving the default pricing points in the IBAA proposal, the Commission is fulfilling its duty to protect CAISO ratepayers. The Commission found that, with multiple pricing points and the absence of better information regarding the location and dispatch of external resources used to implement interchange transactions, it was *not* rational to assume that the pricing terms of the voluntary transactions would be just and reasonable. Contrary to SMUD’s allegation that the Commission had an “unexplained departure” from existing policy, the Commission’s approval of the default pricing points is an example of it fulfilling its duties under the Federal Power Act. The Commission should confirm its decision in the *September 2008 Order* and deny SMUD’s rehearing request regarding “recourse rates”.

B. CAISO Will Not Apply LMPs to External, Non-CAISO Controlled Grid Facilities

In their rehearing requests TID and IID state that the IBAA proposal should be rejected because it inappropriately empowers the CAISO to apply LMPs to facilities external to and

⁴⁴ See *Maryland People’s Counsel v. FERC*, 761 F.2d 780, 781 (D.C. Cir. 1985) (citing to *Hope* at 620).

⁴⁵ See *Hope*, 320 U.S. at 602; *Elizabethtown Gas Co. v. FERC*, 10 F.3d 866, 870 (D.C. Cir. 1993); and *Farmers Union Central Exchange v. FERC*, 734 F.2d 1486, 1501 (D.C. Cir. 1984).

⁴⁶ See *Louisiana Energy and Power Auth. v. FERC*, 141 F.3d 364, 365 (D.C. Cir. 1998); *Elizabethtown Gas Co.*, 10 F.3d at 870; and *Tejas Power Corp. v. FERC*, 908 F.2d 998, 1004 (D.C. Cir. 1990).

⁴⁷ *California v. FERC*, 383 F.3d 1006, 1013 (9th Cir 2004) (citing to *Tejas Power Corp. v. FERC*, 908 F.2d 998, 1004 (D.C. Cir. 1990) (emphasis added)).

independent of the CAISO Controlled Grid.⁴⁸ TID acknowledges that the Commission found that the IBAA proposal only applied LMPs at the intertie scheduling points, but argues that the Commission’s statement is in error.⁴⁹ TID’s reasoning is that by “. . . setting the price of sales at intertie points, the Commission is by definition affecting the LMPs (*i.e.*, the prices) of both the CAISO and the interconnecting utility.”⁵⁰ TID concludes that “the IBAA proposal inappropriately empowers the CAISO to unilaterally set prices on facilities that are external to the CAISO-Controlled Grid.”⁵¹ TID and IID are not correct. Under the IBAA proposal, the CAISO will not set prices for, manage congestion on, or charge for losses over, the external transmission facilities within the IBAA. The Commission recognized that under the IBAA proposal CAISO “will use external data to calculate accurate LMPs for transactions on its system, but will not impose LMPs on outside areas [*i.e.*, beyond the CAISO Controlled Grid].”⁵²

The Commission’s determination is consistent with the structure of the IBAA proposal and based on ample record evidence. The CAISO explained that the purpose of modeling and pricing interchange transactions between the CAISO and the SMUD-TID IBAA is to better assess the impacts of such transactions on *the CAISO Controlled Grid*.⁵³ The IBAA proposal and the location of external resources or pricing points does not value (or charge for) transmission service over non-CAISO Controlled Grid facilities.⁵⁴

⁴⁸ TID Rehearing Request at 24; IID at 15-16.

⁴⁹ *Id.*

⁵⁰ TID Rehearing Request at 24-25 (emphasis added).

⁵¹ *Id.* at 25.

⁵² *September 2008 Order* at P 46, P 47; *see also September 2008 Order* at P 293 (“The IBAA proposal *does not impose prices on or devalue external facilities*”) (emphasis added).

⁵³ *See* Transmittal Letter to the June 17, 2008 IBAA Filing at 22.

⁵⁴ *See* Exhibit ISO-1, Testimony of Mr. Rothleder and Dr. Price at 76-79. *See also* Exhibit ISO-3, Testimony of Dr. Harvey, at 21 (“the proxy bus mechanism establishes prices to be used in connection with use of the CAISO Controlled Grid, the proxy bus prices are not applied to transmission service over any non-CAISO Controlled Grid facilities”).

Transmission service over, and any constraints within, the external IBAA systems are scheduled, priced, and managed by the transmission system operators within the IBAA (*i.e.*, the transmission operators within the SMUD and TID BAAs). The CAISO will not enforce transmission constraints within the IBAA⁵⁵ and will only address marginal losses within the CAISO footprint.⁵⁶ Although transmission losses within the IBAA (and the losses on the Interties between the IBAA and other BAAs) will be fully accounted for in power flow calculations, the marginal impact of those losses will be removed from the LMPs by setting the contributions of the external loss penalty factors to zero. As explained by Mr. Rothleder and Dr. Price:

The CAISO will not enforce transmission constraints within the IBAA. Furthermore, under the default proposal, measures will be taken to prevent the marginal transmission losses within the IBAA from affecting the prices within the IBAA and the CAISO. Therefore, the LMPs established on the CAISO Controlled Grid will not be the prices used for settlement of the IBAA, are not affected by congestion or losses within the IBAA, and only represent the marginal effect of losses and congestion within the CAISO Controlled Grid. Stated another way, the value of energy associated with transactions between CAISO and the IBAA will be based on the impact on congestion and losses in the CAISO BAA.

The IBAA's are responsible for losses within their networks. Therefore, the CAISO proposes to schedule and dispatch Bids for IBAA System Resources as if there were no losses within the IBAA network, and to use the scheduled or dispatched MWs as the basis for expected net interchange between the CAISO BAA and the IBAA. Although transmission losses within IBAA's, and on interties between IBAA's, will be fully accounted for in power flow calculations, their marginal impact will be ignored in the loss penalty factor calculations for setting the CAISO's LMPs. Specifically, the marginal impact of transmission losses will be ignored in the LMP calculations by zeroing the partial derivative contributions

⁵⁵ The CAISO will enforce thermal and capacity constraints on the interties between the CAISO Controlled Grid and the IBAA as necessary for the reliable operation of the CAISO Controlled Grid. However, the IBAA will be responsible for congestion management within its own network.

⁵⁶ Regarding losses, *see, e.g.*, April 18, 2008 "Draft Final CAISO Integrated Balancing Authority Area (IBAA) Proposal ("April 18, 2008 Final Proposal")" at 6. The reason the marginal losses are removed from the LMP calculation is because the IBAA is responsible for the transmission losses within its network. *Id.* at n.10. The contributions to the loss penalty factors from network branches within the IBAA (and from each of the IBAA Interties) will be ignored *by setting these contributions to zero. Id.* (emphasis added). The issue paper can be found at: <http://www.caiso.com/Ifad/1fad12f244a990.pdf>.

to the loss penalty factors from network branches within the IBAA networks and from the IBAA interties. This will only affect marginal loss rates and does not alter in any way the transmission losses within the IBAA networks, which are accurately represented in the optimal Schedule and Dispatch by the full AC power flow solution in the market optimization.⁵⁷

The Commission should reject the rehearing requests of TID and IID. The assertion that the CAISO is unilaterally setting prices for external (*i.e.*, non-CAISO Controlled Grid) grid facilities is incorrect and at odds with the record in the proceeding.

C. Contrary to the Rehearing Requests, the CAISO Does Not (and Will Not) Assess Any Charges for a COTP Participant's Use of the COTP in Contravention of the Amended Owners Coordinated Operating Agreement

In the *September 2008 Order*, the Commission correctly found that the IBAA proposal did not violate the Amended Owners Coordinated Operating Agreement (OCA).⁵⁸ In the rehearing requests on this issue, the interpretation of the Amended OCA by TANC, SVP and others fail to distinguish between charging for scheduled impacts on the CAISO Controlled Grid and charging for unscheduled parallel flow impacts for the scheduled use of *the California Oregon Transmission Project (COTP)* (the latter is prohibited under the Amended OCA). As a result, the protesting parties inappropriately merge important distinctions between use of the CAISO Controlled Grid and use of the COTP.

It is important to recognize that each Party's use of the coordinated three line system under the Amended OCA involves *each Party's right to use its own facilities*. This fact is clear from reading the Amended OCA.⁵⁹ It also is important to recognize that the Amended OCA does not deal with the scheduling of transmission service over the facilities of each Party. The

⁵⁷ Exhibit ISO-1, Testimony of Mr. Rothleder and Dr. Price at 67-68 (emphases added); *see also April 18, 2008 Final Proposal* at 6 and n.10.

⁵⁸ *See September 2008 Order* at PP 246-255.

⁵⁹ *See, e.g.*, July 23, 2008 Answer of CAISO at 55-69 (discussing §§ 4, 5, 8.4, and 11 of the Amended OCA).

scheduling of transmission service to customers over the transmission facilities of PG&E, WAPA, and the COTP occurs under the transmission tariffs of PG&E (now the CAISO), WAPA, and TANC, respectively (and not under the Amended OCOA).⁶⁰

Before reviewing the assertions in the rehearing requests of TANC, SVP and others, the CAISO emphasizes that the provision in the Amended OCOA regarding not charging a rate for power that flows over the System (*i.e.*, the PACI-P, PACI-W and COTP) is *not applicable* when a Party to the Amended OCOA seeks to use the transmission facilities of another Party to the Amended OCOA *under other agreements*.⁶¹ The Commission confirmed this interpretation of the Amended OCOA in the *September 2008 Order* finding that “the scope of the Coordinated Operation Agreement also states that ‘no Party provides or shall be required to provide any transmission or other electric service to another Party under this Agreement’ . . . Therefore, how the CAISO prices voluntary interchange transactions in its market is not governed by the Coordinated Operation Agreement.”⁶²

In order to violate Section 8.4 of the Amended OCOA, the CAISO would have to charge TANC (or other COTP participant) for the *unscheduled parallel flow* on the PACI-P for TANC’s *use of the COTP*. The CAISO does not, and will not under the IBAA proposal, charge for unscheduled parallel flows over the CAISO Controlled Grid for the scheduled use of the COTP; it is not doing this today under the existing CAISO Tariff and it will not do so under the MRTU Tariff as amended by the IBAA proposal.⁶³ Again, the Commission correctly found that “the

⁶⁰ See July 23, 2008 Answer of CAISO at 56.

