

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

<b>SIG Energy LLLP</b>	)	
<b>Complainants,</b>	)	
	)	
<b>v.</b>	)	<b>Docket No. EL12-55-000</b>
	)	
<b>California Independent System</b>	)	
<b>Operator Corporation,</b>	)	
<b>Respondent</b>	)	

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

The California Independent System Operator Corporation (“ISO”) hereby submits a motion for leave to answer and answer to the Motion for Leave to Answer and Answer (“SIG Answer”) filed in this proceeding by SIG Energy LLLP (“SIG”) on May 29, 2012.<sup>1</sup> The SIG Answer responded to the ISO’s answer (“ISO Answer”) to SIG’s complaint (“Complaint”) in which SIG argued that the ISO violated its tariff on August 17 and 19, 2011, by failing to use the marginal congestion cost at the Laughlin pricing node, or its equivalent, in order to settle congestion revenue rights (“CRRs”) that SIG held for the South Point pricing node. As explained below, the arguments included in the SIG Answer provide no additional support for the Complaint.

The Commission should reject the Complaint. The ISO understands SIG’s desire to maximize the profitability of the CRRs it obtained through the CRR auction. However, as discussed in the ISO’s Answer to the Complaint, the ISO did not violate any part of its tariff or procedures in modeling the South Point scheduling point as

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<sup>1</sup> The ISO submits this filing pursuant to Rules 212 and 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. §§ 385.212, 385.213.

closed in releasing the CRRs in question back in 2010. The error the ISO committed in modeling South Point outside of the Laughlin intertie branch group only facilitated the release of the South Point CRRs SIG held that would not have been released but for the error. If anything, the only measure to correct that error would be to take the CRRs back from SIG and return to them the purchase price of the CRRs and any net CRR charges paid by SIG on those CRRs. The record shows that there is no support for paying SIG \$4 million for this error.

As explained in the ISO Answer, and contrary to SIG's assertions, when South Point was disconnected in the day-ahead market, the appropriate node to use was the closest electrically connected pricing node, Mohave 1. Even if the ISO had removed South Point from its master file and updated the full network model accordingly after it released the CRRs in question, the ISO had no tariff authority to reconfigure the CRRs to any location other than the closest electrically connected node, Mohave 1. Therefore, the ISO could not have remapped the outstanding CRRs in question to the closest biddable electrically connected pricing node, Laughlin, as SIG now requests.

SIG's Answer raises a series of complicated issues and arguments that do not alter these simple facts. Its Complaint and Answer are merely an attempt to persuade the Commission to force the ISO to now, after the fact, pay SIG \$4 million to fulfill its hope of maximizing the profitability of the CRRs it bought at auction. This would be an unjust enrichment unsupported by the ISO's tariff requirements and procedures that governed over the CRRs in question. This unjust enrichment would be entirely borne by the ISO's transmission customers who, for the reasons explained in the ISO Answer and this answer, could not have had any expectation of such a pay-out to SIG under the

terms of the ISO's tariff and procedures. The Commission must reject SIG's complaint to avoid such an unjust outcome.

## **I. MOTION FOR LEAVE TO ANSWER**

The ISO does not object to SIG's Motion for Leave to Answer. If, however, the Commission grants SIG's request, the ISO moves for waiver of Rule 213(a)(2) to the extent necessary to allow the ISO to answer the SIG Answer.

Rule 213(a)(2) of the Commission's Rules of Practice and Procedures generally prohibits answers to answers.<sup>2</sup> The Commission has accepted answers that are otherwise prohibited if such answers clarify the issues in dispute<sup>3</sup> and where the information assists the Commission in making a decision.<sup>4</sup>

The SIG Answer includes a number of inaccurate statements, mischaracterizations, and baseless arguments. The ISO's response to these matters will assist the Commission in reaching its ultimate determination with respect to the substantive issues raised by the Complaint. The ISO notes that, under the Commission's regulations, the respondent to a complaint has the final opportunity to respond to opposing arguments. Moreover, under the Commission's regulations, if a respondent fails to answer a complaint, facts alleged in the complaint may be deemed admitted.<sup>5</sup> The SIG Answer is essentially a supplement to their Complaint. The Commission should not allow SIG to alter the right of the ISO as the respondent to

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<sup>2</sup> 18 C.F.R. § 385.213(a)(2) (2010).

