

**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 MOTION TO REOPEN THE RECORD OF THE
CALIFORNIA DEPARTMENT OF WATER RESOURCES'
STATE WATER PROJECT**

Pursuant to Rule 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.213, the California Independent System Operator Corporation (“CAISO”) respectfully submits this Answer to the Motion to Reopen the Record of the California Department of Water Resources’ State Water Project (“SWP”).

I. INTRODUCTION AND SUMMARY OF ARGUMENT

On May 21, 2007, SWP filed a Motion to Reopen the Record (“Motion”) and a Request for Rehearing (“Rehearing Request”) in the above-identified docket, which concerns the CAISO’s Market Redesign and Technology Upgrade Tariff (“MRTU Tariff”). SWP asks that the record be reopened “in light of new facts and circumstances which have only recently become known.” It asserts that reopening the record is “necessary and appropriate due to changes in conditions of fact subsequent to the filing of requests for rehearing of the Commission’s order of September 21, 2006¹ and by the public interest.” Motion at 1. SWP also seeks rehearing of the Commission’s April 20, 2007, Order on Rehearing of the September 21 Order.² SWP’s Rehearing Request relies upon the allegations that are the subject of its Motion for an argument that “experience”

¹ *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274 (2006) (“September 21 Order.”)

² *Cal. Indep. Sys. Operator Corp.*, 119 FERC ¶ 61,076 (2007) (“Rehearing Order”).

disproves the Commission's basis for its previous orders. SWP's Motion and Rehearing Request relate to how the CAISO conducted the Local Capacity Area Resources³ study, which is used to establish Local Capacity Areas.

SWP's Motion is procedurally defective. As set forth in the accompanying Declaration of Catalin Micsa ("Micsa Declaration") attached as Exhibit A and as discussed in more detail below, SWP has not identified a new material fact that would permit the Commission to reopen the record. In addition, SWP's Motion is based on an improper request for rehearing—SWP's Rehearing Request seeks rehearing of an issue decided on rehearing.

Further, even if SWP's Motion were not procedurally defective, SWP's Motion would still be factually and legally flawed. The CAISO has authority to conduct reliability studies and the CAISO used established NERC, WECC, and CAISO reliability criteria to perform those studies. As discussed in more detail below and in the Micsa Declaration, SWP's recitation of events and circumstances is incomplete and, in important respects, erroneous. Although room for improvement exists, the CAISO developed the Local Capacity Areas using a process that included representatives from a broad cross section of stakeholders and the CAISO did not intend to exclude any stakeholder from the process, and did not deny any stakeholder the opportunity to participate in the process. Accordingly, there is no factual or legal basis to justify reopening of the record under Rule 716 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.716.⁴

³ Capitalized terms not otherwise defined have the meaning given them in Appendix A of the MRTU Tariff.

⁴ In order to fully address the immateriality of SWP's assertions and the absence of good cause, however, the CAISO must discuss them in the only context in which they would be used,

Although the CAISO vigorously opposes SWP's Motion, the CAISO nonetheless shares SWP's desire that the process for the evaluation of Local Capacity Area needs proceed in an effective, transparent manner with extensive stakeholder input. SWP's concerns are best addressed through direct communication with the CAISO or through ongoing Commission proceedings, including the CAISO's filing of the Local Capacity Reliability study criteria in a compliance filing to be made on August 3, 2007 and in Order 890⁵ compliance activities, including the CAISO's transmission planning stakeholder process, rather than by procedurally questionable efforts that appear to be intended to delay the underlying MRTU program, which the Commission has found necessary to ensure reliability. The CAISO is committed to working with stakeholders to develop an improved stakeholder process for conducting the Local Capacity Reliability area studies in the years to come.

II. BACKGROUND

The Resource Adequacy provisions included in Section 40 of the MRTU Tariff are intended to ensure that the CAISO, in order to maintain the reliability of the California electric grid and to serve customer needs, has the ability to serve Demand when and where it is needed. In developing the Resource Adequacy provisions, the CAISO recognized that resource or capacity obligations (*i.e.*, the rules and activities for

i.e., as support for SWP's Rehearing Request. This pleading therefore, of necessity, equally responds to the arguments raised in the Rehearing Request. The CAISO recognizes that the Commission may interpret any such discussion as an answer to the Rehearing Request, which is prohibited by Rules 213 and 713 of the Commission's Rules of Practice and Procedure. If the Commission so concludes, the CAISO asks that the Commission waive the prohibition because this filing provides information that will aid the Commission in resolving the issues presented. *See, e.g., PJM Interconnection, L.L.C.*, 117 FERC ¶ 61,263, at P 8 (2006); *California Independent System Operator Corp., et al.* 112 FERC ¶ 61,231, at P 16 (2005); *Islander East Pipeline Co., et al.* 102 FERC ¶ 61,054, at P 9 (2003).

⁵ As part of the Order 890 compliance process, for example, the CAISO is working on revisions to its Local Area Capacity needs process and schedule. *See* <http://www.caiso.com/1bda/1bdab40d5960.html>.

resource procurement) are matters best addressed at the state or local level. Section 40 of the MRTU Tariff therefore requires that Scheduling Coordinators for all Load-Serving Entities (“LSEs”) demonstrate that they meet standards concerning forward capacity and Energy procurement established by their Local Regulatory Authority, including the CPUC. The Local Regulatory Authority is responsible for setting the Reserve Margin – the level of resource sufficiency for entities within its jurisdiction.

The MRTU Tariff also recognizes that system reliability is not just a matter of overall resource sufficiency. Energy must be deliverable to loads under normal and emergency conditions. In order to ensure local reliability, the MRTU Tariff requires the CAISO to publish a study on an annual basis of the CAISO Controlled Grid to determine Local Capacity Area needs. The study applies established reliability criteria to identify the minimum quantity of capacity (“Local Capacity Area Resources”) required in transmission-constrained areas (“Local Capacity Areas”). *See* Section 40.3.1 of the MRTU Tariff. The CAISO expects that the quantity of capacity needed by each LSE to meet the CAISO’s Local Capacity Area needs will be coextensive with the procurement obligation imposed on the LSE by the CPUC or other Local Regulatory Authority. The CAISO also identifies Generating Units that are capable of meeting Local Capacity Area needs.

The CAISO allocates responsibility for meeting Local Capacity Area needs to all LSEs that serve Load in the Transmission Access Charge (“TAC”) Area in which the Local Capacity Area is located in accordance with the LSE’s proportionate share of Load within the TAC Area. *See* Section 40.3.2 of the MRTU Tariff. Each LSE must demonstrate to the CAISO whether its has adequate Local Capacity Area Resources, *i.e.*,

capacity from Generating Units, as specified by the CAISO in its study, and Participating Load, capable of meeting its share of the Local Capacity Area needs. *See* Section 40.2.2.4 of the MRTU Tariff. The responsibility can be met by procurement of the necessary megawatts of capacity in any Local Capacity Area in the TAC Area. *See* Section 40.3.2 of the MRTU Tariff. The MRTU Tariff *does not*, however, obligate any LSE to procure Local Capacity Area Resources. *See* Section 40.3.3 of the MRTU Tariff.

In the unlikely event that Resource Adequacy programs of the CPUC or other Local Regulatory Authorities fail to incorporate the outcome of the CAISO's study, or otherwise fail to permit the CAISO to meet its minimum Applicable Reliability Criteria, or where a Scheduling Coordinator fails to demonstrate sufficient capacity to satisfy its capacity obligation, the CAISO will procure capacity to meet the requirement and allocate the costs of the procurement to Scheduling Coordinators that fail to demonstrate procurement of their proportionate share of local capacity. *See* Sections 40.3.4 and 42.1.8 of the MRTU Tariff.

The Commission conditionally approved these provisions in the September 21

Order:

[T]he CAISO must play a greater role in setting *local* RA requirements because it is uniquely situated to assess capacity needs in constrained areas and load pockets. In this manner, the CAISO's role is similar to the role it plays today in assessing RMR requirements. The CAISO will perform an annual technical study to determine the minimum amount of capacity that must be available to the CAISO within each local capacity area. The CAISO will then work with Local Regulatory Authorities to set local capacity area requirements. While the CAISO has a larger role in setting *local* capacity area requirements than in setting *system* RA requirements, we find that the MRTU proposal, with certain modifications, strikes an appropriate balance between recognizing the authority of state and local entities to establish reliability assurance requirements and the CAISO's responsibility to maintain the reliable

operation of the transmission grid and administer wholesale markets that produce just and reasonable rates.

September 21 Order at P 1119. The Commission also addressed issues concerning the process for developing Local Capacity Area needs and obligations:

As an initial matter, we see merit in the CAISO's argument that a detailed description of the technical study to determine local capacity area resource requirements is not needed in the MRTU Tariff. We note that the technical evaluation to identify RMR units is not described in the CAISO tariff in detail and find that the CAISO should possess similar flexibility to evaluate local capacity requirements. We find that this evaluation must take place in the context of substantive stakeholder input. Accordingly, we direct the CAISO to clarify in a compliance filing that the detailed criteria and results from the technical study on local capacity area resources will be provided to market participants.

