

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

**California Independent System) Docket No. ER06-615-____
Operator Corporation)**

**ANSWER OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR
CORPORATION TO THE COMMENTS OF NORTHERN CALIFORNIA POWER
AGENCY**

Pursuant to Rule 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. §§ 385.213 (2007), the California Independent System Operator Corporation (“CAISO”)¹ respectfully submits this Answer to Northern California Power Agency’s (“NCPA”) comments and related motion filed in the captioned docket on June 2, 2008. NCPA’s comments focus on the ongoing efforts of the CAISO and its stakeholders, including NCPA, to prepare for the launch of the Market Redesign and Technology Upgrade (“MRTU”) market.

The CAISO appreciates the significant continuing involvement of NCPA and all Market Participants in preparing to launch the MRTU market. However, NCPA’s pleading, while fashioned as comments in response to the monthly MRTU Status Reports, takes issue with technical and operational decisions the CAISO has made during the two-year course of the MRTU market simulation. NCPA’s pleading raises issues that have been properly voiced in the ongoing market simulations and related preparations for MRTU and have been considered in the CAISO’s ongoing simulation and planning.

¹ Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff.

As discussed in detail below, the CAISO's readiness activities, including the market simulation, are proceeding pursuant to a fully transparent and deliberate process developed with Market Participants and with the Commission's guidance. Under that process, MRTU readiness is assessed by the CAISO and its stakeholders and will be subject to Commission scrutiny. Many of the Market Participants have indicated they want dates for planning purposes and the CAISO must use those dates to manage the overall effort. Those dates will not, however, force a launch before the systems are fully ready.² To depart from this well defined and pre-established readiness process at this late juncture will divert scarce and crucial resources away from actual MRTU preparation. Accordingly, the CAISO respectfully submits that it is unnecessary for the Commission to direct the CAISO to reform its monthly MRTU reports and that adding a technical conference in Washington would only serve to delay the CAISO's readiness process. The Commission should deny NCPA's motion.

I. ANSWER

A. NCPA's Expectations for Market Simulation are Unrealistic

Throughout its pleading, NCPA says it is concerned that the market simulation "continues to change" or that certain steps did not "work as planned."³ While NCPA is correct that the market simulation continues to change and that certain things have not worked as planned. It is unrealistic to expect that market

² Further, as discussed in detail herein, MRTU readiness will be the subject of ongoing stakeholder involvement in July, August, and September and will be discussed at the CAISO Governing Board meeting in July and September, all of which will precede a Fall implementation date.

³ NCPA Comments at 3-4.

simulation would not reveal any needed modifications, because by its very nature the purpose of market simulation is in fact to find items that need to be fixed along the way through strenuous testing of the systems to discover variances in advance of production.

NCPA also argues that the MRTU Market Simulation Guidebook, developed before the market simulation began, has not been updated to reflect the current stages of the simulation and therefore, in some respects, the guide has not been followed to the letter.⁴ In fact, in the Market Simulation Guidebook, the CAISO expressly noted the need to identify and adapt to problems and changes:

Issues of various kinds are expected to be uncovered throughout each of the simulation phases. CAISO issues of external relevancy will be discussed with participants throughout the course of Market Simulation. Similarly, participants will be expected to identify and report issues that are either relevant to CAISO or can benefit the larger group of participants. As issues are resolved, participants will have insight into the process.⁵

The Market Simulation Guidebook was not intended to be predictive in nature and, therefore, departures from it do not signal underlying flaws in the market simulation process or the market design. Again, the CAISO believes that such trial and error is precisely the purpose of simulating the market experience before it goes live with binding financial results. The CAISO is increasingly reassured that the CAISO and its Market Participants are building on each lesson learned and are moving forward in a way that gives stakeholders and CAISO a

⁴ *Id.*

⁵ CAISO Market Simulation Guidebook, Version 4.6, p. 8, available at <http://www.caiso.com/18d3/18d3d1c85d730.pdf>.

meaningful MRTU simulation experience. It should be expected that additional issues will arise before live, and they will be addressed accordingly. Moreover, the CAISO is already in the process of updating the Market Simulation Guidebook so that it is more consistent with current simulation practice having benefited from the issues already identified.