<sup>3</sup> See *Southwest Power Pool, Inc.*, 89 FERC ¶ 61,284 at 61,888 (2000).

<sup>4</sup> See *El Paso Electric Co.*, 72 FERC ¶ 61,292 at 62,256 (1995).

<sup>5</sup> 18 C.F.R. § 385.213(e)(1) (2010).

address all factual assertions and allegations made by SIG. Good cause therefore exists to permit this answer.

## II. ANSWER

As an initial matter, the ISO believes that it would be helpful to clear out some of the rhetoric in order to facilitate a focus on the facts. SIG would have the Commission believe that it is the victim of a “bait and switch,”<sup>6</sup> in which the ISO “retained” monies due SIG,<sup>7</sup> deprived SIG of the hedge that was the “benefit of its bargain,”<sup>8</sup> and “reap[ed] the benefits” of the ISO’s modeling error.<sup>9</sup> As the Commission is well aware, the ISO does not “retain” any funds invested in the markets it operates. The ISO’s markets clear among market participants in every trading interval. The ISO is a non-profit, revenue-neutral, independent system operator. The ISO has no motive to engage in a bait and switch operation.

Moreover, SIG is not a hapless victimized consumer. SIG is a sophisticated financial player in energy markets; in its own words, it provides “liquidity in real-time markets and energy futures markets as well as in energy-related commodities.”<sup>10</sup> SIG is not in the CRR market to obtain a hedge against congestion; it is not a load-serving entity and would not incur congestion charges but for its participation in the CRR market. Although it is correct that the CRR market exists in order to provide hedges

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<sup>6</sup> SIG Answer at 2, 4.

<sup>7</sup> *Id.* at 5.

<sup>8</sup> *Id.* at 3.

<sup>9</sup> *Id.* at 9.

<sup>10</sup> Complaint at 4.

against congestion, that is not why financial entities such as SIG are authorized to participate in the CRR market. The purpose of such participation is to provide liquidity – as SIG recognized when describing itself in the Complaint.

Further, although SIG contends that the ISO “effected a ‘bait-and-switch by modeling the South Point node as connected for purposes of issuing CRRs sinking at that node and disconnected for purposes of settling those same CRRs,”<sup>11</sup> information was available to SIG at the time of the auction such that SIG should have known that the default status of South Point in the full network model was open. A review of historic LMPs at South Point and Laughlin would have revealed consistent differences between the LMPs at South Point and Laughlin and should have prompted additional investigation. The explanation was also public information: as the ISO noted in the ISO Answer, the Interconnected Control Area Operating Agreement established the default position for South Point as open.<sup>12</sup> That agreement is on file with the Commission, and was available for SIG’s review. Thus, to the extent that SIG assumed that South Point was generally connected, its assumption arose from a failure to research its CRR bid fully, rather than from any “bait” from the ISO.

**A. SIG’s Answer Relies on a Fundamental Misunderstanding of the Modeling, Auction, and Settlement of CRRs.**

In the ISO Answer, the ISO explained that under the ISO tariff in effect on August 17 and 19, 2011, and under established ISO procedures, the proper locational marginal price (“LMP”) to use for settling SIG’s CRRs sinking at South Point was Mohave 1

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<sup>11</sup> *Id.* at 2.

<sup>12</sup> See May 11, 2012 Declaration of James Price submitted in support of ISO Answer (“Price Declaration”) at ¶ 12 & Ex. A-1.

because South Point was disconnected and Mohave 1 was the closest electrically connected pricing node. SIG contends that the ISO's explanation includes several inconsistent arguments. SIG's contention reflects a fundamental misunderstanding of the modeling, auction, and settlement of CRRs.