September 21 Order at P 1166. As part of its conditional approval, the Commission directed the CAISO to make compliance filings regarding the determination of Local Capacity Area obligations that would (1) clarify that the detailed criteria and results from the technical study on Local Capacity Area Resources will be provided to market participants; and (2) incorporate into the MRTU Tariff (i) the set of reliability criteria the CAISO will use in developing the Local Capacity Area needs, and (ii) a statement distinguishing the reliability needs addressed by the RMR technical study process from those addressed by the Local Capacity Area study process, so that it is clear which criteria are being addressed in each process.⁶ The CAISO sought and received extensions for making the Paragraph 1167 compliance filing to August 3, 2007.⁷ No party objected to the extension requests.

⁶ September 21 Order, Ordering Paragraphs 1166-67.

⁷ Notice of Extension of Time, Docket No. ER06-615, January 19, 2007.

In the Rehearing Order, the Commission further described the CAISO's obligations and the opportunities for Stakeholders to address the CAISO's compliance with those obligations:

In the September 2006 Order, the Commission required the CAISO to evaluate local capacity requirements in the context of substantive stakeholder input. Within this stakeholder process, each Local Regulatory Authority retains its ability to specify the desired quality of service for its customers, to the extent that this determination meets minimum reliability standards and does not affect the customers of other Local Regulatory Authorities. Based on such input, the CAISO will perform a technical study to determine local capacity requirements. As noted in the September 2006 Order, the CAISO already performs a similar function in assessing annual RMR requirements. Furthermore, as noted above, participants will have the opportunity to raise specific concerns they have with the process to the Commission when the CAISO submits its August 3, 2007 compliance filing. We therefore find that parties' concerns are unwarranted at this time and deny rehearing of this issue.

Rehearing Order at P 562 (footnotes omitted).

Relevant to this filing, in the September 21 Order, the Commission responded to arguments by SWP that it should be exempt from Resource Adequacy requirements. Noting that SWP is the CAISO's single largest transmission user, representing five percent of Load, it found that the State Water Project is an LSE and subject to the Resource Adequacy Requirements of the MRTU Tariff.⁸ SWP did not seek rehearing of that determination.

III. ARGUMENT

SWP's Motion asks the Commission to reopen the record pursuant to Rule 716. As discussed below, the Motion must fail because it is procedurally defective, factually erroneous and legally deficient. Equally important, SWP has failed to meet the high threshold for such an extraordinary request.

⁸ September 21 Order at P 1138. The Commission also found SWP to be its own Local Regulatory Authority and therefore capable of establishing its own planning Reserve Margin. *Id.*

Rule 716 permits the Commission to reopen the record for good cause when warranted by changes in condition of fact or of law or by the public interest. The Commission has consistently held:

To persuade the Commission to exercise its discretion to reopen the record, the requesting party must demonstrate the existence of ‘extraordinary circumstances.’ The party must demonstrate a change in circumstances that is more than just material - it must be a change that goes to the very heart of the case. This policy against reopening the record except in extraordinary circumstances is based on the need for finality in the administrative process.

CMS Midland, Inc., 56 FERC ¶ 61,177 at 61,624 (1991).⁹

As discussed below, when the omissions from SWP’s pleading are considered, it is apparent that SWP presents no material facts that would call into question the Commission’s previous decisions. Indeed, the foundations of SWP’s pleading are largely factual misunderstanding: the “Big Creek Corridor” that SWP cites as a “generation pocket” is a radial transmission corridor from the Big Creek Hydroelectric Units to the Magunden substation, a sub-area of the larger Big Creek-Ventura Local Capacity Area, which has off-peak reliability issues unrelated to the on-peak issues of serving Load in the Local Capacity Area; SWP also misunderstands the CAISO’s explanation of its derivation of the 420 MW of pump loads used in the study by allocating the load data derived by the California Energy Commission to buses in order to perform the analysis. As a result, neither SWP’s Motion nor its attempt to use the “new evidence” in its Rehearing Request meets that extraordinary burden of Rule 716.

⁹ See also, e.g., *Cal. Ind. Sys. Operator Corp., et al.*, 117 FERC ¶ 61348 at P 13 (2006); *East Tex. Elec. Coop., Inc. v. Central and South West Servs., Inc., et al.*, 94 FERC ¶ 61218 (2001); *Southern Co. Servs., Inc., et al.*, 43 FERC ¶ 61,003 at 61,024, *reh'g denied*, 43 FERC ¶ 61,394 (1988), *aff'd mem. sub nom. Gulf States Util. Co. v. FERC*, 886 F.2d 442 (D.C. Cir. 1989); *NE Hub Partners, L.P.*, 90 FERC ¶ 61,142 at 61,456 (2000); *Transwestern Pipeline Co.*, 32 FERC ¶ 61,009 (1985), *reh'g denied*, 36 FERC ¶ 61,175 at 61,453 (1986).

A. SWP’s Motion is Procedurally Defective.

Rule 716 allows the Commission to reopen the record in order to permit the taking of additional information. No purpose is served, however, unless the information is to be of use to the Commission in deciding the merits of a proceeding. SWP’s Motion asserts the existence of new facts and circumstances and seeks to reopen the record “so that the CAISO’s process, authority, and criteria for its Load [sic] Capacity Area designations can be fully examined in the light of these new revelations.” Motion at 3. SWP does not indicate, however, in what proceeding the Commission is to consider this evidence. The Commission has already issued its order on the MRTU Tariff and its order on rehearing. There is no pending decision-making process in which the evidence – even if relevant – could be considered. The only conceivable proceedings would be Commission consideration of SWP’s Rehearing Request or some new proceeding convened by the Commission. The former is not possible because SWP’s Rehearing Request is impermissible. The latter would not only render SWP’s Motion unnecessary, but would be a waste of resources in light of the CAISO’s upcoming compliance filing.

1. SWP’s Motion Cannot Support Its Rehearing Request Because Its Rehearing Request Is an Impermissible Request for Rehearing of a Rehearing Order.

SWP’s Rehearing Request includes two specifications of error and identifies two corresponding issues. The first specification of error is that the Commission’s “conclusion that Local Regulatory Authorities . . . will have input into the CAISO’s determination of local capacity requirements was error warranting reversal.” Rehearing Request at 5. That conclusion, however, was made in the September 21 Order.

September 21 Order at PP 1119, 1166. The Commission merely confirmed its earlier conclusion in the Rehearing Order.¹⁰ Rehearing Order at P 562.

SWP's Rehearing Request thus constitutes a request for rehearing of the rehearing order. Rule 713 does not permit a request for rehearing of a rehearing order, *El Paso Natural Gas Co.*, 35 FERC ¶ 61,022 at 61,035 n.6 (1986); *Tenn. Gas Pipeline Co.*, 34 FERC ¶ 61,177 at 61,296 n.6 (1986),¹¹ and even the occurrence of new events is inadequate to justify rehearing of a rehearing order. In *San Diego Gas & Elec. Co., et al.*, 99 FERC ¶ 61,160 at 61,649 (2002), for example, Generators asked for rehearing of gas cost issues, the CAISO's pre-must offer dispatch penalty, and must offer compensation costs based on subsequent CPUC and Executive Orders *and on the CAISO's implementation* of the dispatch penalties. The Commission rejected the requests as a request for rehearing of a rehearing order, noting:

[The subsequent events do not] provide grounds for revisiting these issues during these times of evolving markets and regulatory changes. Rather, the proper avenue of recourse is for Dynegy to file a complaint. To rule otherwise would delay these proceedings from reaching finality.

See also Cal. Indep. Sys. Operator. Corp., 118 FERC ¶61,061 at P 7 ("The Commission does not allow rehearing of an order denying rehearing. . . . And, as the U.S. Court of

¹⁰ SWP's assertion that the Commission "relied on" the CAISO's statement that it is engaged in a process with representative stakeholders, Rehearing Request at 9, does not change the fact that the Commission merely confirmed its previous conclusion. First, the order merely "noted" the CAISO's statement, and made no indication that it was relying upon the statement as the basis for its order. Second, even if the Commission considered the CAISO's statement additional evidence, it does not transform the Commission's affirmation of its previous decision into a new determination. *See Fla. Power Corp.*, 66 FERC ¶ 61,200 at 61,453 n.5 (1994) ("When the Commission provides . . . a further explanation in a rehearing order, without changing the result, this does not constitute a good reason to allow a party a second request for rehearing.")

¹¹ *Cf. Tenn Gas Pipeline Co. v. FERC*, 871 F.2d 1099, 1110 n.18 (D.C. Cir 1989) (if a party does not raise an argument that it could have raised in its first petition for review of a Commission action, it cannot preserve that argument for judicial review simply by filing a second petition for rehearing from a subsequent Commission order which implicates the same action).

Appeals for the District of Columbia Circuit has put it, even “an improved rationale” would not justify a further request for rehearing.”)

SWP’s second Specification of Error and Statement of Issue are not entirely clear, apparently because of some omitted words. Based on its arguments, SWP’s contention appears to be that its new information undermines the Commission’s conclusion that the CAISO will respect jurisdictional limits through deference to Local Regulatory Authorities. Again, the Commission’s rulings regarding deference and jurisdiction in the Rehearing Order merely confirm the conclusions of the September 21 Order. (*Compare* September 21 Order at PP 1119, 1162 *with* Rehearing Order at 562.) Thus, on this issue, SWP again impermissibly seeks rehearing of a rehearing order.