⁶¹ See §§ 5 and 8.4 of the Amended OCOA. The “System” under the OCOA is defined as the combined facilities of the PACI-P, PACI-W and COTP. See Section 4.48 of the Amended OCOA.

⁶² *September 2008 Order* at P 248.

⁶³ See August 8, 2008 Answer of CAISO at 12 (noting that there is no conflict between the IBAA proposal and the Amended OCOA because “the IBAA proposal deals with *scheduled flows* and service over the *CAISO Controlled Grid* while the provision in Section 8.4 of the Amended OCOA, as acknowledged by TANC, deals with

CAISO will not be charging for unscheduled flows over its system for transactions scheduled over the COTP”.⁶⁴

1. TANC, SVP and Others Inappropriately Fail To Distinguish Between Charging For Scheduled Impacts on the CAISO Controlled Grid And Charging For Unscheduled Parallel Flow Impacts From the Scheduled Use Of The COTP

It is very important to distinguish between impacts on the CAISO Controlled Grid associated with the *scheduled* use of the CAISO Controlled Grid and *unscheduled* parallel flow impacts on the CAISO Controlled Grid associated with service on an external transmission system. This distinction is overlooked by TANC, SVP and others in their requests for rehearing of the *September 2008 Order*. Impacts from the scheduled use of the CAISO Controlled Grid are not the same thing as unscheduled, parallel flow impacts on the CAISO Controlled Grid that are associated with service over an external transmission system (in this case, the COTP).

TANC, SVP and others fail to recognize the distinction between (a) impacts on the CAISO Controlled Grid from the *scheduled use* of the CAISO Controlled Grid, and (b) the *unscheduled, parallel flow impacts* on the CAISO Controlled Grid *from TANC’s use of the COTP*. This error permeates the requests asking for rehearing of the Commission’s determinations regarding existing contracts.

For example, in its rehearing request TANC incorrectly suggests there is an “inconsistency” in reasoning between the Commission’s finding that the CAISO will not be charging for unscheduled flow effects of COTP power flows and its findings regarding

unscheduled, parallel flows and *service over the COTP* (i.e., TANC’s or another COTP participant’s use of its own facilities under the Amended OCOA)) (emphases in original).

⁶⁴ *September 2008 Order* at P 246.

CAISO's charges for the use of and impacts upon, the CAISO Controlled Grid.⁶⁵ There is no inconsistency in the Commission's statements in the *September 2008 Order*. The charges the Commission approved are not for the effects of COTP power flows; rather, the Commission approved charges for the scheduled use of, and the impacts on, the CAISO Controlled Grid.⁶⁶ The CAISO will not charge for unscheduled flows over its system for transactions scheduled over the COTP (which would be a violation of the Amended OCOA) because any unscheduled parallel flows impacts from a COTP schedule are accounted for in real time with no charge to the transmission customer on the external transmission system.

TANC's interpretation of the Amended OCOA is in error for at least two reasons. First, TANC's interpretation is prohibited by Section 8.4 itself. In other words, the very section of the Amended OCOA relied on by TANC and others addresses the limitation on not charging a rate for the flows over the System (that is, the unscheduled flows on the facilities of other Parties related to an entity's use of its own facilities that comprise the System) and emphasizes that "no Party shall have a right under this Agreement [*i.e.*, the Amended OCOA, including the provision relied on by TANC] *to have any of its power delivered on or otherwise have the use of transmission facilities owned by another Party.*"⁶⁷ Scheduling an interchange transaction with the CAISO is a request by TANC to use the transmission facilities of *another Party*; it does not involve TANC's own use of its own facilities under the Amended OCOA (*i.e.*, the COTP). Second, the CAISO does not today, and will not under MRTU, charge a COTP transmission customer for the unscheduled parallel flow affects of the scheduled use of the COTP.

⁶⁵ See TANC Rehearing Request at 23-24; *see also* SVP Rehearing Request at 28.

⁶⁶ *September 2008 Order* at P 250.

⁶⁷ Section 8.4 of the Amended OCOA (fourth sentence; emphasis added).

SVP makes the same or similar arguments as those made by TANC. For example, SVP states that:

With regard to congestion, the Commission relies on its erroneous conclusion that IBAA only charges COTP schedules congestion from parallel flows on the CAISO-controlled grid 230 kV system. That conclusion is not only erroneous, it does not resolve the contract violation issue. The Amended OCOA contains no distinction and explicitly bars all charges for unscheduled flows resulting from schedules on the COI. Whether the congestion occurs on the COI or the related 230 kV system, a charge for congestion resulting from parallel flows from COTP schedules violates the OCOA.⁶⁸

It is important to note that SVP's statements do not mention whether or not there is a scheduled use of the CAISO Controlled Grid included in the scenario it is describing. If the transaction is sourced in the Northwest and sinks within the IBAA (*e.g.*, through the Tracy Interconnection at the SMUD Hub), there would be impacts on the CAISO Controlled Grid as mentioned by SVP but no charges would be assessed to the COTP transmission customer and there would be no violation of the Amended OCOA. On the other hand, if the transaction postulated by SVP were to sink with the CAISO Controlled Grid (*i.e.*, it is an import transaction): (i) there would be a scheduled use of the CAISO Controlled Grid (*i.e.*, there would be a transmission customer using the CAISO Controlled Grid); (ii) the impacts of the transaction on the CAISO Controlled Grid would no longer be unscheduled flow impacts; rather, they would be the scheduled impacts of the transaction on the CAISO Controlled Grid and CAISO charges would apply; and (iii) there would be no violation of the Amended OCOA.

Whether or not a COTP transaction is coupled with the scheduled use of the CAISO Controlled Grid is a critical distinction regarding the application of CAISO charges and whether there is a violation of the Amended OCOA. The key recognition is that SVP's statements quoted

⁶⁸ SVP Rehearing Request at 28 (paragraphs 47 and 48; emphasis added).

above are correct only to the extent that they are referring to charges related to SVP's use of its own facilities under the Amended OCOA (*i.e.*, the COTP) without a scheduled use of the CAISO Controlled Grid.

CAISO also notes that SVP's use of the term California-Oregon Intertie (COI) is imprecise. In the interests of clarity, the differences between the three line "System" and the COI under the Amended OCOA are set forth below. First, the relevant portions of Section 8.4 of the Amended OCOA (relied on by SVP, TANC and others) refer to the "System", not the "COI". The relevant portions of Section 8.4 of the Amended OCOA read as follows:

No Party shall be charged any rate and PG&E shall not be charged any transmission loss for any power, which flows over the System or over the Tesla ByPass. The preceding sentence shall not preclude appropriate remedies in the event that any Party adversely impacts another Party's rights under this Agreement to use the Tesla ByPass. Except to the extent necessary for sharing Curtailments, no Party shall have a right under this Agreement to have any of its power delivered on or otherwise have the use of transmission facilities owned by another Party.⁶⁹

The "System" under the Amended OCOA is not the same thing as the COI. The "System" under the OCOA is defined as the combined facilities of the PACI-P, PACI-W and COTP.⁷⁰ PACI stands for the "Pacific AC Intertie" and is defined as "that portion of the 500 kV AC Pacific Intertie located between COB and PG&E's Tesla Substation, associated 500 kV facilities at Tesla Substation and that portion of the Tesla-Tracy 500 kV AC transmission line between Tesla Substation and the COTP Terminus, including lines, substations and associated facilities."⁷¹ The term "PACI-P" means the portion of the PACI owned by PG&E and located between Indian Spring and the COTP Terminus and the portion of the PACI owned by PacifiCorp between

⁶⁹ Section 8.4 of the Amended OCOA (emphasis added).

⁷⁰ Section 4.48 of the Amended OCOA.

⁷¹ Section 4.33 of the Amended OCOA.

Malin Substation and Indian Spring to which PG&E has rights.⁷² The term “PACI-W” means the portion of the PACI owned by Western and located between the Malin and Round Mountain Substations.⁷³

The Amended OCOA “governs the coordinated operation of the PACI and COTP” not merely the COI.⁷⁴ The COI under the Amended OCOA is a specifically defined subset of the three line System in the northern part of California. The COI is defined as: “[t]he two 500-kV transmission lines between Malin Substation and *Round Mountain Substation* and the one 500-kV transmission line between Captain Jack Substation and *Olinda Substation*.”⁷⁵

CAISO notes that Commission also uses the term “COI” in particular paragraphs when either “the PACI and COTP” or “the three line System” under the Amended OCOA would have been a more precise reference.⁷⁶ For example, the Commission states that:

. . . . the provisions of the Coordinated Operation Agreement specifically apply to operating and maintaining the PACI and COTP. The scope of the agreement does not concern pricing of transactions once they have left the California-Oregon Intertie system.⁷⁷

The Commission’s first reference to the PACI and COTP is correct, however, the second reference to “transactions once they have left the COI” should be revised; the correct reference would be that the scope of the agreement “does not concern pricing of transactions *that are scheduled on the facilities of other Parties to the Amended OCOA*.”⁷⁸ As noted above, CAISO mentions the error in terminology in the interests of accuracy and clarity. CAISO has not found

⁷² *Id.*, Section 4.34.

⁷³ *Id.*, Section 4.35.

⁷⁴ *Id.*, Section 5.

⁷⁵ *Id.*, Section 4.9 (emphasis added).

⁷⁶ *See, e.g., September 2008 Order* at PP 246-249.

⁷⁷ *September 2008 Order* at P 248 (emphases added).

⁷⁸ CAISO notes that the COTP portion of the COI terminates at the Olinda substation, while the COTP terminates near the Tracy interconnection point many miles south of the Olinda substation.

any circumstance in the *September 2008 Order* in which the use of this terminology alters the determinations made by the Commission.