B. NCPA Overstates the Significance of the October 1 Target Date – Readiness, Not a Deadline, Will Drive MRTU Go-Live

NCPA asserts the CAISO is too “driven by pressures associated with the unofficial ‘target’ commercial operational date of MRTU (currently October 1, 2008).”⁶ The very language of this statement, however, demonstrates that NCPA acknowledges that it is a target date.

First, the October 1, 2008 date that the CAISO and its stakeholders are driving toward is, as NCPA says, unofficial. That status has meaning. It means that CAISO management has not yet, based on the course of market simulations, recommended to the CAISO Board that it approve filing the MRTU readiness certification in time for an October 1, 2008 Go Live date. It also means that nothing is being sacrificed for the sake of the October 1 date.

Second, NCPA’s claim that the CAISO is too deadline-driven is not a new one, yet is undermined by the simple fact that the CAISO has twice in the last year postponed the planned start-up of the MRTU market after consulting with NCPA and other stakeholders and determining that such postponements were necessary. After the most recent postponement, the CAISO sensed certain

⁶ NCPA Comments at 2.

inefficiencies in the readiness process when Market Participants did not have a specific date on which to focus their efforts. The CAISO appreciates that the mere establishment of any deadline gives some entities the means to argue that the chosen date is overly aggressive or just too soon. However, the history of the MRTU process to date shows that the CAISO will launch the MRTU market at the earliest possible date at which the CAISO can be sure that the market is ready, and will not be distracted by dates on a calendar nor, importantly, by the temptation to lose sight of the urgency this effort demands. Third, to say that the CAISO will not be blindly focused on a deadline is not to suggest that the CAISO and its stakeholders have the luxury of abandoning a sense of urgency to start the MRTU market. The MRTU effort requires that deadlines be set, and efforts be focused on meeting those deadlines, based on the best information available so that timely progress can be made. Moreover, the CAISO is targeting Fall 2008 implementation and notes that October 1 is not the only candidate, but the earliest candidate date.

C. The CAISO Has a Comprehensive Readiness Plan Anchored by a FERC-Ordered Readiness Certification.

The issue of MRTU readiness has been fully aired before the Commission and addressed in several Commission orders. In fact, the CAISO continues to conduct a rigorous internal and external process to certify MRTU readiness prior to implementing MRTU, which is summarized in the monthly MRTU reports. The core of the MRTU readiness process is the Commission's express endorsement

of a Readiness Certification submitted to the Commission 60 days prior to MRTU

Start-up:

As we stated before, we believe that it is essential that the MRTU market design be implemented only when the CAISO's and the market participants' systems, software and tools have been fully tested and the CAISO and its stakeholders are confident that MRTU will function properly. We are strongly committed to a sound and orderly MRTU implementation plan and will not approve the start of MRTU until after we receive the CAISO's readiness certification and have considered any stakeholder concerns about the CAISO's readiness. We direct the CAISO to file, at least 60 days prior to the effective date of MRTU Release 1, a statement certifying market readiness. As with other ISOs/RTOs, we do not find it necessary to direct the CAISO to make more than an informational filing. If the Commission believes that readiness concerns will prevent the implementation of just and reasonable markets, the Commission will respond accordingly.⁷

Notably, this is the same readiness process the Commission put in place for the launch of other LMP markets.⁸ In the spirit of the Commission's desire for a "sound and orderly MRTU implementation plan," the CAISO, in collaboration with stakeholders, has developed a total of 33 MRTU readiness criteria. These readiness criteria address the following general categories of readiness activities:

- Business Practice Manuals (BPM);
- Congestion Revenue Rights (CRR);

⁷ *California Independent System Operator Corp.*, 116 FERC ¶ 61,274, at PP 1414-15 (2006) ("September 21 Order").

⁸ The Commission's practice has been to rely on informational filings before the launch of LMP-based markets, rather than requiring formal Commission approval of readiness. For example, the Commission only required ISO-New England and the New England Power Pool to provide written notice to the Commission "that Market Rule 1 and its associated software are in place" two weeks in advance of the effective date of the New England LMP-based Standard Market Design. *New England Power Pool, et al.*, 100 FERC ¶ 61,287 at P 21, Ordering Paragraph E (2002). Of course, the Commission has the authority to act at any time under Section 206 of the FPA if it believes readiness concerns would prevent the implementation of just and reasonable markets.