As a result, because SWP’s Motion cannot serve to provide new evidence for a legitimate Rehearing Request, the information it presents is immaterial and presents no extraordinary new circumstances in that regard. Moreover, even if the Commission were to consider SWP’s request to be a “Motion for Reconsideration,” SWP’s pleading would be, as discussed below, without foundation.

2. SWP’s Motion Cannot Support A New Proceeding Because There Is No Cause for a New Proceeding Regarding the CAISO’s Local Capacity Area Needs Process.

If SWP intends that the Commission commence a new subdocket or a new proceeding to consider its allegations, then it needs to request the Commission to do so. It has not. If the Commission nonetheless did so, there would be a new record and the Motion would be unnecessary. More importantly, however, SWP already has a forum available in which to address any concerns regarding the CAISO’s process of developing the 2008 Local Capacity Area needs. On August 3, 2007, the CAISO will make its compliance filing including the detailed criteria and results from the technical study on

Local Capacity Area needs to Market Participants and the reliability criteria the CAISO will use in developing the Local Capacity Resource requirements. The Commission has already stated that participants will have the opportunity to raise specific concerns they have with the process to the Commission when the CAISO submits its August 3, 2007, compliance filing. Rehearing Order at P 562. To the extent that SWP is trying to influence consideration of the August 3, 2007, compliance filing even before it is submitted, the attempt should be rejected. SWP will be free to present any new evidence that it believes is relevant to the CAISO's process in comments on the compliance filing. As a result, SWP cannot demonstrate good cause to reopen the record.

B. The CAISO Is Conducting an Appropriate Stakeholder Process for Consultation in the Development of 2008 Local Area Capacity Needs.

SWP asserts that the information that is the subject of the Motion shows that the CAISO has failed to implement the Commission's stakeholder process for consultation that the Commission expected for development of 2008 Local Area Capacity needs. Motion at 4; Rehearing Request at 10. Even if that were true, the issue would be one of the CAISO's compliance with the MRTU Tariff, not of whether the Commission's approval of the tariff provisions were erroneous. In reality, however, the actual facts demonstrate that the CAISO has been fully compliant.

1. SWP's Lack on of Knowledge Regarding the 2008 Process for the Determination of Local Capacity Area needs Does Not Provide a Basis for Questioning the Opportunity for Local Regulatory Authorities to Provide Input.

Relying on its recitation of its own experience with the process for the development of the 2008 Local Area Capability requirements, SWP challenges the Commission's conclusion that Local Regulatory Authorities will have input into the determination of Local Capacity Area needs. SWP particular focus is on the designation

of the Big-Creek-Ventura Local Capacity Area. SWP's explication of the process, however, is both incomplete and factually flawed. The actual events do not support SWP's contentions.

a. SWP Had Timely Access to the Necessary Data Regarding the Identification of a Big Creek Ventura Local Capacity Area.

SWP complains that it first became aware of the Big Creek-Ventura Local Capacity Area during the March 21, 2007, stakeholder meeting discussing the CAISO's "2008 Local Capacity Technical Analysis and Study Results" ("2008 Technical Analysis"),¹² which was posted on the CAISO's website on March 9, 2007. It asserts that "[b]y then, CAISO's determinations had already been made." Motion at 5; Rehearing Request at 12. In fact, CAISO determinations had not been made, and are still being finalized. The process is ongoing. Exhibit A at ¶ 19.

Moreover, if SWP indeed first became aware of the Big Creek-Ventura Local Capacity Area at the March 21, 2007, stakeholder meeting, then the fault lies with SWP, not with the CAISO. The information that led to the identification of the Big Creek-Ventura Capacity Area in the 2008 Analysis was made available to Market Participants on at least four separate occasions, as early as mid-summer 2006.

In August 2006, an SCE Transmission Plan identified the Big Creek-Ventura Local Capacity Area. SCE hosted a stakeholder conference to discuss the plan on August 31, 2006. The presentation at the stakeholder conference identified the area and the relevant contingencies. Exhibit A at ¶ 22.

¹² <http://www.caiso.com/1b9c/1b9cd9a225830.pdf>

The CAISO next described the Big Creek/Ventura Local Capacity Area in the CAISO's 2009-2011 Long-Term Local Capacity Area needs technical analysis study¹³ dated October 31, 2006 and placed on the CAISO Website on December 26, 2006. The study identified the same critical contingencies as the SCE plan, and a Local Capacity Requirement of 3,480 MW in 2009 and 3,795 MW in 2011 (which includes 1,137 MW of QF generation). These are the exact same parameters as were identified in the 2008 Local Area Requirement Study. Exhibit A at ¶ 22.

As SWP acknowledges, the CAISO also described the Big Creek-Ventura Local Capacity Area in its 2007 Transmission Plan,¹⁴ posted on January 25, 2007. Rehearing Request at 16. The Draft Technical Analysis Report itself was posted on March 9, 2007. Exhibit A at ¶ 21. Thus, information about the Big Creek-Ventura Local Capacity Area was not only provided to Market Participants by SCE, but it was also publicly available to SWP on the CAISO website well before the March 21 Stakeholder meeting.

b. The CAISO Made Reasonable Efforts to Answer SWP's Questions Regarding the Big Creek-Ventura Local Capacity Area.

SWP also contends that the CAISO failed to respond adequately to SWP's attempts to obtain additional information regarding the Big Creek-Ventura Local Capacity Area. In particular, SWP asserts that the CAISO has used questionable data regarding its pump Loads and that it has received conflicting information regarding the source of the Load data. Motion at 5, 11-14; Rehearing Request at 12, Cronin Aff. at ¶¶ 9-10, 15. The source of the Load data, however, is relatively straightforward, and Mr. Micsa made efforts to explain that to SWP.

¹³ <http://www.caiso.com/18d8/18d8ce1118390.pdf>

¹⁴ <http://www.caiso.com/1b6b/1b6bb4d51db0.pdf>

According to Mr. Micsa, he explained to SWP at the March 21, 2007 stakeholder meeting that the CAISO used the California Energy Commission's ('CEC's') Load forecast data, but needed to distribute the Load according to bus-bars in order to perform its studies. He further explained to SWP that the difference between CEC estimate of a 506 MW pump Load and 420 MW Load used by the CAISO,¹⁵ with which SWP was concerned, Cronin Affidavit at ¶ 10, reflected the fact that certain bus-bars were not located in the Big Creek-Ventura Local Capacity Area. SWP could also have derived this information on its own; it was available in both the draft and final versions of the 2008 Local Area Requirements Study: "The [CEC] derives the Load forecast at the system as well as PTO levels. This relevant CEC forecast is then distributed across the entire system, down to the local area, division and substation level." Exhibit A at ¶ 35. SWP has not requested that the CAISO provide any additional information as to the specifics of its disaggregation of the base CEC data, although as Mr. Micsa states, the CAISO would certainly review its assumptions with them. With respect to their derivation of the base data itself – the 506 MW pump Load – Mr. Micsa directed SPW to the CEC.¹⁶

The CAISO notes that use of the CEC data was recently endorsed by the Commission. As recognized in the Rehearing Order,

coincident peak demand determinations should be made by one entity and that the California Energy Commission is best situated to provide this service, both for CPUC and non-CPUC jurisdictional LSEs. Accordingly, all non-CPUC LSE peak demand forecast data should come from the

¹⁵ The actual figure used by the CAISO is 443 MW. The 420 MW figure was a typographical error that will be corrected.

¹⁶ SWP has also raised issues concerning the discrepancy between its pump Load capacity data and that used by the CEC. The CAISO understands that the 506 MW may not include the full nameplate capacity of the CDWR pumps in the area, but that the CEC may have made applied certain analyses to derive the final amount. Exhibit A at ¶ 35.

California Energy Commission. Alternatively, if the California Energy Commission is somehow not able to provide this service, we direct the CAISO to serve and to file amended tariff sheets, in conjunction with the compliance filings it will make on or before August 3, 2007, to implement such change as the provider of demand forecast information for such non-CPUC LSEs.¹⁷

SWP states that it subsequently emailed the CAISO seeking additional information regarding the derivation of the pump Load, but that the CAISO provided nonresponsive or useless answers. Rehearing Request at 14, Cronin Affidavit at 15-18. As Mr. Micsa explains, the CAISO's answers were, to the contrary, directly responsive. Exhibit A at ¶¶ 38-39. To the extent that SWP did not understand the relevance, the issue concerns a need for better communications, not a lack of responsiveness of the CAISO to SWP's inquiries.

SWP also complains that the CAISO has not responded to a telephone request, followed by an onslaught of emails and data requests, asking for all of the CAISO's Operating Procedures that may affect SWP's pumps. Motion at 13-14; Rehearing Request at 24-26, Cronin Aff. at ¶¶ 18-19. SWP contends this is necessary because the CAISO has changed its position regarding the consideration of pump Load in assessing reliability needs for some or all contingencies. *See* Motion at 13-14. Of the twelve procedures requested by SWP, five are publicly available on the CAISO's website (although some attachments are confidential). Although, as the CAISO informed SWP, the others are confidential for security, proprietary, or market sensitivity reasons, the vast majority of the operating procedures requested by SWP have no relevance to the Big Creek-Ventura Local Capacity Area, and therefore no relevance to SWP's motion. This is apparent from the titles included in Ms. Cronin's Affidavit. Cronin Aff. at ¶¶ 18-19.