SIG asserts it is inconsistent for the ISO to state that the South Point pricing node was connected at the time of the auction, that South Point was removed from the network in June 2011, and that it was proper for the ISO to treat South Point as disconnected for purposes of settling CRRs on August 17 and 19 because it had received no notification that Laughlin was disconnected.<sup>13</sup> Contrary to SIG's assertions, the ISO never stated that South Point was connected at the time of the auction (in fact it was not); rather, the ISO stated that it was *modeled* as connected in the CRR model. The fact that South Point was still in the model used in releasing CRRs at that point is undisputed. As the ISO explained, it must model all connections as closed in order to perform the simultaneous feasibility test on all previously awarded CRRs for those connections.<sup>14</sup> SIG's contentions that the ISO was inconsistent ignore the fundamental fact, as fully explained by Dr. Price, that because the ISO releases CRRs a month to a year in advance of the actual trade dates for which they are in effect, the ISO's full network model for the annual and monthly CRR allocation and auction processes does not necessarily, and is not intended to, depict the actual real-time system topology on any particular day for the day-ahead and real-time markets. The CRR model is intended to represent a snapshot in time and does not and cannot exactly reflect the actual

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<sup>13</sup> SIG Answer at 3.

<sup>14</sup> ISO Answer at 6, 13 n.31.

conditions that will exist on any given trade date.<sup>15</sup> To the contrary, it takes at least four months for the full network model that is the baseline for the CRR model to be updated to reflect changes in topology, once the ISO receives notification of the change from transmission owners.<sup>16</sup> Thus, while the ISO endeavors to develop a CRR full network model that reflects congestion as closely as possible to the congestion that will actually occur on the applicable trade dates, physical system changes that occur after CRRs are released may lead to differing congestion patterns than were modeled when the CRRs are released. There is thus no inconsistency between the removal of South Point from the actual network topology in June 2011 and its status as disconnected in the running of the Integrated Forward Market (“IFM”) full network model in August 2011.<sup>17</sup>

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<sup>15</sup> Price Declaration at ¶¶ 13-14.

<sup>16</sup> *Id.* As Dr. Price has explained, it was proper for the ISO to continue to maintain the South Point pricing node in the full network model until after the final phases of the construction of the replacement Mohave-to-Laughlin 500 kV line were completed, which did not occur until January 5, 2012. *Id.* at ¶¶ 31-32. At this time, it is certain that the overall project is complete. Therefore, ISO engineering staff has moved forward with removing the South Point pricing node from the Master File and updating the full network model in connection with its next release of the full network model, DB 59, which is scheduled to be released on June 14, 2012. See Full Network Model Scope for FNM DB 59, on ISO website at: [http://www.caiso.com/Documents/FullNetworkModel\\_DB59\\_WorkScope.pdf](http://www.caiso.com/Documents/FullNetworkModel_DB59_WorkScope.pdf).

<sup>17</sup> In a supplemental declaration, Mr. Gravener further suggests that it was somehow inconsistent for the ISO to include the South Point node in the CRR model while modeling it as open (i.e., disconnected) in the full network model used on a daily basis. Mr. Gravener seems to be suggesting that because the CRR full network model used to award SIG’s third quarter 2011 CRRs treated the South Point node as in place and a node at which CRRs could potentially be awarded, this means that the South Point scheduling point should have been perpetually modeled as closed (i.e., connected) in the daily full network model used for running the IFM, including on August 17 and 19, 2011. This argument misunderstands the relationship between the daily model used to run the ISO’s markets and the CRR full network model used for the auction. As discussed above and at paragraphs 13-19 of Dr. Price’s declaration, the CRR full network model is a seasonal model that captures a snapshot of the network topology at a particular point in time. By treating the South Point facilities as “closed” in the CRR full network model used in November 2010 for the 2011 auction, the ISO accounted for the possibility that the South Point facilities would become connected on a given day when the Laughlin-Mohave 500 kV facility goes out on an outage, which was a possibility at that point in time. Unlike the seasonal CRR full network model, the full network model that is used for running the IFM on a daily basis is able to take account of