In summary, each Party's use of the coordinated three line "System" under the Amended OCOA involves each Party's right to use its own facilities (*i.e.*, in SVP/Santa Clara's case – the COTP). In order to violate Section 8.4 of the Amended OCOA, the CAISO would have to charge SVP for the unscheduled parallel flow on the PACI-P for SVP's use of the COTP. As the Commission determined, the CAISO does not, and will not under the IBAA proposal, charge for unscheduled parallel flows over the CAISO Controlled Grid for the scheduled use of the COTP.⁷⁹

2. TANC's Use Of The Term "COTP Imports" Is Vague and Conflates Important Distinctions Between Use of the CAISO Controlled Grid and Use of the COTP

In its initial protest on the IBAA filing, and now again in its rehearing request of the *September 2008 Order*, TANC recognizes the need to have a charge applied to the unscheduled parallel flows associated with a COTP participant's *use of the COTP* for there to be a violation of section 8.4 of the Amended OCOA. However, since the Commission recognized that CAISO charges under the IBAA proposal only apply to an entity's use of the CAISO Controlled Grid, there is no violation of the Amended OCOA. The following passage from the *September 2008 Order* demonstrates that the Commission deliberately took care to articulate that charges under the IBAA proposal apply explicitly to use of the CAISO Controlled Grid and not to service over the COTP:

Protestors argue that the IBAA proposal is a back door attempt by the CAISO to impose charges related to parallel flows in contravention of the Coordinated

⁷⁹ "[T]he CAISO will not be charging for unscheduled flows over its system for transactions scheduled over the COTP. . . ." *September 2008 Order* at P 246.

Operation Agreement. We disagree. The IBAA proposal will only have a pricing impact on transactions on the COTP that source or sink into the CAISO-controlled grid. This is not prohibited by the Coordinated Operation Agreement. The IBAA impact is not triggered therefore based on the COTP aspects of the interchange transactions, but on the source or sink in the CAISO-controlled grid and the impact thereon. If a transaction on the COTP sinks in the SMUD-Turlock IBAA, there is no charge imposed by the CAISO regardless of any impact such transaction may have on the CAISO-controlled grid. However, once the energy is imported into the CAISO system, it has an impact thereon and it is appropriate that the CAISO's pricing (which represents the CAISO approximation of the energy value at that point based on the information it has available) should apply. Given the impact of such transactions directly on the CAISO-controlled grid, we find it appropriate for CAISO-established pricing mechanisms to apply, and, as we have said above, we find the IBAA proposal to be an appropriate means by which the CAISO can address the impact of such transactions on its system.⁸⁰

In its initial protest, TANC cast its allegations in terms of “COTP schedules” in an attempt to demonstrate that a charge would be applied to a COTP participant’s use of its own facilities (*i.e.*, the COTP).⁸¹ In its rehearing request, TANC renews its attempt to demonstrate a violation of the Amended OCOA by using the term “COTP Imports.”⁸² TANC (as well as SVP and others) uses the term to mean both: (a) an import to the CAISO Controlled Grid that uses the COTP to deliver the import to the CAISO Controlled Grid, and (b) a transaction over the COTP that ends at the Tracy Interconnection and that does not involve a scheduled use of the CAISO Controlled Grid.

Of course, it makes a great deal of difference if the energy is delivered to the CAISO Controlled Grid from Tracy (which is a use of the CAISO Controlled Grid) or is delivered to the SMUD Hub from Tracy. The former is a scheduled use of the CAISO Controlled Grid and CAISO charges apply. The latter is a transaction completely outside of the CAISO Tariff and settlement system and no CAISO charges apply (even though there would be unscheduled,

⁸⁰ *September 2008 Order* at P 250 (emphases added).

⁸¹ *See* July 23, 2008 Answer of CAISO at 67-69 (discussing TANC’s use of the term “COTP schedules”).

⁸² *See* TANC Rehearing Request at 16-36, *passim*.

parallel flow affects on the CAISO Controlled Grid that would be accounted for in real time with no charge to the COTP transmission customer). As the Commission stated, “[i]f a transaction on the COTP sinks in the SMUD-Turlock IBAA, there is no charge imposed by the CAISO regardless of any impact such transaction may have on the CAISO-controlled grid.”⁸³

The CAISO will discuss a few illustrative instances of TANC’s varying use of the term “COTP Imports” in its rehearing request and its attempt to ignore or conflate the important distinction between the scheduled use of the CAISO Controlled Grid and the non-use of the CAISO Controlled Grid. For example, in its rehearing request TANC states that the absence of any violation of the Amended OCOA up until the filing of the IBAA proposal:

. . . is reflected in the fact that the ISO’s transmission access charge is not, and has never been, assessed to COTP imports that flow over the three-line system or over other PG&E transmission facilities that are necessary to deliver COTP power prior to reaching the Tracy Substation. Similarly, the ISO does not assess its Grid Management Charge or any other charge to COTP imports that flow over three-line system or over other PG&E transmission facilities that deliver COTP power prior to reaching Tracy.⁸⁴

Clearly, in these sentences TANC is using the term “COTP Imports” to refer to its own scheduled use of the COTP and only the scheduled use of the COTP (*i.e.*, the transmission service “prior to reaching Tracy”). The CAISO has never assessed any charges for service over non-CAISO Controlled Grid facilities (including COTP) and will not do so with the implementation of the IBAA.⁸⁵ With regard to the unscheduled, parallel flow over the PACI-P associated with a COTP participant’s use of the COTP, the CAISO has never assessed any charges on a COTP transmission customer for such unscheduled, parallel flows and will not do

⁸³ *September 2008 Order* at P 250.

⁸⁴ TANC Rehearing Request at 22 (emphases added).

⁸⁵ *See Exhibit ISO-1, Panel Testimony of Mark Rothleder and Dr. Price, at 67-68* (explaining that CAISO will not enforce transmission constraints within the IBAA and will remove losses over the external transmission network from the calculation of LMPs).

so with the implementation of the IBAA. The impact and cost of such flows is accounted for in real time by the CAISO as is done by other BAAs for the unscheduled, parallel flows on their systems.⁸⁶

In the sentence immediately following the two sentences quoted above TANC states that:

[p]rior to the ISO's submission of the IBAA proposal, there was no dispute, including by the ISO, as to the Amended OCOA's prohibition of charges associated with COTP imports into the ISO markets.⁸⁷

In this passage TANC is not simply referring to the use of the COTP prior to the Tracy Substation; rather, TANC is referring to the scheduled use of the CAISO Controlled Grid by referring to "COTP imports *into the ISO markets*." TANC is correct that there was no previous dispute. The reason there was no dispute is that TANC never before asserted that the prohibition in the Amended OCOA extends beyond TANC's own use of its own facilities to the *scheduled use* of the CAISO Controlled Grid under the CAISO Tariff.

Finally, TANC correctly notes that the Commission concluded the IBAA proposal assesses costs based on the scheduled impacts (sources and sinks) on the CAISO Controlled Grid.⁸⁸ TANC states the Commission's decision is in error and that the Commission "... seeks to distinguish the impact of a COTP import on the ISO Controlled Grid from the transmission of power for a COTP import into the ISO market and in so doing draws a distinction without a difference."⁸⁹ If TANC's first reference to a COTP Import (*i.e.*, "a COTP import *on the ISO Controlled Grid*") is intended to mean a scheduled use of the COTP and no scheduled use of the

⁸⁶ See Exhibit ISO-1, Testimony of Mr. Rothleder and Dr. Price at 68-70 (noting that losses related to unscheduled parallel flows are made up in the Real-Time imbalance market and are (and will be) allocated to all demand in the market via a neutrality charge). The method of accounting for unscheduled parallel flow impacts in real time is in use today under the existing CAISO Tariff and it will not change under the MRTU Tariff.

⁸⁷ TANC Rehearing Request at 22 (emphasis added).

⁸⁸ *Id.* at 26 (citing to the *September 2008 Order* at P 250).

⁸⁹ *Id.* (emphases added).

CAISO Controlled Grid (which would leave only unscheduled parallel flow effects on the CAISO Controlled Grid that would be resolved in real time with no charge to the COTP transmission customer), then CAISO agrees with TANC regarding the scenarios being compared by the Commission. However, CAISO strenuously disagrees with TANC that the comparison drawn by the Commission is a “distinction without a difference.” In terms of the Amended OCOA (as well as for other reasons) it is crucial to recognize the distinction between: (a) the scheduled use of the COTP coupled with the scheduled use of the CAISO Controlled Grid (*i.e.*, an interchange transaction), and (b) the scheduled use of the COTP not coupled with the scheduled use of the CAISO Controlled Grid.

D. The Commission’s Determination to Allow Customers Who Serve Load Within the CAISO System To Demonstrate That They Have Been Subject To An Over-Charge For Losses Is Not An Additional Reason That the IBAA Proposal Violates the Amended OCOA

It is clear from reading the rehearing requests that the Commission’s discussion regarding losses is being interpreted incorrectly as a reason why the IBAA proposal violates the Amended OCOA. TANC attempts to convert the adjustment to prevent an overcharge for losses into a violation of the Amended OCOA and should be rejected by the Commission. For example, TANC states that “an additional reason” supporting the Commission’s determination regarding losses (*i.e.*, the direction to allow COTP customers to demonstrate that they are subject to a double charge for losses) is that “any charge for losses associated with COTP schedules is prohibited by the Amended OCOA”.⁹⁰ If TANC is referring to service over the COTP under TANC’s or Western’s Transmission Tariff; an entity using the COTP must pay for transmission losses over the COTP. Similarly, if TANC is referring to charges for service over the CAISO

⁹⁰ See TANC Rehearing Request at 29.

Controlled Grid, it is appropriate for entities using the CAISO Controlled Grid to pay for losses associated with the use of the CAISO Controlled Grid. Moreover, with the use of external proxy buses to price interchange transactions using the CAISO Controlled Grid, the CAISO specifically will remove the losses over the external transmission system from the calculation of the LMPs applied to the interchange transactions.⁹¹ The Commission should deny TANC's rehearing request. The Commission's determination to allow customers who serve load within the CAISO system to demonstrate that they have been subject to an over-charge for losses is not an additional reason that the IBAA proposal violates the Amended OCOA.