- Enterprise Systems (ENT);
- External Control Areas (ECA);
- Grid Operations (GO);
- Infrastructure (INF);
- LMP Testing;
- LMP Production (LMP-PRD);
- Market Services (MKS);
- Market Systems (MS);
- Market Monitor Study (MM Study);
- Market Simulation (SIM);
- Model (MOD);
- Organizational Readiness (ORG);
- Participant Readiness (PRT);
- Regulatory (REG);
- State Estimator (SE);
- Settlements (STL);
- Technology (TECH);
- Testing (TST); and
- Business Approval-Business Area (BUS-BA).

The 33 readiness criteria, the specific tasks that must be completed or otherwise mitigated in order for the criteria to be met, and the status of completion of those tasks are shown in color-coded tabular format in a document called the MRTU Readiness Criteria Dashboard that is included in each Monthly Report to the Commission and will be addressed in detail in the Readiness Certification. In addition, with the Readiness Certification as the centerpiece, the CAISO has committed to the following readiness certification steps:

- Based on results and status of market simulations, CAISO management will recommend at the appropriate time that the CAISO Board of Governors approve the Readiness Certification;
- The CAISO Board will vote on whether to authorize filing the Readiness Certification for Fall MRTU implementation;
- The Readiness Certification will be filed with FERC;
- Market Participants will have the opportunity to file any comments;

- FERC will “respond accordingly” if it “believes that readiness concerns will prevent the implementation of just and reasonable markets”⁹,
- CAISO Board of Governors will meet to provide the CAISO and Market Participants a forum to affirm readiness for market launch; and
- CAISO makes a further informational filing updating the Commission on final readiness activities as a follow-up to the initial filing.

Moreover, the CAISO has made clear that the Readiness Certification will contain the following components:

- Overall Dashboard (People, Process, Technology);
- Status of Internal Readiness – CAISO Business Unit assessment, includes transition activities and status of Systems/Applications transferred from the MRTU Program to IT and/or Business Units and metrics;
- SAIC Software Certification - software systems accurately implement the MRTU Tariff and is traceable through business requirements and test cases;
- Completion of LECG report - on consistency of market software solutions with MRTU Tariff and LMP pricing methodology;
- Status of External Readiness – Feedback from Market Participant assessment;
- Status of Market Simulation and Market Simulation Exit Criteria – Update;
- Status of Readiness Criteria, including FERC requirements;
- Status of FERC filings and outstanding FERC orders;
- Statements by Key Officers certifying readiness (IT, Operations, Market Development);
- Remaining Activities and Milestones – Anticipated milestones include:
 - i. PricewaterhouseCoopers to provide an audit opinion stating that, in all material respects, the CAISO’s Settlements & Market Clearing (“SaMC”) software calculates quantities and prices in compliance with the MRTU Tariff;
 - ii. Status of Market Simulation Exit Criteria to be completed after the filing.

⁹ September 21 Order at PP 1414-15.

The Commission should not be left with the impression that the CAISO desires to start the MRTU market without any notice to Market Participants or the Commission. The thorough, transparent readiness process involving the CAISO staff, the CAISO Board, CAISO Market Participants, and the Commission is anchored by a Commission-ordered Readiness Certification and will provide ample opportunity for all interested parties to make the requisite determination of readiness and to file their own comments with the Commission concerning the CAISO's readiness or their own readiness. Moreover, at the MRTU Implementation Workshop and CAISO Governing Board meeting in December 2007, the CAISO set forth the process that would be followed and the content of the filing. To reassure Market Participants that the CAISO was not premature in making a readiness filing, the CAISO reaffirmed its process for the readiness certification at the May Board meeting and will be discussing the process again at the July Board meeting.