¹⁷ Rehearing Order at P 638.

For example, Procedure T-133 addresses Bay Area Transmission Management, a Northern California issue, while Big Creek-Ventura is in Southern California. M-432 addresses Must-Offer Waivers and T-113 addresses Scheduled and Forced Outages, neither of which are related to the determination of Local Capacity Areas. *See also* Exhibit A at ¶ 42.

Further, there is little justification for this fishing expedition. There is nothing inconsistent with the CAISO's consideration of SWP pump Load in the Big Creek-Ventura area and any CAISO's previous statements regarding its consideration of pump Load. The CAISO has never stated that it disregards pump Load in the assessment of reliability needs for all contingencies, and SWP can point to no such statement. The CAISO considers all relevant firm Load. The only discussion regarding an actual operating procedure that SWP quotes states the obvious: that the CAISO does not consider the SWP pump Load in determining South of Lugo generation requirements because that pump Load has no effect on the South of Lugo generation requirements, *i.e.*, it is irrelevant to the determination of the requirements. *See Cronin Aff.* at 7, n.2.¹⁸ SWP's other citation, to its own witness in the Amendment No. 60 proceeding, *id.*, is even less persuasive. His testimony merely identifies contingencies in which reducing pump Load would be ineffective in resolving the contingency, *i.e.*, for which he asserts pump Load has no causal effect. *See Ex. SWP-1* in Docket No. ER04-835 at 24-25, 28-29, 33-34 (submitted July 11, 2005). In contrast, the SWP pump Load at issue here is located within the Big Creek-Ventura Local Capacity Area. Unless SWP designates it as an available capacity from a Local Capacity Area Resource, it is *firm Load* that must

¹⁸ Although the Motion refers to this quotation as sworn testimony before the Commission, Motion at 14, it is actually a data response regarding Operating Procedure G-217.

continue to be served in the event of a contingency – neither the CAISO nor SCE have the authority to interrupt SWP’s pump Load in the SCE area except on a par with other Load. Motion, Ex. B at identified page 38 of 39. To the extent that SWP is trying to argue that its pump Loads are interruptible under CAISO procedures, the Commission has already rejected that argument. *Cal. Indep. Sys. Operator. Corp.*, 117 FERC 61,348 at PP 70-72 (2006). In contrast to the South of Lugo contingencies or the contingencies addressed by SWP’s witness, the SWP pump Load *does* affect the assessment of reliability needs in the event of the critical contingencies in the Big Creek-Lugo area.

SWP’s request for CAISO Operating Procedures has no relevance to the determination of Big Creek-Ventura Local Capacity Area needs or to those of any other Local Capacity Area. SWP had no basis to assert that the CAISO’s tardiness in responding to requests for the universe of operating procedures that might affect SWP Load reflects any lack of transparency in the development of Local Area Reliability requirements.

c. SWP Has Had Ample Opportunity to Participate in the Process to Develop Local Capacity Area Needs.

SWP also asserts no direct knowledge of activities in which the CAISO engaged in a process with representative stakeholders to reassess the reliability criteria and assumptions that will drive Local Capacity Area requirements. Motion at 8; Rehearing Request at 14. Again, as Mr. Micsa demonstrates, the CAISO has engaged in just such a process. If SWP did not participate in the process, the fault is its own.

Mr. Micsa explains that, because of time constraints, the CAISO has proceeded on parallel tracks to develop the August 2007 compliance filing and to develop with stakeholder input the 2008 Local Capacity Area needs study that would be utilized to

support the 2008 Local Capacity Resource responsibilities. With regard to the former, the CAISO believed it advisable to proceed initially with a smaller, but nonetheless representative, group of stakeholders. The CAISO felt that such a group would facilitate the discussions and ensure that participants were technically qualified. The CAISO therefore formed the Locational Study Advisory Group (“LSAG”) in fall 2006. The group included representatives of the CPUC, CEC, Energy Service Providers, generators, municipal utilities, and the investor-owned utilities. Exhibit A at ¶¶ 9-11.

SWP apparently had no problem with the selection of representatives for the LSAG. SWP asserts that it “had no reason [to] seek participation” in the LSAG because it understood that the Local Capacity Area designations would not affect its large southern pumps. Cronin Aff. at ¶ 6. SWP does not explain the basis for such an assumption, but it does refer to the 2007 identifications of Local Capacity Areas in the CAISO’s Draft 2006 Transmission Plan posted in December, *id.*, suggesting that it was relying on the previous absence of Local Capacity Areas that included its pumps. If so, such reliance was not well-founded. The charter of the LSAG was clear that the group was to “evaluate, assist in any recommended refinement of, and comment on the study assumptions, processes and criteria to be used by the CAISO in the 2008 Local Capacity Requirements (“LCR”) study.”¹⁹ It is not reasonable to assume that, under such circumstances, nothing would change. LSAG met several times to review the assumptions and criteria associated with the 2007 LCR study *and consider revisions* for the 2008 LCR study. Exhibit A at ¶ 12. SWP cannot be heard to complain that the CAISO evaluated the parameters for 2008 study without its input when it chose not to

¹⁹ <http://www.caiso.com/18a3/18a3d74233820.pdf> at unnumbered 6 (emphasis added).

seek participation in the Stakeholder group providing the input based on the blithe assumption that the 2008 study would produce the same results as had previous studies.

Moreover, SWP's nonparticipation in the LSAG did not preclude its participation in the preparation of the 2008 study itself. The work of the LSAG was fully transparent. On November 3, 2006, the CAISO published the "CAISO LCR Study Advisory Group Memorandum" on its website.²⁰ The memorandum identified the group's composition and charter, provided information on the 2007 Local Area Capacity study, and attached applicable regulatory criteria. The CAISO also posted on its website the notes from the LSAG meetings and a summary of major issues. Exhibit A at ¶ 13. The summary specifically described the limited role of the LSAG: "[t]he LSAG is intended to resolve, or at least narrow the scope of disagreements regarding, technical issues related to the conduct of LCR studies for the benefit of all stakeholders and other decision-makers (such as CAISO management and the CPUC). The LSAG is not intended to resolve broader policy issues. CAISO has scheduled a stakeholder meeting."

SWP had an opportunity to participate in the 2008 study, including review of the LSAG work, when the CAISO met with stakeholders with regard to the 2008 Local Capacity Resource obligations at the December 2006 general stakeholder meeting. The CAISO discussed the outcome of the LSAG meetings with respect to the proposed assumptions and basis of the 2008 Study. The CAISO informed Stakeholders that the study used the transmission system configuration based on all transmission and generation projects expected to be in service by June 1, 2008. The CAISO also stated that the CEC forecast, based on a 1 in 10 local area peak, would be used for the study (the 2006 forecast with CEC's 2005 escalation factor). The CAISO stated the LSAG was a

²⁰ <http://www.caiso.com/18a3/18a3d74233820.pdf>

“sounding board” to advise the CAISO on technical issues and that the LSAG “does not supplant stakeholder review of the LSAG’s findings and/or recommendations of the final LCR study assumptions, criteria and methodology.” The CAISO sought Stakeholder input and provided the schedule for finalization of the 2008 study. The December meeting provided a forum for Stakeholders to review the data inputs into the study to be produced in March. Following the meeting, the CAISO issued a market notice confirming its request for comments on the proposed study format to be provided by December 11, 2006. Exhibit A at ¶¶ 14-16.

SWP thus passed up opportunities to participate in the development of the 2008 study prior to the March Stakeholder meeting. Nonetheless, SWP asserts that these events “undermine[] the Commission’s observation that ‘the CAISO proposes to develop a program in collaboration with the State Water Project that achieves the fundamental objective of RA while recognizing the State Water Project’s unique circumstances.’” Rehearing Request at 16-17, citing September 21 Order at P 1121. SWP neglects to note the CAISO’s proposal was made in the context of exempting SWP from Resource Adequacy requirements and that the Commission *rejected* the CAISO’s proposal to develop a special program for SWP in lieu of such requirements and directed that the language providing for the development of such a program be deleted from the MRTU Tariff. September 21 Order at PP 1138-39.

While the Commission also recognized the CAISO’s continued commitment to working with SWP “to develop a comparable [Resource Adequacy] program based on its water management, pumping Load requirements and supply bidding arrangements,” *id.* at P 1141, the CAISO is not even at that stage yet. The determination of Local Capacity

Areas and Local Capacity Resource obligations must precede the development of programs to meet those obligations. As Mr. Micsa notes, it remains the intention of the CAISO to work with SWP in finalizing how Local Capacity Area needs will be met. Exhibit A at ¶ 39. Nothing in the history that SWP cites contradicts that intention and ability.

d. SWP’s Uncertainty Whether the Big Creek-Ventura Local Capacity Area Is a Load Pocket Has No Basis and Is Irrelevant.

SWP devotes significant attention to an argument that the only information available shows that the Big Creek-Ventura area is a “generation pocket,” not a Local Capacity Area. Motion at 8-10; Rehearing Request at 17-21. SWP asserts that “[i]f the Big Creek corridor is in fact a generation pocket, the CAISO’s treatment of it as a Local Capacity Area raises question about the Order’s factual assumptions in approving [Locational Marginal Pricing].” Rehearing Request at 17; see also Motion at 11, Rehearing Request at 22. To the contrary, if SWP were correct about the Big-Creek-Ventura Local Capacity Area it would raise questions about the CAISO’s study; it has no bearing on the Commission’s orders.