E. The Commission Determination That The IBAA Proposal Was Not Unduly Discriminatory Is Supported by Substantial Record Evidence

In the *September 2008 Order*, the Commission rejected a number of arguments alleging that it was unduly discriminatory to apply the IBAA proposal to the SMUD and TID Balancing Authority Areas (BAAs) and not other BAAs adjacent to the CAISO BAA.⁹² In response to these arguments, the Commission stated:

We find the CAISO's IBAA proposal is not unduly discriminatory. The CAISO has fully supported the need to address the large amount of loop flow and inaccurate pricing concerns at its interface with the SMUD and Turlock balancing authority areas in conjunction with the start of MRTU operations. It has shown a high degree of integration between SMUD/Turlock and the CAISO compared to other neighboring balancing authority areas, which supports dissimilar treatment. Further, we find that for the new market design using day-ahead markets to work where IBAA transactions have a high likelihood to affect the market given the integrated nature of the IBAA with the CAISO requires either sufficient data or proxy assumptions. We find here that there are significant differences between the SMUD-Turlock IBAA and other balancing authority areas that neighbor its system that justify applying the CAISO's proposal to these IBAs. Last, the parties' arguments of discrimination and harm ignore the CAISO's offer to

⁹¹ See Exhibit ISO-1, Testimony of Mr. Rothleder and Dr. Price at 67-68 (quoted herein at page 15). See also Exhibit ISO-4, Scott Harvey, "Proxy Buses and Congestion Pricing of Inter-Balancing Authority Area Transactions" June 9, 2008 at n.9.

⁹² See *September 2008 Order* at PP 208-216.

substitute actual prices for real-time data through execution of an MEEA. We find that this non-discriminatory offer mitigates parties' concerns and in totality is just and reasonable.⁹³

SMUD requests rehearing on several aspects of the Commission's finding that the IBAA proposal is not unduly discriminatory. For the reason discussed in more detail below, CAISO requests that the Commission deny SMUD's rehearing requests.

1. SMUD's Claim That There Is No Evidence That the SMUD and TID BAAs Have A Greater Impact On the CAISO Is False; SMUD's Rehearing Request Ignores Record Evidence and Should Be Denied.

In its request for rehearing, SMUD claims that the Commission "ignored SMUD's contention that there is *no evidence that the SMUD and TID BAAs are the BAAs with the 'greatest impact on the CAISO.'*"⁹⁴ SMUD states that:

. . . the CAISO itself has acknowledged that it has never studied whether discrepancies between scheduled and actual flows at its interconnections with other adjacent balancing authority areas were greater or less than discrepancies between scheduled and actual flows at the CAISO's interconnections with the SMUD and TID balancing authority⁹⁵

SMUD's statement is false. The testimony of SMUD's witness (which forms the basis of its rehearing request) concerns itself entirely with the CAISO's analysis performed for a week that contained the CAISO's system peak on July 24, 2006 (*i.e.*, the week of July 23, 2006 to July 30, 2006).⁹⁶ SMUD ignores that the CAISO performed an analysis of an entire year's worth of data, *i.e.*, from December 1, 2006 to November 30, 2007. The analysis involves all of the other external BAAs with which the CAISO is interconnected.⁹⁷ The testimony submitted by SMUD does not address, much less dispute, the CAISO's analysis contained in Attachment A to CAISO

⁹³ *Id.* at P 208.

⁹⁴ SMUD Rehearing Request at 20 (emphasis added).

⁹⁵ *Id.* (emphasis added).

⁹⁶ *See* Exhibit SMUD-3 at 37-44.

⁹⁷ *See* Attachment A to Exhibit ISO-1, Testimony of Mr. Rothleder and Dr. Price.

Exhibit ISO-1 (or Mr. Rothleder’s and Dr. Price’s discussion of that analysis). The Commission based its decision, in part, on the information provided by CAISO that SMUD refuses to acknowledge.⁹⁸

Moreover, while SMUD ignores a year’s worth of evidence comparing flow reversals for the SMUD and TID BAAs to the flow reversals for the other BAAs with which the CAISO is connected, it claims the Commission ignored SMUD’s evidence that the peak period flow reversals were “non-existent” and resulted “solely from arithmetic errors in the CAISO’s analysis.” CAISO respectfully requests that the Commission reject SMUD’s rehearing request. CAISO did compare the SMUD and TID BAAs to the other BAAs regarding flow reversals; CAISO’s analysis in Attachment A to the panel testimony of Mr. Rothleder and Dr. Price demonstrates that the variance between SMUD’s and TID’s scheduled and actual flows are significantly higher than those of the other external BAAs; and, the evidence relied on by SMUD (in Mr. Alaywan’s testimony) does not address the analysis and information contained in Attachment A to the panel testimony of Mr. Rothleder and Dr. Price.

2. SMUD’s Evidence of a Greater “Price Divergence” At The Intertie Points With Other Adjacent Balancing Authority Areas As Compared To The Price Divergence At The Intertie Points With SMUD and TID Is Not Germane To The IBAA Proposal

In its request for rehearing, SMUD states that:

. . . there is no evidence – since the CAISO has not studied the issue – that price divergence between other adjacent balancing authority areas’ intertie points with the CAISO is less consequential than price divergence at the SMUD and TID intertie point connections to the CAISO. The Commission failed to consider this relevant factor, however. In these circumstances, the Commission’s order permitting pricing on other balancing authority areas (but not the SMUD and TID

⁹⁸ See *September 2008 Order* at P 213 (“the CAISO has provided compelling data that illustrates the significance of unscheduled flows between the SMUD and Turlock balancing authority areas and the CAISO-controlled grid. The data, which compares SMUD and Turlock *with other neighboring balancing authority areas*, documents the amount and frequency of unscheduled flows over a 12-month period” (emphasis added)).

BAAs) at the intertie scheduling point chosen by the seller is arbitrary and capricious and lacking in substantial evidence to support it.⁹⁹

SMUD's analysis and argument regarding differentials of price divergence is not germane to the IBAA proposal.

As reflected in the IBAA Filing, the CAISO is concerned with establishing LMPs that – as accurately as possible – reflect the actual underlying transactions; it is not concerned with limiting price differentials between interface nodes with external BAAs. The IBAA proposal is not intended to limit large price differentials either at different interface nodes with the other BAAs or at different interface nodes within the SMUD-TID IBAA. For example, if an entity (or entities) engaging in an interchange transaction from the SMUD-TID IBAA provides the CAISO with the ability to verify the location and dispatch of the external resources used to implement the interchange transaction, it can receive non-default pricing for the transactions *and* the CAISO is not concerned with the differential such pricing may have with the prices at other interface nodes or at the default pricing points.

3. The Commission Did Not Misapply the Test For Undue Discrimination

SMUD claims the Commission misapplied the legal test for undue discrimination in determining that the SMUD and TID BAAs are not similarly situated to other BAAs adjacent to the CAISO BAA.¹⁰⁰ However, the basis of SMUD's claim is an inappropriate alteration of the Commission's language in *September 2008 Order*. In paragraph 208 of the *September 2008 Order*, the Commission found the IBAA proposal was not unduly discriminatory. In the next paragraph, the Commission stated that:

⁹⁹ SMUD Rehearing Request at 21.

¹⁰⁰ SMUD Rehearing Request at 26-27.

[d]ifferences in rates are justified where they are predicated upon differences in facts. A finding of undue discrimination is predicated on whether the record fails to exhibit factual differences to justify differences among the rates charged. Here, we agree with the comments of both the CAISO and numerous protestors that the balancing authority areas at issue represent unique sets of factors in their relationships and interconnections with the CAISO. Because these entities are not similarly situated to other balancing authority areas neighboring the CAISO, it is unlikely that they will present identical scheduling and pricing concerns under MRTU. Therefore, we find it reasonable for the CAISO to consider the individual characteristics and market impacts of its neighboring balancing authority areas in determining whether and how to implement its IBAA proposal and will not require the CAISO to address such concerns on a generic basis.¹⁰¹

In claiming the Commission misapplied the legal test for undue discrimination, SMUD states:

The Commission concludes that SMUD and TID “are not similarly situated to other balancing authority areas neighboring the CAISO” because “it is unlikely that they will present *identical* scheduling and pricing concerns under MRTU,” (Order at P 209 (emphasis added)).¹⁰²

By moving the word “because” from the beginning of the Commission’s statement that the SMUD and TID BAAs “are not similarly situated to other balancing authority areas” to the middle of the sentence (see the quoted passage from SMUD’s rehearing request above), SMUD creates a new holding entirely different from the Commission’s holding. In SMUD’s view, the reason why the SMUD and TID BAAs are not similarly situated with the other, adjacent BAAs is “because” the Commission found that “it is unlikely that they will present identical scheduling and pricing concerns under MRTU.”

SMUD is incorrect. By rearranging the Commission’s statement, SMUD confuses the Commission’s legal finding (*i.e.*, the SMUD and TID are not similarly situated) with the Commission’s independent decision to allow CAISO to establish new IBAs on a case-by-case basis (*i.e.*, “[t]herefore, we find it reasonable for the CAISO to consider the individual

¹⁰¹ September 2008 Order at P 209 (emphasis added).

¹⁰² SMUD Rehearing Request at 26 (underlined emphasis added; italicized emphasis in original).

characteristics and market impacts of its neighboring balancing authority areas in determining whether and how to implement its IBAA proposal and will not require the CAISO to address such concerns on a generic basis”). The Commission should reject SMUD’s claim; it did not “misapply” the test for undue discrimination.

F. The CAISO Is Not “Penalizing” Other BAAs For Loop Flow

IID argues that the IBAA proposal is unjust and unreasonable because it seeks “to penalize the adjacent neighbors of the CAISO for events that are beyond their control.”¹⁰³ IID notes that FERC has long-recognized that inadvertent or unauthorized loop flows are an inevitable result of operating interconnected systems and that the CAISO already has existing operating procedures to handle unscheduled flows.¹⁰⁴ According to IID, the CAISO scheduling incentives cannot incent sellers in neighboring Balancing Authorities to lessen deviations between scheduled and actual flows when it is the laws of physics or the actions of others that are causing deviations to occur.¹⁰⁵

IID appears to misunderstand the purpose of the IBAA proposal. As the CAISO has explained:

the IBAA proposal is not intended to address the differences between scheduled flows and actual flows as a result of loop flow. Rather, the differences between scheduled flows and actual flows that the IBAA proposal is intended to address or limit is the difference due to the scheduling incentive to chase prices if multiple pricing points are used for interchange transactions. If a market participant schedules an interchange transaction at one location to obtain favorable pricing but dispatches generation from a different location far removed from the scheduled location, the estimated scheduled flows in the day-ahead market will be inaccurate as compared to the dispatched flows in real time. In other words, the primary purpose of the IBAA proposal is to avoid inaccurate identification of

¹⁰³ IID Rehearing Request at 13.