SIG also asserts that it is inconsistent for the ISO to explain that it models pricing nodes such as South Point as connected in order that CRRs will be feasible at that point – so that parties forced to schedule at that point could protect themselves against congestion – while at the same time noting that it would not have issued CRRs at South Point if it had correctly modeled South Point as part of the fully encumbered Laughlin branch group.<sup>18</sup> SIG creates a false inconsistency through an erroneous conflation of two unrelated principles and an incomplete statement of the facts. The fact that CRRs could not be awarded at all if their pricing nodes were modeled as disconnected in the CRR full network model is not relevant to the definition of branch groups and the extent to which they are encumbered. Further, the ISO did not state that the encumbrance alone would have precluded the issuance of CRRs at South Point; rather it stated that it would not have been able to issue CRRs at South Point because the branch group is fully encumbered *and* there were no counterbalancing seasonal CRRs in the auction run that the ISO conducted for the release of the CRRs in question.<sup>19</sup> Had there been counterbalancing seasonal CRRs, the ISO could have issued seasonal CRRs at South Point (to the extent of the counterbalancing CRRs) despite the encumbrance. This is

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daily changes in system conditions, such as the status of particular connection as open or closed. As Dr. Price explained, the IFM full network model correctly modeled the South Point line as open on August 17 and 19. Price Decl. at ¶¶ 23-35. SIG also states that the ISO asserted that it treated South Point as open based on the lack of notification that Laughlin was open and on telemetry records showing no flow to South Point. SIG Answer at 3. This, again, misstates the ISO's explanation. The telemetry records paid no part in the ISO's treatment of South Point as open in the day-ahead market. The ISO only pointed to telemetry to demonstrate that the treatment as disconnected reflected the actual system flows and in response to SIG's own statement that its arguments only apply in the absence of physical evidence of disconnection. See ISO Answer at 2, 13.

<sup>18</sup> SIG Answer at 4.

<sup>19</sup> Price Declaration at ¶ 46.

entirely consistent with the nature of the scheduling rights at South Point. Because the Laughlin branch group is fully encumbered, scheduling coordinators can schedule at South Point or Laughlin if and only if there are equivalent counter-flow schedules.<sup>20</sup>

Similarly, SIG is mistaken when it questions how parties that obtain South Point CRRs are protected against congestion when the hedging payment is converted to a charge when South Point is disconnected. In reality, a party that obtained South Point CRRs as a hedge – i.e., a load-serving entity – would be able to schedule at South Point, and would be subject to congestion charges, only when South Point was connected; at such times, the CRR payment or charge would be based on the LMP at South Point, thus providing the desired hedge.<sup>21</sup>

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<sup>20</sup> ISO Answer at 14-15. Although not raised in SIG's Answer, in his supplemental declaration Mr. Gravener seeks to rebut Dr. Price's showing that SIG's 2011 third quarter CRRs at South Point would not have been feasible but for the ISO's modeling error. Rather than demonstrating any error in Dr. Price's analysis, Mr. Gravener notes that the ISO learned of this error in February 2011 and argues that the ISO's decision not to re-run its monthly auction results for January 2011 and February 2011 "is an implicit acknowledgment by the CAISO of the feasibility" of the South Point CRR awards SIG received in the 2011 annual auction. This assertion ignores the fact, discussed in paragraphs 15 and 19 of Dr. Price's declaration, that the ISO's established practice is not to go back and re-run CRR allocation and auction processes based on different modeling assumptions because doing so would create uncertainty and disruption. Because the ISO's standard practice is to refrain from engaging in such re-runs, it is wrong to assert that the ISO's failure to do so here implies that SIG's CRRs from an earlier period were feasible. Contrary to what Mr. Gravener seems to be suggesting, this practice is not inconsistent with the ISO's efforts to ensure revenue adequacy. Because the CRR processes must be run prior to the actual specified trade dates to which they apply, the ISO can only make a best effort to align the congestion flows between the CRR release processes and the market runs. The ISO's goal of ensuring that the CRRs it releases are adequately funded by the congestion revenue ultimately collected in the market does not require a re-run of the CRR release processes each time there are conditions that could create a change in congestion flow between the CRR runs and the market. Such a practice would result in an endless loop of re-runs of the CRR processes, thereby stifling the ISO markets entirely. Rather the ISO's iterative approach and best efforts modeling approach to achieve revenue adequacy is fully supported by the ISO's tariff provisions in Section 36, which create no expectation of re-runs due to changes in system topology.