Nonetheless, SWP is wrong both about Big Creek-Ventura being a generation pocket and about the lack of information demonstrating that it is a Load pocket. The same 2008 Technical Analysis that SWP cites as identifying the Big Creek-Ventura Local Capacity Area provides the demonstration that the area is a Load pocket.²¹ The study states that the total 2008 busload within the area is 4,435 MW with 156 MW of losses

²¹ SWP asserts that the CAISO informally informed it that the evaluation of the Big Creek-Ventura area was undertaken in terms of imports and generation, and involved no Load calculations. As noted in the declaration of Mr. Micsa, SWP must have misunderstood CAISO personnel or was misinformed. Exhibit A at ¶ 21. As discussed here, on its face the 2008 Technical Analysis relies upon Load data.

and 420MW of pumps, for a total Load of 4,911 MW. It identifies the most critical contingency as the loss of the Lugo-Victorville 500 kV followed by Sylmar-Pardee #1 or #2 230 kV line, which could thermally overload the remaining Sylmar-Pardee #1 or #2 230 kV line. According to the report, this limiting contingency establishes a Local Capacity Need of 3658 MW in 2008 as *the minimum generation capacity necessary for reliable Load serving capability* within this area. 2008 Technical Analysis at 73. This same information was available in the earlier reports regarding the Big Creek-Ventura Local Capacity Area that are discussed above.

Instead of relying on the readily available data in the recent reports, SWP relies upon a 2004 SCE Transmission Expansion Plan's discussion of the Big Creek and San Joaquin System (the "Big Creek Corridor"), which indeed is not a Load pocket; rather, as described by the SCE Plan, the Big Creek Corridor is a radial generation feed into Southern California. The Big Creek Corridor is not coextensive with the Big Creek-Ventura Local Capacity Area; it is a subpart of the Local Capacity Area. The Big Creek Corridor includes seven market hydroelectric plants, one market generator (with another planned), 76 MW of SWP generation, and wind QF generation for a total of 2055 MWs (2805 MWs with the planned addition.) The energy from the hydroelectric plans is carried on four 230 kV lines running south from the plants to Magunden. The total forecast coincident peak Load in the area was 1706 MW for 2008. The local Load is located only at Antelope, Bailey, Rector, Springville, and Vestal. Motion, Exh. B at identified page 5 of 39. The Load also included a contractual wheel-through commitment of 757 MW for SWP's Edmunston plant which, at the time, was considered interruptible through contractual commitments between SCE and SWP. *Id.*

In contrast, the Big-Creek-Ventura area is bounded by the Antelope, Pardee, and Santa Clara substations, and thus includes many Loads outside of the Big Creek Corridor. 2008 Technical Analysis at 70-71. As discussed above, the Big Creek-Ventura area has a total Load of 4911 MW, more than twice that served by the Big Creek Corridor. *Id.* at 71. It contains 5396 MW of qualified capacity. *Id.* at 73. Further, the potential contingencies that would affect the Big Creek Corridor and are discussed in the SCE 2004 Report are primarily *off-peak* concerns. Motion, Exh. B at identified page 8 of 39. The problems that arise in the Big Creek-Ventura Local Capacity Area involve the delivery of Energy to serve *on-peak* Load.

In other words, rather than referring to the publicly available data included in the CAISO's studies regarding Local Capacity Areas, SWP relies on a three-year-old study of a different area. The 2004 SCE study on which it relies actually refers to the system by which Big Creek generation, one of the Local Area Resources for the Big Creek-Ventura Local Capacity area, is transmitted within the Load pocket, not to the adequacy of generation to serve the Load pocket.

More fundamentally, even if the Big Creek-Ventura area were a "generation pocket," that would not preclude its being a Load pocket. It is certainly possible that in the same area contingencies might exist that could interfere with the transmission of Energy out of the area (especially in the off-peak conditions) and contingencies might also exist that would interfere with the transmission of Energy into the area (especially in the on-peak conditions). The CAISO addresses the latter issues with Congestion Management and curtailment of Generation, without endangering service to Load; the Load outside the area can be served with Generation outside the area. Under the latter

contingencies, however, the CAISO cannot ensure that Load *within* the area can be served through Congestion Management. The CAISO must have access to Generation *within* the area to meet that need. That is the entire purpose of the establishment of Local Capacity Areas: to ensure that such Generation is available to the CAISO within the area.

SWP's assertions regarding the nature of the Big Creek-Ventura Local Capacity Area are thus both inaccurate and irrelevant. The Commission should disregard them entirely.

2. SWP Exaggerates the Consequences of Uncertainty Regarding the Designation of Local Capacity Area Needs.

SWP contends that the identification of the Big Creek-Ventura Local Capacity Area will have "immediate, severe and apparently unwarranted" impacts on its operations. Rehearing Request at 23. First, it asserts that, at a time when it is challenged to make essential water deliveries, it is hampered by the inability to determine whether its pumps would be used to increase or decrease Demand if used as a Local Area Resource in the Local Capacity Area. Rehearing Request at 24. Second, it argues that the lack of currently effective tariff provisions exposes it to enormous uncertainties and potential costs. The former concern is unwarranted, and the latter is overstated. Rehearing Request at 26.

a. SWP Faces No Uncertainty Regarding The Use of Its Pumps as Local Area Resources.

SWP's assertion that it cannot determine whether its pumps would be needed to increase or decrease Demand is based entirely on its erroneous analysis of whether the Big Creek-Ventura Local Capacity Area is a Load pocket or a generation pocket. As discussed above, the documentation patently establishes the area is a Load pocket. As

SWP recognizes, that means that its pumps – if designated as Local Area Resource – could be asked to reduce Demand in the event of a contingency. SWP is already quite familiar with the logistics involved in such a use of its pumps, inasmuch as it has participated in CAISO markets and Demand response programs as a Participating Load and, until 2005, its pumps were interruptible under contractual arrangements with SCE.

b. SWP Overstates the Impact of “Tariff Uncertainty.”

SWP contends that it faces “enormous” uncertainties because the MRTU Tariff provisions regarding Resource Adequacy are not yet effective and could be changed in the August compliance filing. It states, “Based on the amount of its pump Load in the area, SWP could be responsible for acquiring as much as 1,100 MW within the Big Creek-Ventura Area to demonstrate satisfaction of its local Resource Adequacy requirements,” and estimates the cost at up to \$8.8 million. Rehearing Request at 27.

There is, of course, nothing unusual about tariff provisions that take effect at a future date, and, inasmuch as the CAISO’s actions to determine Local Capacity Area obligations do not as yet impose any obligations on customers, there is no legal obstacle to the CAISO taking the necessary action such that obligations will be known when the MRTU Tariff takes effect. Indeed, the MRTU Tariff will impose a wide variety of changes in the costs and obligations of customers. Resource Adequacy provisions are far from unique in that regard. The entire purpose of a delayed effective date is to allow preparation for the transition to the new provision, which is exactly what is occurring.

While the MRTU Tariff is not in effect, it has been approved, so there is no uncertainty regarding its provisions. The MRTU Tariff includes specific provisions for the allocation of Local Capacity Area needs and costs to non-CPUC jurisdictional Scheduling Coordinators. The CAISO is proceeding with the identification of Local

Capacity Area needs and the allocation of obligations in accordance with the Commission-approved tariff provisions. SWP is suffering from no more uncertainty than any other Scheduling Coordinator representing an LSE. While the CAISO is sympathetic to SWP's desire for earlier and greater certainty, the tariff process reflects an approved balance between the need for certainty and the need for time to ensure appropriate reliability criteria and requirements to meet those criteria.

Even before the CAISO completes its work, SWP can estimate its obligations from the tariff provisions and the available documentation. Such a review of the tariff provisions would reveal to SWP not only that it does not have to procure any capacity, but also that, if it chooses to do so, it does not need to fulfill Local Area Capacity Resource obligations from capacity within the Big-Creek Ventura Local Capacity Area. Rather, it can fulfill its megawatt responsibility from any Local Capacity Area in the TAC Area as well as by use of its pumps. Alternatively, SWP can decline to arrange for capacity to meet its allocated obligations and instead accept cost responsibility for the CAISO's assurance of local reliability.

C. Granting SWP's Motion Would Provide No Material Information Regarding Jurisdictional Issues.

SWP contends that the new evidence it asks the Commission to receive demonstrates that the Commission erred in concluding that jurisdictional limits will be respected through deference to Local Regulatory Authorities. Rehearing Request at 28. SWP relies upon its proffer of evidence that the CAISO has discussed above. As the CAISO has demonstrated, that evidence is incomplete and, in part, erroneous. No such conclusion can be drawn from the CAISO's actual process of developing Local Capacity Area needs.

SWP first asserts:

SWP is apparently at the mercy of unknown and at this point unknowable CAISO dictates concerning localized power purchases—which have no basis in currently-effective tariff provisions and no mechanism for prior FERC approval to ensure just and reasonable outcomes. . . . [T]he Order grants the CAISO arbitrary authority to dictate power purchases, apparently in a generation pocket.