¹⁰⁴ *Id.*

¹⁰⁵ *Id.* at 13-14.

congestion in the day-ahead market and to avoid the pricing consequences of such errors; its purpose is not to manage unscheduled parallel flow.¹⁰⁶

The IBAA proposal has nothing to do with managing parallel flows (also referred to as loop flow), which are addressed by the CAISO under the existing CAISO Tariff in real time. There will be no change in these procedures with MRTU.¹⁰⁷ In contrast, the IBAA proposal is designed to ensure better market outcomes in the day-ahead timeframe. The *September 2008 Order* properly recognized this distinction:

As stated by Imperial, section 11.10.1.6 of the MRTU Tariff provides for loop flow concerns to be addressed pursuant to WECC inadvertent interchange practices and procedures. This concerns how to address loop flows after the fact. In contrast, the IBAA proposal addresses how to schedule and price interchange transactions in the day ahead market to minimize infeasible schedules. Because the two provisions address different timeframes, section 11.10.1.6 of the MRTU Tariff is not violated by the IBAA proposal.¹⁰⁸

Accordingly, IID is incorrect that the CAISO is seeking to “penalize” for loop flow. As the Commission properly determined, there is nothing inadvertent about the issue addressed by the proposal. To the contrary, the need to ensure that day-ahead schedules are fair and accurate representations of anticipated deliveries and usage patterns are one of the fundamental reasons that the MRTU program was developed.

G. The Commission’s Losses Adjustment is Limited to Transactions Using the COTP

In its request for rehearing, NCPA states that the Commission should provide the same marginal loss treatment (*i.e.*, a credit against losses already paid to another transmission provider) to imports from Western that do not use the COTP but that are delivered at Tracy.¹⁰⁹

¹⁰⁶ August 8 Answer at 13.

¹⁰⁷ CAISO August 8, 2008 Answer at 13-14. *See also* Transmittal Letter to the June 17 Filing at 49-50.

¹⁰⁸ *September 2008 Order* at P 360.

¹⁰⁹ NCPA Rehearing Request at 3.

Moreover, NCPA states that the same treatment should apply even if the transactions that do not use the COTP are settled “at a point other than Tracy.”¹¹⁰ NCPA states that:

[s]ince NCPA’s members are already compensating Western for losses from the point(s) of generation to Tracy over the Western system, these payments should receive the same treatment as transactions over COTP *if they are settled at a point other than Tracy*—specifically, an adjustment in the marginal loss component of their import to reflect losses already paid.¹¹¹

The Commission should reject NCPA’s request for rehearing. NCPA inappropriately seeks to extend the Commission’s determination beyond use of the COTP.

Throughout the *September 2008 Order*, the Commission discusses the adjustment to eliminate the potential for double charging of losses in terms of use of the COTP.¹¹² The touchstone for the Commission’s adjustment is the use of the COTP (which has its terminus near the Tracy Substation), not merely the use of the Tracy Interconnection point. Deliveries can be made to the Tracy Interconnection point from any of the transmission facilities within the SMUD-TID IBAA and, obviously, non-COTP transmission customers paying for service over the transmission system within the SMUD-TID IBAA to the Tracy Interconnection point also pay for transmission service, congestion and losses just like COTP transmission customers.

Moreover, as the passage quoted above makes clear, NCPA would extend the Commission’s adjustment beyond the Tracy Interconnection point to any of the other eleven delivery points (or Intertie Scheduling Points) between the CAISO Controlled Grid and the SMUD-TID IBAA. The payment of transmission service over the external network, including payment for congestion and losses, is an essential element of every interchange transaction. The mere payment for transmission service (including losses) over an external network should not

¹¹⁰ *Id.* at 2.

¹¹¹ *Id.* (emphasis added).

¹¹² *See September 2008 Order* at PP 106, 120, 246, 252, and 291.

entitle an entity to an adjustment in the LMP calculated by the CAISO. Yet, this is what would happen if NCPA's request were granted (*i.e.*, NCPA's request to apply the adjustment beyond the use of the COTP and beyond the Tracy Interconnection Point). For example, if NCPA's request were granted, any entity wishing to enter into a Market Efficiency Enhancement Agreement ("MEEA") with the CAISO could apply NCPA's reasoning and request an adjustment for losses paid to the external transmission provider within the SMUD-TID IBAA. The reasoning would be that the entity also pays for transmission service and losses over the SMUD-TID transmission system from the location of the external resource to the negotiated non-default pricing point under the MEEA and therefore the entity deserves the adjustment.

The entire context of the Commission's adjustment for losses is that entities using the COTP should not be double charged for transmission losses paid for service over the COTP.¹¹³ The Commission required the CAISO to make an adjustment to the losses component of the LMPs for interchange transactions using the COTP and only the COTP. NCPA's rehearing request is inappropriate; the Commission's adjustment is clearly limited in the *September 2008 Order* to entities using the COTP to engage in interchange transactions with the CAISO. NCPA's rehearing request should be rejected by the Commission.¹¹⁴

¹¹³ CAISO agrees that entities should not be doubled charged for transmission losses over the COTP and has always included an adjustment with the use of external proxy buses to remove the losses over the external system from the calculation of the LMPs. *See* Exhibit ISO-1, Testimony of Mr. Rothleder and Dr. Price at 67-70. *See also* Exhibit ISO-4, Scott Harvey, "Proxy Buses and Congestion Pricing of Inter-Balancing Authority Area Transactions" June 9, 2008 at n.9.

¹¹⁴ In Section IV.D of this pleading, CAISO requests clarification or confirmation of the manner in which CAISO is to ensure entities are not subject to duplicative loss charges. One of the requests is, in part, due to the protests of the CAISO's compliance filing (specifically, protests regarding footnote 5) and asks the Commission to confirm that CAISO is to calculate the loss component of the LMPs applied to imports using the COTP as if there were a physical resource (or injection) located at or near the Tracy Interconnection point.

H. The IBAA Proposal Does Not Improperly Exert Jurisdiction Over Municipal Entities

Both IID and TID challenge the *September 2008 Order* based on a claim that the Commission lacks the statutory authority to establish prices for sales made by governmental entities.¹¹⁵ IID cites the Ninth Circuit Court of Appeals Decision in *Bonneville Power Admin. v. FERC*, 422 F.3d 908 (9th Cir. 2005) (*Bonneville*) as support for its argument.¹¹⁶ In addition, TID argues that “[t]he Commission exceeded its statutory jurisdiction in indirectly forcing governmental entities to provide modeling data to the CAISO.”¹¹⁷ These contentions do not withstand scrutiny.

First, IID overstates the holding of the *Bonneville* case, which did not involve the Commission’s jurisdiction over the rates, term, and conditions of sales into the CAISO’s Commission-jurisdictional market. At issue in *Bonneville* was the Commission’s authority to mandate refunds from non-jurisdictional entities. As the Court stated,

FERC’s order does more than simply reset the market-clearing price for power in the FERC-jurisdictional ISO and CalPX markets. FERC specifically ordered governmental entities/non-public utilities to pay refunds, an action that lies outside Congress’s clearly expressed intent.¹¹⁸

Moreover, subsequent to the *Bonneville* decision, Congress passed P.L 109-58, the Energy Policy Act of 2005. Section 1286 expanded the Commission’s refund authority in Section 206(e)(2) of the FPA (16 U.S.C. § 824e(e)(2)) to state:

If an entity described in section 201(f) [16 U.S.C. § 824(e)] voluntarily makes a short-term sale of electric energy through an organized market in which the rates for the sale are established by Commission-approved tariff (rather than by contract) and the sale violates the terms of the tariff or applicable Commission

¹¹⁵ IID Rehearing Request at 18; TID Rehearing Request at 21 (*see also* TID’s Protest to the Compliance Filing at 22-25).

¹¹⁶ IID Rehearing Request at 18-19.

¹¹⁷ TID Rehearing Request at 21.

¹¹⁸ *Bonneville Power Admin. v. FERC*, 422 F.3d 908, 919-920 (9th Cir. 2005).

rules in effect at the time of the sale, the entity shall be subject to the refund authority of the Commission under this section with respect to the violation.

A short-term sale includes any agreement to the sale of electric energy at wholesale that is for a period of 31 days or less.¹¹⁹ Thus, Congress has, subsequent to *Bonneville*, made it clear that the Commission not only has the jurisdiction to regulate the terms of the jurisdictional entities organized markets to ensure open-access and non-discriminatory pricing, but also that the Commission has the authority to enforce its findings, including ordering refunds, if necessary, against even non-jurisdictional participants. Second, and more importantly, the Commission is not “forcing governmental entities to provide modeling data to the CAISO as a prerequisite to the governmental entities receiving just and reasonable rates for their sales”¹²⁰ The governmental entities have a choice. They can sell into the CAISO Market at the just and reasonable IBAA price, they can elect to enter into an MEEA to get a price under an MEEA based on the necessary and appropriate verification data; or they can sell outside the CAISO Markets. The choices the governmental entities have negates any argument the Commission is asserting jurisdiction over the governmental entities.

The Commission’s jurisdictional authority under the Federal Power Act governs the transmission and wholesale sales of electrical energy in interstate commerce.¹²¹ Thus, the Commission’s jurisdictional authority applies to the “sellers” of jurisdictional services and FPA Section 201(f) excludes non-public utilities and governmental entities from FERC’s authority.¹²² Interchange transactions involve both sales into the CAISO markets (imports) and purchases

¹¹⁹ This section does not apply to electric cooperatives or any entity that sells less than 8 million megawatt-hours of electricity per year.

¹²⁰ TID Rehearing Request at 22.

¹²¹ See FPA §§ 201(b) and 205(a), 16 U.S.C. §§ 824(b) and 824d(a) respectively.