<sup>21</sup> At other times, when South Point is disconnected, the CRR holder is not always subject to a charge, as SIG suggests. Whether the CRR holder is subject to a charge or a payment depends upon

In short, SIG is only able to manufacture inconsistencies in the ISO's arguments by completely ignoring the ISO's explanations of the processes by which it establishes the full network model, issues and settles CRRs, and revises the full network model to address topological changes in the network. Nothing in the ISO tariff or business practice manuals supports SIG's contentions and conclusion that, in the event that a pricing node is disconnected, the ISO must settle CRRs sinking at that pricing node with the LMP of a pricing node on the same side of a particular transmission constraint.

**B. SIG's Tariff Arguments Have No Basis in the Plain Language of the ISO Tariff.**

In the ISO Answer, the ISO explained that its use of the LMP at Mohave 1 for the disconnected pricing node at South Point was dictated by the ISO tariff. Replaying some of the same arguments it made in the Complaint, SIG argues that the ISO tariff required the ISO to use the closest biddable pricing node on the same side of "the congestion" as South Point.<sup>22</sup> SIG relies upon the language of section 36.2.1 of the ISO tariff that states that "[a] CRR Obligation entitles its holder to receive a CRR payment if the Congestion in a given Trading Hour is in the same direction as the CRR Obligation."<sup>23</sup> It also points to Appendix C of the Tariff as requiring a calculation of price differences across a constraint. According to SIG, this means that because there were positive congestion payments for CRRs sinking at Laughlin on August 17 and 19, it is

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the LMP at Mohave 1, which is determined by congestion between Mohave 1 and the pricing node at the other end of the CRR.

<sup>22</sup> SIG Answer at 6.

<sup>23</sup> *Id.* at 5-6.

entitled to payments. SIG contends that the ISO's use of the Mohave 1 price for South Point turns this "fundamental provision" on its head.<sup>24</sup>

No matter how strong SIG's desire for a congestion payment, it does not change the plain meaning of the ISO tariff. SIG fails to note that section 36.2.1 also provides that: "The CRR Payment or CRR Obligation charge is equal to the per-MWh cost of congestion (which equals the [marginal cost of congestion] at the CRR Sink minus the [marginal cost of congestion] at the CRR Source) multiplied by the MW quantity of the CRR." The problem with SIG's argument is that when a pricing node is disconnected, there is no marginal cost of congestion at the pricing node, as described in section 36.2.1. That is why, prior to the amendment of section 27.1.1, the ISO used a price of \$0 to settle CRRs at disconnected pricing nodes.<sup>25</sup> Section 27.1.1 resolved this quandary by providing that the ISO will *use the LMP at the closest electrically connected pricing node*. As Mr. McClain explained, this was Mohave 1.<sup>26</sup> This substitute price was calculated pursuant to the Appendix C, taking into account the constraints between Mohave 1 as the CRR Sink and the corresponding CRR Sources for SIG's CRRs. Thus, SIG is correct that the ISO ignored congestion between Mohave 1 and South Point. The ISO did so because there was no congestion between Mohave 1 and the disconnected South Point. The relevant congestion was between Mohave 1 – the substitute pricing node – and the other end of SIG's CRRs.

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<sup>24</sup> *Id.* at 6.

<sup>25</sup> ISO Answer at 19.

<sup>26</sup> McClain Declaration at ¶ 15 (Mr. McClain referred to Mohave 1 as MOHVAUX\_7\_N002 PNode.).

SIG makes no effort to reconcile its tariff interpretation with the plain language of section 27.1.1; it provides no basis, even considering standard canons of construction, for reading “closest electrically connected pricing node” to mean “closest biddable pricing node on the same side of the constraint, even if it is not the closest electrically connected pricing node.” The only argument that it makes is that the ISO cannot rely on the Commission’s decision accepting the amendment to section 27.1.1 because the Commission’s explanation for accepting the amendment supposedly suggests that it is not applicable when there are two available scheduling points on the same side of a constraint.<sup>27</sup>

Although the ISO cited the Commission’s discussion to reinforce the plain language of section 27.1.1, the ISO relies not on that discussion but upon the words of section 27.1.1. There is nothing ambiguous about “closest electrically connected pricing node” that requires examination of the “legislative history.” Moreover, even if the Commission’s discussion were inapplicable to certain circumstances in which section 27.1.1 might apply, it would provide no basis for rewriting the language of the provision. Section 27.1.1 is the filed rate. The Commission’s explanation of its basis for approving section 27.1.1 cannot justify creating an unstated exception from 27.1.1 along with a new and unwritten replacement rule that would be applicable to such exceptions.<sup>28</sup>

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<sup>27</sup> SIG Answer at 7.