[E]ven if there were a voluntarily-entered contract with respect to Resource Adequacy requirements in the MRTU Tariff, as the Order asserts (at P 556), no such contract currently exists with respect to designations of and allocation of responsibility for Local Capacity Areas for calendar year 2008. No currently-effective tariff provisions are in place with respect to 2008 Local Capacity Areas, and the MRTU tariff is supposed to be changed through the August 3 filing.

Rehearing Request at 30-31.

SWP's following discussion of how the process impedes its jurisdiction authority relies largely on the same mistaken facts that the CAISO has above: that the CAISO has failed to provide information about the Big Creek-Ventura Local Capacity Area, that SWP does not have information to determine its obligations; that the Big Creek-Ventura Local Capacity Area is a generation pocket; and that Local Area Capacity Resource obligations must be fulfilled by power purchases within the Local Capacity Area. Such erroneous information cannot support SWP's argument. Equally important, however, is that the entire premise of SWP's argument is wrong.

First, the MRTU Tariff dictates no power purchases. Indeed, Section 40.3.3 of the MRTU Tariff expressly disavows any such requirement. Rather, the MRTU authorizes the CAISO to determine Local Capacity Area needs, to purchase capacity to meet those requirements, and to allocate the cost to Scheduling Coordinators. It also provides the procedures for how Scheduling Coordinators can avoid the costs by “self-supplying” capacity – in any Local Capacity Area in the TAC Area – to meet Local

Capacity Area needs. This is no different than allocating the costs of Ancillary Services to Scheduling Coordinators while allowing them to self-supply Ancillary Services.

Second, there are *no* obligations imposed on Scheduling Coordinators at this time. Those obligations will occur when the MRTU Tariff goes into effect. The current CAISO process simply serves to determine what those obligations will be. The situation is no different than that which existed before the current ISO Tariff took effect on April 1, 1998. The CAISO and Market Participants are taking the actions necessary so that the Tariff can be implemented on its effective date.

Finally, SWP also asserts that the CAISO has attempted to impose CPUC requirements on SWP. Rehearing Request at 28. SWP's only support is an alleged statement by CAISO personnel that SWP should consult with the CPUC regarding the answers to some questions it asked – questions that did not involve SWP's obligations, but rather how certain Load calculations were made. Cronin Affidavit at P 16-17. Inasmuch as the CPUC will determine the allocation of Local Capacity Area requirements to CPUC-jurisdictional entities, it is not surprising that the CAISO is cooperating with the CPUC in evaluating Local Capacity Area needs. Indeed, as Mr. Micsa explains, many municipals recognize the importance of the CPUC's review of the CAISO Local Area Requirements Study. CMUA itself has noted that "while CMUA's members are not CPUC-jurisdictional for the purposes of establishing Resource Adequacy or power procurement rules, the decisions made in this proceeding may impact all entities within the [CAISO] Control Area." Exhibit A at ¶ 29. The fact that the CAISO is cooperating with the CPUC in the evaluation of Local Capacity Area requirements does not in any manner subject SWP to CPUC regulation.

In fact, SWP has voluntarily participated in the CPUC proceedings and raised similar issues to those presented to the Commission: (1) that the study lacked transparency or otherwise contained errors concerning SWP's pump load data, and (2) that the CAISO erroneously identified pump loads as being subject to local procurement requirements. On May 22, 2007, the Administrative law judge issued his proposed decision. He found:

no substantial grounds for invalidating the LCR study, and therefore find that the Big Creek/Ventura Area should be established without a phase-in or blanket penalty waivers as proposed by SCE. LSEs have been on notice since the March 2007 release of the 2008 LCR study that CAISO is proposing to establish the new area. As the CAISO notes, the implementation schedule for procurement obligations arising from the newly identified area is comparable to the schedule that was followed when local procurement obligations were first established last year pursuant to D.06-06-064.

Draft Decision at 21-22.²²

With regard to SWP's issues, the Judge recognized:

To the extent that pump load is reflected in the Big Creek LCR for a local area but is also controllable or interruptible and therefore available as a DR resource, it may be feasible for CDWR and other agencies to enter into appropriate arrangements with LSEs for their use of this load in fulfillment of procurement obligations for the area.

Draft Decision at 25. The CAISO agrees that SWP should be able to utilize its pumps as demand-side resources that could obviate the need to purchase additional capacity.

In short, none of the information that is the subject of SWP's Motion calls into question the propriety of the Commission's exercise of its jurisdiction. Since the information is therefore immaterial, the Commission should reject the Motion.

²² (<http://www.cpuc.ca.gov/EFILE/PD/68130.pdf>)

IV. CONCLUSION

SWP's Motion to Reopen the record is procedurally flawed, relies on incomplete and erroneous information, and demonstrates neither that granting the Motion would provide material information to the Commission nor that extraordinary circumstances justify the Motion. According, for the reasons discussed above, the CAISO requests that the Motion be denied.

Nancy Saracino, General Counsel
Sidney M. Davies, Assistant General Counsel
Grant Rosenblum, Senior Counsel
The California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400
Fax: (916) 351-4436

Respectfully submitted,

/s/ Michael E. Ward
Sean A. Atkins
Michael E. Ward
Alston & Bird LLP
The Atlantic Building
950 F Street, N.W.
Washington, DC 20004-1404
Tel: (202) 756-3405
Fax: (202) 756-3333

David B. Rubin
Troutman Sanders LLP
401 9th Street, N.W., Suite 1000
Washington, D.C. 20004
Tel: (202) 274-2950

Counsel for the California Independent System
Operator Corporation

Dated: June 5, 2007

EXHIBIT A

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

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

DECLARATION OF CATALIN M. MICSA

I, Catalin Micsa, declare as follows:

I. BACKGROUND

1. My name is Catalin Micsa. I am a Senior Grid Planning Engineer within the Planning and Infrastructure Development Division of the California Independent System Operator Corporation (“CAISO”). In that capacity, I conduct various technical studies supporting the CAISO’s responsibility to reliably operate and plan the CAISO Controlled Grid, including analyses necessary to assess Reliability-Must Run (“RMR”) needs and Local Capacity Area Resource requirements (alternatively “LCR”). I also review and approve transmission project proposals, operating solutions, and generation Interconnection System Impact Studies. I have been with the CAISO since 1999, having started as a Grid Planning Engineer.

2. I hold a Master of Science in Electrical Engineering from California State University Sacramento and a Bachelor of Science in Electrical Engineering from the Electrotechnical Faculty in Timisoara, Romania. Prior to joining the CAISO, I worked as a Transmission Planning Engineer with Pacific Gas.

3. My declaration responds to both process and substantive issues raised by, as well as mischaracterizations contained in, the Affidavit of Holly B. Cronin that accompanied the Motion to Reopen the Record and Request for Rehearing filed in this docket by the California

Department of Water Resources' State Water Project ("SWP"). Capitalized terms used in this declaration shall have the meaning set forth in Appendix A, Master Definitions Supplement, to the CAISO's MRTU Tariff. In particular, I will address:

- The purpose of LCRs.
- The process employed by the CAISO to develop the 2008 LCRs.
- How the CAISO performed the 2008 Local Capacity Technical Analysis ("2008 LCR Study") and presented the results to stakeholders.
- How the CAISO's 2008 LCR Study has been reviewed and approved by the California Public Utilities Commission ("CPUC") after consideration of comments by numerous market participants, including SWP.
- What the CAISO anticipates will be the next steps with regard to the 2008 LCR Study and the implementation of the new market structure as part of the Market Redesign and Technology Upgrade program ("MRTU").

II. DESCRIPTION OF THE LOCAL CAPACITY REQUIREMENTS

4. LCRs reflect the minimum quantity of capacity needed by the CAISO to operate the CAISO Controlled Grid safely and reliably, even if certain contingencies occur. The Commission properly and succinctly explained the underlying circumstance giving rise to the need for capacity in load pockets or Local Capacity Areas in its April 20, 2007 order on MRTU (119 FERC ¶ 61,076) ("April Order"):

Local capacity area resources are needed within load pockets in order to ensure reliability of the CAISO-controlled grid, because transmission capability available to import energy to meet load in the load pocket is limited. A local capacity area resource requirement is calculated as the amount of capacity that cannot be met with capacity outside the load pocket due to transmission limitations.

The Commission went on to state that,

Grid reliability benefits all participants and no LSE should be excluded from the responsibility to procure these local capacity area resources. Accordingly, all LSEs will be responsible for their allocated amount of local capacity area resource requirements in order to maintain the reliability of the CAISO-controlled grid.

April Order at P 580. The identification of LCRs therefore serves two inter-related purposes.

First, they facilitate the ability of the CAISO to operate the grid in accordance with Applicable Reliability Criteria and CAISO Grid Planning Standards. Second, within the context of the authority granted to the CAISO by the Commission under its MRTU Tariff, the identification of LCRs allow the CAISO to mitigate the consequences of one Load Serving Entity (“LSE”) “leaning on” the purchases of other LSEs to provide the grid benefits expected from Local Capacity Area Resources. For example, one LSE could disproportionately rely on remote resources that otherwise satisfy Reserve Margin requirements, but fail to ensure grid reliability, not only within the Local Capacity Area, but also potentially for the grid more generally under the system contingencies evaluated by the LCR analysis.