¹²² 16 U.S.C. § 824(f).

from the CAISO markets (exports). To the extent IID and TID are purchasing from CAISO markets, Commission regulation over IID and TID is not implicated; they have a choice whether to purchase from the CAISO markets or buy elsewhere. To the extent IID and TID are selling into the CAISO markets it is still their choice to sell into the CAISO markets and that choice negates any assertion that the Commission is asserting jurisdiction over the governmental entities.

Through its day-ahead and real time markets, CAISO is establishing the prices at which purchasers will pay for energy and ancillary services. As the Commission stated in approving CAISO price caps for imbalance energy and ancillary services in 1999:

The ISO has no more, or less, discretion than any other buyer of services. If the ISO is unable to elicit sufficient supplies at or below its announced purchase price ceiling, it will have to raise its purchase price to the level necessary to meet its needs. . . . [s]ellers of Ancillary Services and Imbalance Energy who are dissatisfied with the ISO's purchase price cap can choose instead to sell these services in the California Power Exchange or the bilateral markets. They are not required to sell to the ISO, and thus the ISO cannot dictate their prices.¹²³

IID and TID have a choice, CAISO is not dictating the price they receive for selling energy or ancillary services. What the *September 2008 Order* does not permit is that the government entities have a right to a particular price in a Commission-jurisdictional market that may not reflect the true value of the resource supplied or worse create improper pricing incentives that could have a detrimental effect on the CAISO Market and real-time operations.

TID asks that the Commission clarify that IBAA proposal establishes only the rates, terms and conditions for sales into the CAISO's organized, auction markets and does not affect the rates, terms and conditions of governmental entities' bilateral sales that occur outside of the CAISO's auction markets, even if these sales are scheduled into or out of the CAISO-Controlled

¹²³ *Cal. Indep. Sys. Operator Corp.*, 89 FERC P 61,169 at 61,511 (1999) (emphasis added).

Grid.¹²⁴ The IBAA proposal as part of the CAISO Tariff governs the rates terms and conditions of sales into and out of the CAISO Controlled Grid. If there is a purely bilateral agreement that does not utilize the CAISO's scheduling and settlement systems, the CAISO would agree that such an arrangement may not be jurisdictional. However, a Scheduling Coordinator that submits the actual bid to the CAISO Markets will be subject to the CAISO Tariff provisions as accepted by the Commission.

In sum, the allegations of IID and TID concerning the Commission's lack of jurisdiction are unfounded. In the *September 2008 Order*, the Commission placed the option but not the obligation to provide additional data on the entities that possessed the data. In so doing, the Commission properly exercised its statutory responsibilities to ensure just and reasonable prices in the CAISO Markets.

I. The Order's Authorization To Implement The IBAA Concurrent With MRTU Go-Live Date Is Reasonable

In the *September 2008 Order*, the Commission rejected protests that the IBAA proposal need not be in place at the start of the MRTU Markets.¹²⁵ The Commission stated that:

[i]n order to allow the IBAA proposal to be incorporated into the MRTU market systems and fully tested in time for the start of MRTU, which will take several months, we find good cause to grant waiver of the 120-day maximum prior notice requirement.¹²⁶

In its rehearing request TANC claims that the Commission erred in determining that CAISO had reasonable justification to implement the IBAA proposal at the start of MRTU and that the Commission failed to consider whether the pre-go live testing would be adequate to

¹²⁴ TID Rehearing Request at 23.

¹²⁵ *September 2008 Order* at P 405.

¹²⁶ *Id.* at P 406.

reveal and correct any problems with the IBAA modeling and pricing.¹²⁷ Similarly SVP questions the ability of CAISO to “work out the bugs in the IBAA proposal through market testing prior to MRTU go live.”¹²⁸

SVP claims there are several problems with the CAISO’s market testing, including that (i) the CAISO does not intend to incorporate the IBAA changes into the market simulation model until late October, so the IBAA configuration has not yet been tested, and (ii) by January, CAISO’s current pre-MRTU go live schedule indicates CAISO will no longer be running simulation testing critical scenarios; instead, it will be tracking actual market schedules, which will not provide an opportunity to construct simulation scenarios to test issues.¹²⁹ SVP explains that:

The current simulation does not realistically model either the day-ahead or the actual real-time flows over the COI that are likely to occur because it does not capture any COTP day-ahead schedules or real-time flows that do not source or sink in CAISO. After MRTU goes live CAISO will model compensating injections at Captain Jack in the realtime market using Energy Management Systems (EMS) telemetry data to model unscheduled flows. Because these unscheduled flows will not have been modeled in the day-ahead market, and because the volumes can represent a significant portion of the total COI capacity, they are likely to have a large impact on CAISO LMPs, as SVP demonstrated using the simplified 12-bus model. These impacts are not being reflected in the current market simulation testing, since neither the day-ahead nor the real-time simulations incorporate the required compensating injections needed to make realistic estimates of the actual COI flows. SVP understands that, under CAISO’s current simulation schedule, the earliest that the impacts of this problem could be revealed would be in January, when CAISO is scheduled to begin parallel testing of the MRTU software using actual market bids and actual EMS data.¹³⁰

SVP requests that the Commission require CAISO to work with market participants to develop simulation scenarios for testing the IBAA prior to the 60-day MRTU readiness certification,

¹²⁷ TANC Rehearing Request at 80-81.

¹²⁸ SVP Rehearing Request at 10.

¹²⁹ *Id.* at 11.

¹³⁰ *Id.* at 11-12.

including testing potential differences between CAISO day ahead and real time IBAA modeling.¹³¹

Western notes that CAISO's Preliminary Price Validation Report for Trade Dates October 2, 2008 (Day Ahead) and September 30, 2008 (Real Time) showed the real time PNode Price for the on peak LMP at Captain Jack as minus \$11,493.82 and an off peak PNode Price at Captain Jack as minus \$11,434.10.¹³² Western claims the data provides further support for its position that the Commission should require CAISO to robustly test, analyze, and study the IBAA Proposal before accepting it.¹³³

CAISO respectfully requests that the Commission reject the rehearing requests that assert the testing prior to the Go-Live date for MRTU will be inadequate. CAISO has provided market participants significant opportunities for market simulation and testing and will continue to do so with the IBAA design incorporated into CAISO systems prior to MRTU going live.

With regarding to the comments about the high negative prices at the Captain Jack pricing node references by Western, the issue did not involve the IBAA proposal or IBAA modeling. The pricing referenced by SMUD and WAPA above occurred as a result of a constraint that was modeled on a 33 MW portion of the COTP that is under the CAISO's control and did not reflect a constraint on the COTP portion not under the CAISO control. The CAISO explained several times during Market Simulation briefings the root cause of the observed extreme prices on some of its interties. The CAISO has determined that the root cause of the extreme negative prices was effectively caused by a combination two issues. First, based on WECC convention, the application that stores and tracks interchange schedules was rounding

¹³¹ *Id.* at 12.

¹³² Western Rehearing Request at 4-5. *See also* SMUD Rehearing Request at n.19 (stating that the numbers reflect "CAISO's lack of readiness for implementation").

¹³³ Western Rehearing Request at 5.

final hour-ahead schedules to the nearest integer. Under some conditions in which the HASP schedules cleared near the limit, the rounded interchange values resulted in net schedule that was above the intertie limit. Under normal operational practice any overscheduled amount caused by rounding to an integer would be resolved by operator action. The second issue that exacerbated this small overload was the fact that the CAISO was modeling interchange schedules that clear HASP as fixed schedules that could not be reduced, except by relaxing the intertie constraint itself at a high penalty price.

On October 10, 2008, the CAISO explained to stakeholders that it had implemented software modifications addressing the root cause of the observed high intertie prices. The first issue was resolved after October 2, when the CAISO modified the constraints affecting COTP to address the duplicative constraints. Then on October 9, 2008, the CAISO implemented a modification that no longer treats intertie schedules as fixed in the real-time dispatch based on HASP results. After the October 9, 2008 modification, observations of the extreme prices in the real-time market linked to the root cause above ceased.

It should also be noted that the previous pricing anomalies previously observed in the real-time market have also not reoccurred since the ISO incorporated the IBAA into its market simulation on October 28, 2008. In fact, the high negative prices linked to the identified problems have ceased and other observed prices have been linked to system conditions.

IV. THE COMMISSION SHOULD CLARIFY ITS DETERMINATION REGARDING LOSSES IN THE SEPTEMBER 2008 ORDER

As reflected in the *September 2008 Order*, and as discussed in Sections III.B, III.C, and III.D of this pleading,¹³⁴ CAISO will charge transmission customers for the scheduled use of the CAISO Controlled Grid and will not charge external transmission customers for unscheduled, parallel flow impacts associated with the use of the external transmission system (including the COTP). CAISO agrees with the Commission that the CAISO will charge for the impact on the CAISO Controlled Grid from the scheduled use of the CAISO Controlled Grid.¹³⁵ The impacts on the CAISO Controlled Grid are what the Full Network Model attempts to capture and the calculated LMPs are intended to reflect. The CAISO charges are not charges for unscheduled, parallel flow impacts of the use of the COTP. The Commission stated that:

[p]rotestors argue that the IBAA proposal is a back door attempt by the CAISO to impose charges related to parallel flows in contravention of the Coordinated Operation Agreement. We disagree. The IBAA proposal will only have a pricing impact on transactions on the COTP that source or sink into the CAISO-controlled grid. This is not prohibited by the Coordinated Operation Agreement. The IBAA impact is not triggered therefore based on the COTP aspects of the interchange transactions, but on the source or sink in the CAISO-controlled grid and the impact thereon. If a transaction on the COTP sinks in the SMUD-Turlock IBAA, there is no charge imposed by the CAISO regardless of any impact such transaction may have on the CAISO-controlled grid. However, once the energy is imported into the CAISO system, it has an impact thereon and it is appropriate that the CAISO's pricing (which represents the CAISO approximation of the energy value at that point based on the information it has available) should apply. Given the impact of such transactions directly on the CAISO-controlled grid, we find it appropriate for CAISO-established pricing mechanisms to apply, and, as we have said above, we find the IBAA proposal to be an appropriate means by which the CAISO can address the impact of such transactions on its system.¹³⁶

¹³⁴ In section III.B, CAISO responds to the rehearing requests alleging that the IBAA proposal applies LMPs to non-CAISO Controlled Grid facilities. In sections III.C and III.D, CAISO responds to the rehearing requests alleging that the IBAA proposal violates existing contracts.