<sup>28</sup> In any event, the language from the Commission’s background discussion of the tariff amendment does not in any way suggest, as SIG contends, that the Commission intended to establish a separate and different rule for a disconnected pricing node that is part of an intertie branch group that has two pricing nodes. The reference to “singular” that SIG identifies refers to a situation where a “*generator* is modeled as a singular connection at a location that becomes disconnected” and simply makes the point that such a generator “may be physically isolated and cannot be scheduled to deliver energy to the system.” *Cal Indep. Sys Operator Corp.*, 128 FERC ¶61,282 (2009), at P41 (emphasis added). This is

Whether or not SIG believes it is a fair result, the plain language of the ISO tariff controls until revised.

SIG goes on to contend that, if South Point was retired, the ISO tariff did not prohibit the ISO from reassigning South Point CRRs to the closest electrically connected biddable pricing node and that this approach is feasible and appropriate. There are, of course, multiple actions that the ISO *could* take that are not prohibited by the tariff. That does not mean that the ISO *may* take such actions.<sup>29</sup> The Commission has in fact cautioned the ISO against reinterpreting the ISO tariff without Commission approval.<sup>30</sup> Moreover, Dr. Price has explained that the ISO is not in control of facility maintenance and retirement and does not consider changes in topology until being well informed by the relevant participating transmission owner that the change is complete.<sup>31</sup>

Finally, SIG challenges the ISO's statement that it could not have reassigned CRRs sinking at South Point to Laughlin because there were no counterflow CRRs. SIG contends that, because of the initial modeling error, the ISO has enjoyed the "benefits of its bargain" with South Point from the modeling error that allowed it to issue CRRs for South Point in the first place and should not now be allowed to use the lack of

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merely a background statement discussing how a generator may become disconnected. Given that there are no generators connected at the Laughlin intertie branch group, it has no relevance whatsoever to the matters at issue in SIG's Complaint.

<sup>29</sup> Mr. McClain explained that had the ISO been presented a retired scheduling point pricing node prior to the enactment of section 36.8.67.2, he would have sought guidance from other parts of the tariff. There were no other parts of the tariff at that time that would suggest the propriety of substituting the closest biddable node on the same side as the constraint.

<sup>30</sup> *Cal. Indep. Sys. Operator Corp.*, 135 FERC ¶ 61,110 (2011).

<sup>31</sup> Price Declaration at ¶ 32.

counterflow CRRs as the basis for not reassigning the South Point CRRs.<sup>32</sup> This argument does not avail SIG. The ISO has already noted that it did not enjoy any “benefits” as the result of its modeling error. There is no *quantum meruit* argument here that SIG has delivered service to the ISO for which it must be compensated. There is also no evidence that the ISO sought to mislead SIG. The ISO simply made a modeling error. Even if the Commission were to conclude that SIG should receive compensation for the results of the error, the only relief that SIG could reasonably claim would be reimbursement for the cost of purchasing the CRRs and any congestion charges, net of any congestion payments.<sup>33</sup>

**C. The ISO’s Current Treatment of South Point CRRs Is Consistent with the ISO Answer.**

SIG asserts that the ISO’s continued issuance of CRRs and counterflow CRRs at South Point is inconsistent with the ISO’s position that CRRs sinking at South Point were not feasible and should not have been issued. SIG is factually mistaken. SIG cites as support Paragraph 8 of the Declaration of Mr. Gravener, but Mr. Gravener does

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<sup>32</sup> SIG Answer at 8.