5. Applicable Reliability Criteria are the reliability standards established by NERC, WECC and Local Reliability Criteria as amended from time to time. Local Reliability Criteria, in turn, are the Reliability Criteria unique to the transmission systems of each of the Participating Transmission Owners established at the later of: (1) CAISO Operations Date, or (2) the date upon which a New Participating Transmission Owner places its facilities under the control of the CAISO. Moreover, pursuant to its authority to “develop a consistent set of Reliability Criteria for the ISO Controlled Grid,” the CAISO, in consultation with its Participating Transmission Owners, has adopted Grid Planning Standards that incorporate Applicable Reliability Criteria as well as address specifics not covered by NERC/WECC standards, provide interpretations of

NERC/WECC standards, and specify whether discrete criteria should be more stringent than the NERC/WECC standards for the CAISO Controlled Grid.

6. Under the current market design, the CAISO meets Applicable Reliability Criteria for Local Capacity Areas with respect to capacity requirements first by means of a combination of LSE procurement to meet LCR under resource adequacy obligations and RMR units. At present, only the CPUC has explicitly imposed a procurement obligation for local capacity resources on its jurisdictional LSEs to meet CAISO identified LCR. Publicly Owned Utilities (“POUs”) also provide local capacity, but there is no explicit regulatory obligation that links the CAISO’s LCR Study to either a procurement obligation or cost implication on the POUs. Second, if LSE procured and RMR resources prove insufficient, the CAISO may deny a resource’s requested waiver of the Commission’s must-offer obligation so that the resource must be available to the CAISO for dispatch in real-time or, under certain circumstances, the CAISO designate a resource as needed for local capacity pursuant to the Reliability Capacity Services Tariff (“RCST”).

7. Under MRTU, the CAISO is attempting to move further away from the use of RMR and its own backstop purchases and rely more on the purchasing decisions of LSEs. It is expected that LSEs will continue to be subject to the Reserve Margin requirements set by the CPUC or applicable Local Regulatory Authority (“LRA”). However, to ensure that these resources obtained to meet Reserve Margin requirements are not only available when needed, but also are available where needed, all Scheduling Coordinators serving Load in the CAISO Control Area will be subject to the Local Capacity Area Resource requirements contained in Section 40.3 of the MRTU Tariff. That section authorizes the CAISO to perform an annual technical study to calculate the minimum amount of generation capacity that must be available within each Local

Capacity Area. No LSE is required by the MRTU Tariff to procure capacity to meet the identified LCR. Rather, the CAISO will assign to each LSE, based on its relative share of load, a proportionate share of the LCR. This assignment is used to ensure that the cost of any CAISO “backstop” procurement to meet any residual LCR after accounting for the resource adequacy portfolios of LSEs is allocated to those LSEs that did not procure their proportionate share of capacity in Local Capacity Areas. In this manner, the MRTU Tariff seeks to ensure that the LCR obligation is spread in a consistent and non-discriminatory manner.

III. DEVELOPMENT OF THE 2008 LOCAL CAPACITY AREA REQUIREMENT STUDY

8. In Decision 06-06-064 (June 29, 2006), the CPUC found that “it was reasonable to rely on the CAISO to perform the 2007 LCR Study and that the study process provided adequate opportunity for parties to participate” and “that it is reasonable to use the study results as the basis for implementing [local resource adequacy requirements] for the 2007 compliance period.” Similarly, this Commission also concluded in its September Order that the reliability criteria utilized by the CAISO to determine Local Capacity Area requirements constituted “good utility practice” and was not “overly conservative.” September Order at P 1169.

Notwithstanding these findings, market participants questioned, both before the CPUC and the Commission, the manner in which the CAISO applied its reliability criteria. The Commission responded to these stakeholder concerns by directing the CAISO to incorporate into the MRTU Tariff: (i) the set of reliability criteria the CAISO will use in developing the LCRs and (ii) a statement distinguishing the reliability needs addressed by the RMR technical study process from those addressed by the LCR study process, so that it is clear which criteria are being addressed in each process (September Order at P 1167).

9. Even prior to this Commission directive and the effectiveness of the CAISO's MRTU Tariff provisions regarding a collaborate Local Capacity Area study process, the CAISO took steps to promote better stakeholder involvement in, and understanding of, the CASIO LCR study assumptions and criteria. The CAISO did so by forming the Locational Study Advisory Group ("LSAG") in the fall of 2006. The LSAG was intended not to include all potential stakeholders. Rather, LSAG was to be a group of subject matter experts that represented a cross-section of the stakeholder community who would take an in-depth look at the CAISO's 2007 LCR study assumptions, processes, and criteria and make recommendations for assumptions, processes, and criteria to be used in the 2008 LCR study. While an open invitation was not actively extended to the stakeholder community at large, the CAISO did not preclude anyone with the necessary expert qualifications from participating in LSAG if they so requested. Gary DeShazo, Director of Regional Transmission North for the CAISO, chaired the group, which included representation from the CPUC, California Energy Commission ("CEC"), Energy Service Providers ("ESPs"), generators, municipals utilities from southern and northern California, Southern California Edison Company ("SCE"), Pacific Gas and Electric Company ("PG&E"), and San Diego Gas & Electric Company ("SDG&E").

10. The desire for more narrow participation in LSAG was driven by pragmatic considerations regarding the need to resolve highly technical issues in an expedited time frame that would allow the CAISO to meet the regulatory schedule applicable to CPUC jurisdictional LSEs. Specifically, the CPUC regulatory schedule called for Participating Transmission Owners ("PTOs") to provide the CAISO with study base cases and Load forecasts by January 5, 2007. In order to meet this deadline, it was viewed as helpful to have the LSAG's initial efforts done by

approximately the end of November or early December 2006 to allow sufficient time for the PTOs to build their base cases by the January cut-off date.

11. Prior to discussing LSAG's activities, I should also note that it was, in large part, with the expected role of the LSAG and its schedule in mind that the CAISO sought to extend the time to comply with the Commission directive in the September Order to include in its MRTU Tariff the reliability criteria underlying the LCR and RMR analyses. The current due date for this compliance filing is August 3, 2007. It is my understanding that no party objected to the CAISO's requests to extend the compliance date. The CAISO will, in fact, utilize the input from the LSAG to form the foundation for further discussions with stakeholders on the August 3, 2007 compliance filing. The CAISO anticipates publishing draft tariff language on the reliability criteria on June 14, 2007 for stakeholder review.

12. Although LSAG was comprised of experts from a cross-section of market participants, all stakeholders were informed of the existence of the group and its activities. The LSAG met several times to review the assumptions and criteria associated with the 2007 LCR Study and consider revisions for the 2008 LCR Study. On November 3, 2006, the CAISO published the "CAISO LCR Study Advisory Group Memorandum" (<http://www.aiso.com/18a3/18a3d74233820.pdf>). This posting of more than 250 pages of materials identified LSAG's composition and charter. It provided information on the 2007 LCR Study and attached applicable reliability criteria.

13. The CAISO also publicly posted on its website the notes from the LSAG meetings. The notes from the October 20, 2006 meeting were posted on December 11, 2006 (<http://www.aiso.com/18c9/18c9760a30810.pdf>) and the notes from the November 6, 2006 meeting were posted on January 12, 2007 (<http://www.aiso.com/1b64/1b648befa240.pdf>) with a

summary of major issues posted that same day at

(<http://www.caiso.com/1b64/1b648c87aa40.pdf>). The summary states,

Commensurate with NERC/WECC standards, there is consensus that load cannot be dropped after a single contingency and that load can be dropped in a “planned and controlled” manner after the second contingency. If there is no controlled solution (SPS or operating procedure with short term emergency ratings) of dropping load after the second contingency, the CAISO is required to dispatch generation or drop load before the second contingency (effectively at a short time after a single contingency, through system readjustment) in an N-1-1 case and (under normal conditions) in an N-2 (common mode) case in order to make sure all system elements are within Applicable Ratings immediately following the second contingency. “System readjustment” is to be used after any single contingency and include operating procedures as well as generation reduction. Consensus has been reached in the interpretation of the performance standards and their application to the 2008 LCR studies.

The summary also recognizes that “[t]he LSAG is intended to resolve, or at least narrow the scope of disagreements regarding, technical issues related to the conduct of LCR studies for the benefit of all stakeholders and other decision-makers (such as CAISO management and the CPUC). The LSAG is not intended to resolve broader policy issues. CAISO has scheduled a stakeholder meeting.”

14. That broader, general stakeholder meeting was held on December 6, 2006, pursuant to the CAISO’s regular notice procedures. At this meeting, *which does not appear to be discussed by SWP in their pleadings or in Ms. Cronin’s affidavit*, the CAISO stated the LSAG was a “sounding board” to advise the CAISO on technical issues and that the LSAG “does not supplant stakeholder review of the LSAG’s findings and/or recommendations of the final LCR study assumptions, criteria and methodology.” Stakeholders were informed that the methodology for 2008 LCR Study would be initially determined by mid-December, subject any necessary refinement up to the completion of the preliminary LCR study in March.