¹³⁵ *September 2008 Order* at P 250.

¹³⁶ *Id.*

However, after reviewing the rehearing requests and the protests to the Compliance Filing regarding the Commission’s determination on losses (and the impact of that determination), CAISO believes clarification is required. The following sections discuss: (A) the Commission’s statements regarding losses in the *September 2008 Order*, (B) the November 25, 2008 Compliance Filing and the protests to that filing, (C) the differing interpretations of the Commission’s statements that duplicative charges for losses could result because LMPs inherently or implicitly account for unscheduled, “parallel” flows, and (D) the specific clarifications requested of the Commission.

A. The September 2008 Order and the Determination on Losses

Before discussing the Commission’s statement in the *September 2008 Order*, CAISO notes that it always has been a fundamental element of the IBAA proposal to remove the losses over the external transmission system from the calculation of the LMPs (LMPs that are applied to service over – and only over – the CAISO Controlled Grid).¹³⁷ With the use of an external proxy bus, the losses associated with the scheduled use of the external transmission system (including the COTP) must be removed from the LMP calculations in order to remove the potential for duplicative loss charges.

In the *September 2008 Order*, the Commission recognized the CAISO’s intent to “remove the marginal loss component of COTP flows from its LMP calculations”¹³⁸ but then stated “[h]owever, it appears that Captain Jack could account *for parallel flows from the COTP*

¹³⁷ See Exhibit ISO-1, Testimony of Mr. Rothleder and Dr. Price at 67-68. See also Exhibit ISO-4, Scott Harvey, “Proxy Buses and Congestion Pricing of Inter-Balancing Authority Area Transactions” June 9, 2008 at n.9.

¹³⁸ *September 2008 Order* at P 104.

on the PACI since the COTP schedules that sink in the CAISO are modeled in the full network model.”¹³⁹ In discussing the potential to be overcharged for losses, the Commission stated that:

[h]owever, COTP customers already pay TANC or Western a rate under the TANC or Western tariff for losses. Thus those COTP customers who serve load in the CAISO could be over-charged for losses, since they pay Western or TANC and then in effect pay the CAISO since its LMPs implicitly account for parallel flows. Therefore, COTP users that import to CAISO who demonstrate that they pay for losses to Western or TANC should receive an appropriate adjustment in the marginal cost component of the price paid for their import. We direct the CAISO to allow COTP customers to make this demonstration and, in compliance, to propose what showing will be needed for this treatment.¹⁴⁰

In addition, when discussing the complaints regarding the alleged “devaluing” of transmission service over the COTP, the Commission stated that CAISO specifically was required to: “allow COTP users that import to CAISO that demonstrate that they pay for losses to Western/TANC to have the marginal loss component of Tracy applied to their import.”¹⁴¹

B. The November 25 Compliance Filing and the Protests to the Compliance Filing

On November 25, 2008, CAISO submitted its Compliance Filing to the *September 2008 Order*. CAISO noted the Commission’s statements in paragraphs 104, 106 and 120 of the *September 2008 Order*¹⁴² and stated that for entities eligible for the adjustment that:

[t]he marginal cost of losses component of the LMP at the Tracy substation will be calculated by the market clearing process which assumes that an actual physical injection to the integrated grid occurs at the Tracy substation. The CAISO believes this approach reflects the Commission’s directive [in paragraph 120] to apply the “*marginal loss component of Tracy.*”¹⁴³

¹³⁹ *Id.* (emphasis added).

¹⁴⁰ *Id.* at P 106 (emphases added).

¹⁴¹ *Id.* at P 120 (emphasis added).

¹⁴² Compliance Filing Transmittal Letter at 3-4.

¹⁴³ *Id.* (emphasis in original).

In addition, CAISO noted that: (i) the IBAA proposal as filed included an adjustment to prevent a duplicative losses charge (*i.e.*, an adjustment to remove the losses over the external transmission system (including COTP) from the LMP calculations) and (ii) the Commission's additional adjustment to modify the loss component of the LMPs applied at Tracy would increase the under-collection of marginal losses revenues on the CAISO Controlled Grid.¹⁴⁴ CAISO committed to monitor the issue once the MRTU market is in operation and stated it would make any necessary filings with the Commission to address this issue if the under-collection is found to be a significant problem.¹⁴⁵ The statements in the protests to the Compliance Filing allege that CAISO is engaging in a collateral attack on the *September 2008 Order* by noting the under-collection of marginal loss revenues.¹⁴⁶

C. The Different Interpretations of the Commission's Statements That LMPs Inherently Account For Parallel Flows

The Commission's statements in the *September 2008 Order* that a duplicative charge for losses could result because LMPs inherently or implicitly account for unscheduled, "parallel" flows are subject to differing interpretations. For example, in Paragraph 104 of the *September 2008 Order* the Commission notes the CAISO's intent in the IBAA proposal to remove from the LMPs the losses associated with service over the external transmission system (including the COTP). The Commission then states that "[h]owever, it appears that Captain Jack could account

¹⁴⁴ *Id.* at 4, n.5. Under MRTU, any surplus marginal loss revenues are credited back to entities that serve Demand (internal Demand and exports, including those served under ETCs or TORs) on a flat per-MWh hour basis on each monthly Settlement Statement each settlement statement. An under collection of marginal loss revenues lowers the amount of revenues credited back to Demand.

¹⁴⁵ Compliance Filing Transmittal Letter at 4., n.5.

¹⁴⁶ TANC Protest to the Compliance Filing at 11; SVP Protest to the Compliance Filing at 19-22.

for parallel flows from the COTP *on the PACI* since the *COTP schedules* that sink in the CAISO are modeled in the full network model.”¹⁴⁷

On one hand, if one reads the parallel flows that are implicit in the LMPs as being the flows over the external transmission system that are associated with scheduling an import to or an export from the CAISO Controlled Grid (*i.e.*, the “COTP schedules”), then the losses associated with such flows explicitly are removed by the CAISO in the calculation of the LMPs.¹⁴⁸ On the other hand, if one interprets the parallel flows that are implicit in the LMPs as being the flows over the CAISO Controlled Grid associated with the scheduled use of the CAISO Controlled Grid (*i.e.*, flows “on the PACI”), then an adjustment for the losses associated with such flows is in addition to the intended adjustment as noted by CAISO in the Compliance Filing.¹⁴⁹ However regarding the latter interpretation (*i.e.*, that parallel flows inherently are included in the LMPs), impacts on the CAISO Controlled Grid that arise from the scheduled use of the CAISO Controlled Grid (*i.e.*, interchange transactions) are the impacts the Full Network Model attempts to capture and the LMPs are intended to reflect.¹⁵⁰

It is not appropriate to consider the charges for the scheduled use of, and impacts on, the CAISO Controlled Grid as charging for the unscheduled, parallel flow impacts from service over the COTP. CAISO notes that moving to an LMP-based system means moving to more of a flow-

¹⁴⁷ *September 2008 Order* at P 104 (emphases added).

¹⁴⁸ Absent adjustment, the use of an external proxy bus will include the marginal cost of losses over the external transmission system from the proxy bus location to the border of the CAISO Controlled Grid. The CAISO’s intent always has been to remove such losses from the LMP calculations. *See* Exhibit ISO-1, Testimony of Mr. Rothleder and Dr. Price at 67-68 (quoted *supra* on pages 14-15).

¹⁴⁹ By the CAISO’s “intended adjustment” CAISO means the design element included in the IBAA whereby the losses over the external transmission system are removed from the calculation of the LMPs. Absent such an adjustment, the losses over the external system would be included in the LMPs due to the external location of the proxy bus.

¹⁵⁰ *September 2008 Order* at P 250.

based system as compared to a contract path pricing regime. LMPs do reflect the flows on the CAISO Controlled Grid and the LMPs will change if the flows on the CAISO Controlled Grid (both scheduled and unscheduled flows) change. In addition, as noted by Mr. Rothleder and Dr. Price, there is a real time cost associated with accounting for losses on unscheduled, parallel flows for all BAAs.¹⁵¹ However, for the purposes of this proceeding, the main point is that the real time costs associated with accounting for losses on unscheduled, parallel flows are not charged to the transmission customers or users of the external transmission system.¹⁵² Rather, the cost of such “losses are made up in the Real-Time imbalance market and [will] be allocated to all demand in the market via a neutrality charge.”¹⁵³

In light of all of the foregoing, CAISO believes clarification by the Commission is appropriate. It is likely that parties will allege the requested clarifications by CAISO amount to an impermissible request for rehearing of the *September 2008 Order* (given the statements in the protests to the Compliance Filing). However, the CAISO is not requesting rehearing of the *September 2008 Order*. Indeed, CAISO agrees that entities should not be subject to duplicative charges for losses. Therefore, given the Commission’s order, based on representations by intervenors, that under the contract path service provided by Western and TANC, COTP users pay TANC for losses for power that actually flows on the CAISO system the CAISO agreed in compliance to the Commission’s order to provide a mechanism that allows an adjustment of marginal loss component of the applicable LMP for transactions at Tracy by COTP users.¹⁵⁴ The

¹⁵¹ See Exhibit ISO-1, Testimony of Mr. Rothleder and Dr. Price at 68-70.

¹⁵² *Id.*

¹⁵³ *Id.* at 69.

¹⁵⁴ See Compliance Filing at 4.

clarification requests are to make sure of the manner in which CAISO is to ensure entities are not subject to duplicative loss charges.

D. Requested Clarifications Regarding the Commission’s Determination On Duplicative Loss Charges

1. The Commission Should Confirm or Clarify That CAISO Will Not Charge External Transmission Customers For The Unscheduled Parallel Flow Impacts Associated With Service Over the External Transmission System

CAISO respectfully asks that the Commission confirm that CAISO will not charge external transmission customers for unscheduled, parallel flow impacts associated with service over the external transmission system (including the COTP). The CAISO MRTU market is solely based on scheduled use of the grid and therefore all resulting schedules and LMPs are based on such scheduled use. This does not change with IBAA. One of the important elements of the IBAA proposal is that it allows the CAISO to model the scheduled use at its interties in such a way that better reflects a bid’s or self-schedule’s impact on the CAISO Controlled Grid.