Procedural safeguards aside, NCPA's request for Commission intervention on MRTU readiness is premature. At the time of this Answer, the CAISO and its stakeholders remain deeply engaged in MRTU market simulations that will themselves determine when it is appropriate to start up the MRTU market. As discussed above, there are will be ample opportunities for Market Participants to air readiness concerns including the upcoming monthly MRTU Implementation Workshops, in July, August and September, and CAISO Governing Board meetings both in July and September.

D. The Monthly MRTU Status Reports Are Sufficiently Complete Summaries of the Status of MRTU.

As a vehicle for airing its differences regarding the market simulation process, NCPA criticizes the level of detail in several MRTU Status Reports provided to the Commission.¹⁰ The CAISO provides these reports to the Commission in compliance with Paragraphs 1414-1415 of the September 21 Order. The CAISO believes these Monthly Reports are thorough and balanced updates on readiness progress.

It is worth noting the sheer wealth of readiness and market simulation data that the CAISO makes available to all interested parties on a regular basis. In addition to the Status Reports filed with the Commission and the twice-weekly readiness briefings/debriefings with market participants, the CAISO has bi-weekly System Interface User Group calls to address any system issues and weekly SaMC User Group calls to address any settlements issues, and a monthly MRTU Implementation Workshop. In addition, the CAISO posts on its website:

- Daily Charge Code Status
- Daily Participation Reports
- Daily Market Simulation Issue Reports;
- Daily Market Simulation Status Reports;
- Market Simulation Real Time Data Exchange Reports;
- Weekly Market Simulation Issues Reports;
- Weekly Market Simulation Results; and,
- Weekly Market Simulation Report Cards.

Notwithstanding the constant flow of information about MRTU simulation and readiness, NCPA takes issue with each Status Report filed this year in order,

¹⁰ NCPA Comments at 4-14.

claiming a lack of full transparency plagues them all. Importantly, NCPA does not allege that the CAISO has denied *stakeholders* any sort of MRTU simulation or readiness data; rather, it implies that the CAISO is withholding data from the Commission. This claim does not withstand scrutiny.

The level of detail in the CAISO's monthly reports is significant and includes detailed metrics on the key MRTU parameters, including the readiness "dashboard" that reports progress on each of 33 Readiness Criteria. Also, the notion that the Commission has been presented a less than accurate picture of MRTU readiness is undermined by the highly transparent nature of the readiness process (almost all relevant materials are posted on the MRTU Readiness section of the CAISO website) and by the fact that members of the Commission's staff attend almost every MRTU stakeholder meeting and maintain an office on-site at the CAISO's headquarters. The CAISO does not take issue with NCPA's right to characterize the readiness process in a different manner than the CAISO has, but to imply that the reports somehow conceal the real status of MRTU readiness is simply contrary to the sheer transparency of the MRTU readiness process described above.

NCPA also claims the CAISO is refusing to accurately rank certain variances at the "critical" or "very high" levels in order to expedite market simulation.¹¹ This is inaccurate. First, the ranking of issues was established in April 2007 before the first simulation started.¹² Then, in response to concerns

¹¹ NCPA Comments at 19-21.

¹² See April 3, 2007 MRTU Program Update, available at <http://www.caiso.com/1bb5/1bb5790e486b0.pdf>.

raised by participants in the Fall of 2007 prior to Release 3 Market Simulation that a category needed to be developed between “Critical” and “High” that captured an issue that was critical to one participant but did not impact others, the CAISO added the “Very High” category.¹³ The ranking was established early and has been adhered to through all of the market simulations.

E. NCPA Has Unique Issues to which the CAISO is Paying Close Attention.

NCPA asserts that it has been unable to fully test the functionality needed to reflect its status as a load-following Metered Subsystem.¹⁴ NCPA’s desire for certain dispatch data to reflect its load-following MSS status is certainly legitimate and, as NCPA notes, the CAISO is working to address this issue. While this issue is important to NCPA, the CAISO notes that NCPA is the only load-following utility in the CAISO Control Area and thus the only entity with this concern. While that does not diminish the import of the issue for NCPA or for the CAISO, it would be incorrect to infer, as NCPA does, that this issue is somehow illustrative of a larger problem with the market simulation effort.