<sup>33</sup> Although SIG does not raise the point in its Answer, in paragraph 5 of his supplemental declaration Mr. Gravener attempts to raise doubt about Dr. Price’s showing that if SIG’s 2011 third quarter South Point CRRs had been reassigned to the Laughlin node after certain South Point facilities were removed in mid-June 2011, the simultaneous feasibility test would have resulted in the CRRs being zeroed out. Mr. Gravener seeks to draw this conclusion into question by pointing to certain CRR positions SIG was awarded in the August 2011 quarterly auction that was run for monthly CRR awards. Mr. Gravener and SIG are confusing seasonal CRRs from the annual CRR allocation and auction process with monthly CRRs awarded in quarterly auctions. As discussed in Dr. Price’s declaration, the simple fact is that there were no counterbalancing seasonal CRRs for the third quarter of 2011 at South Point, and thus the hypothetically reassigned South Point seasonal CRRs would become infeasible if they were reassigned to Laughlin pursuant to tariff section 36.8.7.2. As discussed in Dr. Price’s declaration at paragraph 41, this reassignment scenario is, of course, entirely hypothetical in any event because the reassignment provision in section 36.8.7.2 did not even become effective until August 23, 2011, which is after the dates in question in SIG’s Complaint. SIG does not even attempt to address this key flaw in its argument.

not state that the ISO continues to issue CRRs at South Point; rather he correctly states only that the June 2012 CRR monthly model continues to show the same configuration as existing in the June 2011 model. As Dr. Price has explained, the ISO has not completed the process of removing South Point from the full network model because such removal was properly deferred until the overall construction project was complete.<sup>34</sup> The ISO has continued to include South Point in the CRR model to maintain consistency with the integrated forward market model. As Mr. McClain previously explained, however, beginning with the January 2012 monthly CRR process, the ISO does not, and has not awarded CRRs on fully encumbered interties such as South Point.<sup>35</sup> SIG offers no evidence to the contrary.

In paragraph 3 of his supplemental declaration, Mr. Gravener also states that, in order meet the goal of revenue neutrality, there must be close coordination between the full network model used for running the integrated forward market and the full network model used for awarding and allocating CRRs. Mr. Gravener is correct in stating that the ISO's practice is to maintain close coordination between the full network model used for awarding or allocating CRRs and the model used for the IFM, but this coordination does not lead to the conclusion he asserts. As discussed at paragraph 32 of Dr. Price's declaration, the ISO's records indicate that the final phase of the overall utility construction project to replace the South Point 69 kV intertie with a second Mohave to Laughlin 500 kV line was not completed until January 5, 2012. As Dr. Price explained, it

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<sup>34</sup> Price Declaration at ¶ 32. As noted above, the South Point node is in the process of being removed in connection with DB 59, which is scheduled to be released on June 14, 2012.

<sup>35</sup> McClain Declaration at ¶ 17.

is only after the ISO has become certain that the South Point facilities would not be restored to service that it is appropriate for ISO engineering staff to remove the South Point pricing node from the full network model used for the IFM. Before that time – i.e., for all relevant dates at issue in SIG’s Complaint – both the full network model for the IFM and the full network model for CRRs properly included South Point as a pricing Node. Thus, there was no inconsistency of treatment of the South Point facilities between these two models.

### III. CONCLUSION

For the reasons explained above and in the ISO’s original Answer, the Commission should deny SIG’s Complaint.

Respectfully submitted,

**/s/ Burton Gross**

Nancy Saracino  
General Counsel  
Anthony J. Ivancovich  
Assistant General Counsel  
Anna McKenna  
Senior Counsel  
Burton Gross  
Senior Counsel  
California Independent System  
Operator Corporation  
250 Outcropping Way  
Folsom, CA 95630  
Tel: (916) 351-4400  
Fax: (916) 608-7222  
[bgross@caiso.com](mailto:bgross@caiso.com)

Counsel for the California Independent  
System Operator Corporation

Sean A. Atkins  
Michael E. Ward  
Alston & Bird LLP  
The Atlantic Building  
950 F Street, NW  
Washington, DC 20004  
Tel: (202) 239-3300  
Fax: (202) 239-3333

June 13, 2012

## CERTIFICATE OF SERVICE

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

Dated this 13<sup>th</sup> day of June, 2012 in Folsom, California.

*Is/ Anna Pascuzzo*

Anna Pascuzzo