Moreover, CAISO notes that the Commission correctly defines the terms “parallel flows”, “unscheduled flows”, and “loop flows” in the *September 2008 Order* as the flow on a path *parallel* to the contract path where the transaction was *scheduled*.¹⁵⁵ The impacts on the transmission system over which a transaction is scheduled are “scheduled impacts” on the transmission system and should not be considered as “unscheduled” flow on a “parallel” path.

Stated differently, once a market participant voluntarily decides to sell into, or buy from, the CAISO markets (using the COTP to deliver the import to, or accept the export from, the CASO Controlled Grid), the impacts on the PACI (impacts that would otherwise be considered “unscheduled parallel flow” if the transaction did not use the CAISO Controlled Grid) are no

¹⁵⁵ *September 2008 Order* at P 94, n.81 (emphases added).

longer the impacts of unscheduled, parallel flow. Rather, the impacts are scheduled impacts on the CAISO Controlled Grid that the LMPs specifically are intended to reflect.

CAISO notes that this result is a consequence of the move to LMP pricing and it is not an unjust and unreasonable outcome. For example, assume two separate 50 MW transactions that are sourced in Northwest and that are scheduled to take place in the same hour. The first transaction uses the COTP to deliver 50MWs of energy to the SMUD Hub and *does not use the CAISO Controlled Grid*; the second transaction uses the COTP to deliver 50MWs of energy within the CAISO Controlled Grid and *uses the CAISO Controlled Grid*. There would be unscheduled, parallel flow impacts on the PACI from the first transaction but no CAISO charges would apply to transmission customer. The impacts of the unscheduled, parallel flows will be dealt with in the real-time imbalance market and any costs will be allocated to all demand in the market via a neutrality charge. However, the second transaction involves a scheduled use of the CAISO Controlled Grid and the impacts on the PACI are no longer unscheduled, parallel flow impacts. Rather, the impacts on the PACI are impacts on the CAISO Controlled Grid from the scheduled use of the CAISO Controlled Grid which the LMPs are intended to reflect (and for which applicable CAISO charges are applied to transmission customers).

CAISO requests that the Commission confirm or clarify that CAISO will not charge external transmission customers for unscheduled, parallel flow impacts associated with service over the external transmission. CAISO also requests that the Commission clarify or confirm that CAISO, like other BAAs, deals with unscheduled, parallel flow impacts in real time with no charges applied to transmission customers on external systems.¹⁵⁶

¹⁵⁶ See, e.g., Exhibit ISO-1, Testimony of Mr. Rothleder and Dr. Price at 68-70.

2. The Commission Should Clarify That Removing The Losses Over The External Transmission System From The LMP Calculations Eliminates A Source Of Duplicative Loss Charges And That Separate Charges For Each Segment Of An Interchange Transaction Are Appropriate and Consistent With Historic Practice

As explained by Mr. Rothleder and Dr. Price (*see* quoted material on page 15, *supra*) measures were taken in the design of the IBAA proposal to prevent marginal transmission losses within the IBAA from affecting prices applied to service over the CAISO Controlled Grid.¹⁵⁷ The CAISO “proposes to schedule and dispatch Bids for IBAA System Resources as if there were no losses within the IBAA network, and to use the scheduled or dispatched MWs as the basis for expected net interchange between the CAISO BAA and the IBAA.”¹⁵⁸ CAISO requests that the Commission clarify that the CAISO’s intent to back out or remove from the LMPs the losses associated with service over the external transmission system (including the COTP) eliminates a source of duplicative loss charges.

CAISO also requests that the Commission clarify or confirm that a separate payment for transmission service (including congestion and losses) over the COTP leg of an interchange transaction and a separate payment for transmission service (including congestion and losses) over the CAISO Controlled Grid leg of an interchange transaction are appropriate and consistent with historic practice. It is important to recognize that an “interchange transaction” necessarily involves two sets of *scheduled* transactions. Specifically, interchange transactions involve the scheduled use of both: (a) an external transmission system to either deliver an import to, or

¹⁵⁷ See Exhibit ISO-1, Testimony of Mr. Rothleder and Dr. Price at 67-68; *see also* April 18, 2008 Final Proposal at 6 and n.10.

¹⁵⁸ *Id.* (emphasis added). Specifically, Mr. Rothleder and Dr. Price explain that the transmission losses over the external transmission system within IBAA are removed from the LMP calculations by zeroing the partial derivative contributions to the loss penalty factors from network branches within the IBAA networks and from the IBAA interties. *Id.* at 68. *See also* Exhibit ISO-4, Scott Harvey, “Proxy Buses and Congestion Pricing of Inter-Balancing Authority Area Transactions” June 9, 2008 at n.9.

accept an export from, the CAISO Controlled Grid, and (b) the CAISO Controlled Grid.

Furthermore, there is no dispute that a customer should pay for scheduled transmission service (including congestion management and losses) over both: (a) the external transmission system that either delivers an import to, or accepts an export from, the CAISO Controlled Grid and (b) the CAISO Controlled Grid (*i.e.*, to either deliver the energy to load in the case of an import or to deliver the energy from a source inside the CAISO Controlled Grid to the intertie scheduling point in the case of an export).

Indeed, the testimony submitted by protesters alleging that use of an external proxy bus at the Captain Jack Substation would double charge for losses recognizes that there are two separate sets of scheduled transmission service and appropriate payments for each leg of an interchange transactions (*i.e.*, the COTP leg and the CAISO Controlled Grid leg). For example, SVP Witness Hance addresses how the two sets of losses (*i.e.*, losses “on the COTP” and losses “between Tracy and SVP’s load”) were handled in four separate time frames.¹⁵⁹ In each case, it is clear there is a payment to “Western from Captain Jack to Tracy” and a second payment to “CAISO from Tracy to load.”¹⁶⁰ SVP Witness Hance states that:

[SVP] pays Western from Captain Jack to Tracy, and the CAISO from Tracy to load. It does not pay the CAISO for losses from the COTP schedule between Captain Jack and Tracy. There is no duplication of charges across any leg of the transaction.¹⁶¹

Payment for transmission service over the COTP leg of an interchange transaction and payment for transmission service over the CAISO Controlled Grid leg of an interchange transaction is appropriate and consistent with historic practice. The mere presence of the two

¹⁵⁹ See Exhibit SVP-1 at 11-15.

¹⁶⁰ *Id.*

¹⁶¹ *Id.* at 14 (emphasis added).

sets of charges does not amount to inappropriate or duplicative charges. It is the use of an external proxy bus that raises issues regarding potential duplicative charges and, as noted earlier, it has always been the CAISO's intent to remove from the LMPs the losses associated with service over the external transmission system (which includes the COTP).

3. The Commission Should Clarify That Removal of the Losses Over the External System From the LMPs Continues To Be Appropriate and Also That CAISO Is To Calculate the Loss Component of LMPs Applied to Imports Using the COTP As If There Were A Physical Resource Located At or Near the Tracy Interconnection Point.

As noted above, the CAISO agrees with ensuring that entities using the COTP to import energy to the CAISO BAA are not subject to duplicative charges for losses. Therefore, CAISO asks that the Commission clarify or confirm whether: (i) CAISO's removal of losses over the external network from the LMP calculations continues to be appropriate, and (ii) CAISO is to calculate the loss component of the LMPs applied to imports using the COTP as if there were a physical resource (or injection) located at or near the Tracy Interconnection point.

As further discussed in CAISO's compliance filing filed on November 25, 2008, the CAISO proposed to implement the requirement that COTP customers not be subject to duplicative charges for losses when using COTP by applying an LMP to transactions at Tracy that use COTP that does not include the same marginal cost of losses component as the Default IBAA LMP. This is accomplished by replacing the marginal cost of losses component in the Default IBAA LMP with the marginal cost of losses component of the LMP that is calculated as if there is an actual physical generator at Tracy so that there is a lesser accounting of the losses on the CAISO grid.

In summary, CAISO respectfully requests that the Commission confirm or clarify the following:

- that CAISO will not charge external transmission customers for unscheduled, parallel flow impacts associated with service over the external transmission system within the IBAA;
- that CAISO, like other BAAs, deals with unscheduled, parallel flow impacts in real time with no charges applied to transmission customers on external systems;
- that the CAISO's intent to back out or remove from the LMPs the losses associated with service over the external transmission system (including the COTP) eliminates a source of duplicative loss charges and continues to be appropriate;
- that a separate payment for transmission service (including congestion and losses) over the COTP leg of an interchange transaction and a separate payment for transmission service (including congestion and losses) over the CAISO Controlled Grid leg of an interchange transaction are appropriate and consistent with historic practice; and
- that CAISO is to calculate the loss component of the LMPs applied to imports using the COTP as if there were a physical resource (or injection) located at or near the Tracy Interconnection point.

V. CONCLUSION.

Wherefore, the CAISO respectfully requests that the Commission grant CAISO's Motion for Leave to Respond to Rehearing Requests, deny the Rehearing Requests, and confirm and clarify the issues as discussed in more detail above.

Respectfully submitted,

/s/ Anna McKenna

Anthony Ivancovich
 Anna McKenna
 Andrew Ulmer
 The California Independent
 System Operator Corporation
 151 Blue Ravine Road
 Folsom, CA 95630
 Tel: (916) 351-4400
 Fax: (916) 608-7296

/s/ Roger E. Smith

Roger E. Smith
 David B. Rubin
 Andrew M. Jamieson
 Troutman Sanders LLP
 401 9th Street, N.W., Suite 1000
 Washington, D.C. 20004
 (202) 274-2950
 (202) 274-2994 (facsimile)
roger.smith@troutmansanders.com
david.rubin@troutmansanders.com
andrew.jamieson@troutmansanders.com

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in the above-captioned docket.

Dated at Washington, D.C. on this 9th day of January, 2009.

/s/ Andrew M. Jamieson
Andrew M. Jamieson
Troutman Sanders LLP
401 9th Street, N.W., Suite 1000
Washington, D.C. 20004
(202) 274-2950