F. Technical Readiness Should be Demonstrated in Folsom.

NCPA requests that the Commission hold a technical conference at a “point closer in time to the actual implementation date, but far enough in advance that market participants and stakeholders may air any concerns with program readiness with sufficient time to address any outstanding problems.”

¹³ See September 11, 2007 MRTU Program Update, available at <http://www.aiso.com/1c55/1c5514f9d344c0.pdf>.

¹⁴ NCPA Comments at 26.

The CAISO has gone to great lengths to ensure that its MRTU preparations are fully transparent (both to stakeholders and the Commission) with more than adequate opportunities for market participants to voice any and all concerns. In addition to the readiness certification process described above, market participants engaged in the market simulations are provided those opportunities through twice-daily conference calls with the CAISO in addition to the countless public forums the CAISO already conducts and will continue to conduct on MRTU policy issues and readiness. Moreover, NCPA has the ability to bring anything to the attention of the CAISO Governing Board if there are concerns, as they meet on a regular basis and encourage market participant comments. Through the market simulation process it will be readily apparent to all whether the systems are ready for Go Live. Finally, at the MRTU Implementation Workshop scheduled for August 26, 2008, the CAISO will review the status of all readiness criteria, including market simulation exit criteria, with market participants and market participants will have a further opportunity to raise any concerns regarding the CAISO's or their own readiness with the CAISO Governing Board at its September 8-9 meeting.

With this in mind, the CAISO does not believe convening a Commission-sponsored technical conference would add any additional transparency concerning the CAISO's technical readiness for MRTU preparations. Indeed, it is unclear what such a conference would accomplish other than to provide an "opportunity for Market Participants to raise any outstanding issue[s]" with MRTU

readiness.¹⁵ NCPA has that opportunity now and will continue to have that opportunity throughout the MRTU preparation process and in response to the CAISO's readiness certification to be filed with FERC.

G. NCPA Mischaracterizes the Role of the PRAG.

NCPA asks the Commission to order the CAISO to permit NCPA to participate in the PRAG.¹⁶ NCPA mischaracterizes the Participant Readiness *Advisory* Group (PRAG) as the Participant Readiness Assessment Group. PRAG was created by the CAISO as an advisory group or sounding board to assist with MRTU communications with Market Participants. It does not serve as an assessment body; the CAISO has a separate readiness activity that interfaces with all Scheduling Coordinators, including NCPA. PRAG has no decision-making authority. The CAISO formed the group seeking constructive inputs and advice from a diverse set of Market Participants. It was not formed to "represent" every market sector, because it is not a decision-making body. Nevertheless, as NCPA acknowledges, NCPA member Silicon Valley Power is a member of the PRAG and is privy to its activities. The CAISO must maintain its ability to form topic-specific advisory groups to assist it with planning and communications.

The CAISO has no intent to limit any Market Participant's ability to raise questions or participate in the readiness process. The CAISO recognizes and supports NCPA's unique position in the state and has continually sought special

¹⁵ While the Commission is certainly empowered to convene a technical conference at its discretion, if NCPA objected to the lack of a technical conference as part of the MRTU readiness certification process, NCPA should have requested rehearing of the September 21 Order on that point. It did not.

¹⁶ NCPA Comments at 28-29.

solutions for specifics of their business. The ability to raise questions through forums, email communications, meetings, and the formal process for market simulation testing inquiries is unlimited. Further the CAISO has devoted significant staff, management, and executive attention to NCPA issues and business needs. Accordingly, the Commission should decline to order the CAISO to permit NCPA to participate in the PRAG.

II. CONCLUSION

The CAISO believes that NCPA's characterizations of the MRTU readiness process are inaccurate and that its request for Commission intervention is unnecessary and premature and should, therefore, be denied. The CAISO's process has been and will continue to be open and transparent with more than enough forums and platforms for NCPA to raise their concerns. The Commission has already established a process under which the CAISO will certify, and Market Participants can comment on, MRTU readiness. The CAISO looks forward to continuing to make progress toward MRTU Go-Live with NCPA and other Market Participants.

Respectfully,

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Dated: June 17, 2008

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service list in the captioned proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Washington, DC this 17th day of June, 2008.

/s/ Daniel Klein
Daniel Klein