15. Also at the general stakeholder meeting on December 6, 2006, the CAISO fully discussed with stakeholders the outcome of the LSAG meetings with respect to the proposed assumptions and basis of the 2008 LCR Study and sought stakeholder views on the proposed approach. In particular, the CAISO advised that the 2008 LCR Study would apply Applicable Reliability Criteria to a transmission system configuration based on all transmission and generation projects expected to be in service by June 1, 2008 and a Load forecast based on the CEC's 1 in 10 local area peak. As the Commission recognized in its rehearing order,

coincident peak demand determinations should be made by one entity and that the California Energy Commission is best situated to provide this service, both for CPUC and non-CPUC jurisdictional LSEs. Accordingly, all non-CPUC LSE peak demand forecast data should come from the California Energy Commission. Alternatively, if the California Energy Commission is somehow not able to provide this service, we direct the CAISO to serve and to file amended tariff sheets, in conjunction with the compliance filings it will make on or before August 3, 2007, to implement such change as the provider of demand forecast information for such non-CPUC LSEs.

April Order at P 638. Importantly, the meeting reviewed the Load data for the different planning areas, including SWP's Load, which was identified in the aggregate as 915 MW. Of this total, 154 MW were situated North of Path 15, 255 MW situated between path 15 and path 26, and 506 MW situated South of path 26. Only 443 MW (the CAISO will correct the previous version of the study that has a typo of 420 MW) of the remaining 506 MW pump Load South of path 26 were considered within the Big Creek/Ventura area.

16. The CAISO intended the December 6, 2006 stakeholder meeting to be the forum for broad stakeholder review of the data inputs to be used to produce the preliminary 2008 LCR Study for March 2007. Following the meeting, the CAISO issued a market notice requesting comments on the proposed study format be provided by December 11, 2006. Consequently, SWP was notified of the December 6, 2006 stakeholder meeting and invited to submit

comments. Based on a review of our meeting records, SWP did not participate in person at the stakeholder meeting and did not subsequently submit comments.

17. In accordance with the schedule discussed at the December 6, 2006 stakeholder meeting, the CAISO released its draft 2008 LCR Study on March 9, 2007. The draft study identified the Big Creek/Ventura Local Capacity Area.

18. The draft 2008 LCR Study was reviewed in detail with stakeholders at a meeting on March 21, 2007, with presentation materials posted on the CAISO Website (<http://www.caiso.com/1ba8/1ba87f1a3f6a0.pdf>). As explained at the meeting and based on the endorsement of LSAG, the CAISO incorporated into its draft 2008 LCR Study the same criteria, input assumptions and methodology that were incorporated into its 2007 LCR Study. While several new methodologies were briefly discussed in the LSAG, the group concluded that there was insufficient time to introduce a new methodology change and still meet the 2008 regulatory schedule. While the LSAG is still completing the documentation of its work, of significant importance to the CAISO was the unanimous agreement among LSAG members that its application of the N-1, N-1-1, and N-2 contingencies in the 2007 LCR Study was done correctly. N-0 refers to normal operating conditions. N-1 is a single contingency. N-1-1 is a double contingency (specifically a single contingency followed by a manual readjustment and then followed by another single contingency).

19. Stakeholder comments on the study were received by the CAISO on March 29, 2007. Comments were received from eight entities - PG&E, SCE (LSE), SCE (PTO), CPUC, City of Azusa, Northern California Power Agency, Dynegy, and SWP. While the CAISO has not placed the comments up on its website, the final study released on April 3, 2007 contained both a clean (<http://www.caiso.com/1bb5/1bb5ed3d46430.pdf>) and redlined

(<http://www.caiso.com/1bb5/1bb5edc5475b0.pdf>) versions identifying changes made by the CAISO from the March draft by incorporating certain stakeholder comments. As discussed further below, on May 22, 2007, the assigned Administrative Law Judge for the CPUC issued a proposed decision adopting the CAISO's 2008 LCR Study as the basis for local capacity procurement obligations for CPUC jurisdictional LSEs for 2008. In addition, the decision adopts the CAISO's recommendation to permit PTOs and others to submit additional operating procedures for CAISO review in an effort to further reduce the LCR for particular Local Capacity Areas. Accordingly, not only for CPUC purposes, but also for the CAISO's final LCR determinations, the process is still being finalized.

IV. IDENTIFICATION OF THE BIG CREEK/VENTURA AREA

20. As set forth in the CAISO's 2008 LCR Study, the Big Creek/Ventura Local Area is defined by the following transmission tie lines and substations:

The transmission tie lines into the Big Creek/Ventura Area are:

- 1) Vincent-Antelope 230 kV Line
- 2) Mesa-Antelope 230 kV Line
- 3) Sylmar-Pardee #1 230 kV Line
- 4) Sylmar-Pardee #2 230 kV Line
- 5) Eagle Rock-Pardee #1 230 kV Line
- 6) Vincent-Pardee 230 kV Line
- 7) Vincent-Santa Clara 230 kV Line

These sub-stations form the boundary surrounding the Big Creek/Ventura area:

- 1) Vincent is out Antelope is in
- 2) Mesa is out Antelope is in
- 3) Sylmar is out Pardee is in
- 4) Sylmar is out Pardee is in
- 5) Eagle Rock is out Pardee is in
- 6) Vincent is out Pardee is in
- 7) Vincent is out Santa Clara is in

21. In its Rehearing Request at pages 11-12, SWP states that it did not learn of the proposed new Big Creek/Ventura Local Capacity Area until the March 21, 2007 stakeholder

meeting , although SWP does note that the CAISO posted the draft study to be presented at the March 21st meeting on March 9, 2007. Two responses to this claim come to mind. First, and as I describe further below, the designation of Big Creek/Ventura as a Local Capacity Area was neither a secret nor unexpected. There were multiple opportunities for SWP to become aware of the anticipated designation prior to the dissemination of the preliminary 2008 LCR Study results in early March. Second, and equally as fundamental, even if the announced creation of a new Big Creek/Ventura Local Capacity Area had not occurred until March 2007, that should not be considered a surprise or inappropriate in any way. March 2007 was the date presented at the stakeholder meeting back on December 6, 2006 for completion of the draft 2008 LCR Study. Indeed, the whole purpose of performing the study annually is to see if system conditions have changed from the prior study that require additional Local Capacity Areas or changes to existing Local Capacity Areas in order to meet Applicable Reliability Criteria.

22. In this case, however, there were multiple opportunities for SWP to become aware that the 2008 LCR Study would identify the Big Creek/Ventura Local Capacity Area. First, the Big Creek/Ventura Local Capacity Area was identified in the SCE Transmission Plan, dated August 2006, and discussed at a stakeholder meeting on August 31, 2006 hosted by SCE in Ontario, California. Based on SCE's own analysis, the presentation contained this slide:

Big Creek Corridor/ Ventura County Area

- **New** LCR area.
- **Boundary Transmission Lines:**
 1. Vincent-Antelope and Mesa-Antelope 230 kV lines
 2. Sylmar-Pardee #1 & #2 230 kV lines
 3. Eagle Rock-Pardee 230 kV line
 4. Vincent-Pardee and Vincent-Santa Clara 230 kV lines

SCE's study was based on the application of NERC Criteria C, which describes system performance that is expected following the loss of two or more system elements. For the Big Creek/Ventura Area, SCE identified the most critical contingencies as the loss of the Lugo-Victorville 500 kV line followed by the loss of the Sylmar-Pardee No. 1 or No. 2 line. These are the same critical contingencies that the CAISO used in its subsequent 2008 Local Capacity Requirement Study.

Second, the Big Creek/Ventura Local Capacity Area was also described in the CAISO's 2009-2011 Long-Term Local Capacity Requirements technical analysis study (<http://www.aiso.com/18d8/18d8ce1118390.pdf>), dated October 31, 2006, and placed on the CAISO Website on December 26, 2006. The analysis identified Big Creek/Ventura as a new Local Capacity Area (see page 71). The study explained that for that area, the most critical contingency is the loss of the Lugo-Victorville 500 kV followed by Sylmar-Pardee No. 1 or No. 2 230 kV line, which would thermally overload the remaining Sylmar-Pardee No. 1 or No. 2 230 kV line. Again, these are the same critical contingencies for the area identified by SCE.

Third, the Big Creek/Ventura Local Capacity Area was also described in the CAISO's 2007 Transmission Plan (<http://www.aiso.com/1b6b/1b6bb4d51db0.pdf>) posted on January 25, 2007. The Transmission Plan noted:

In addition to PTO planning effort, CAISO Staff undertook several key planning initiatives in support of the CPUC's implementation of Resource Adequacy. Among these studies, the Generation Deliverability and Local Capacity Requirement assessments identified a number of transmission bottlenecks that will limit import/export capability in some areas of the local system based on the resource adequacy perspectives. These two studies have determined the amount of capacity that can be counted for resource adequacy purposes and the amount of capacity necessary to be acquired in local areas. While the CAISO's Generation Deliverability analysis is still being finalized, a five-year Local Capacity Requirement Assessment was completed. The results are shown in table E-9 below.

Table E-9 Long-term Local Capacity Requirements assessment results

Local Area	Total LCR Requirement (MW)		
	2007	2009	2011
Humboldt	202	203	206
North Coast/North Bay	582	706	641
Sierra	2161*	2313*	2470*
Stockton	589*	768*	900*
Greater Bay Area	4771	4736	4807
Greater Fresno	2219*	2264*	2296*
Kern	786*	564*	600*
LA Basin	8843	8765	9525
Big Creek/Ventura	N/A	3765	4140
San Diego	2781	3024	2190
Total	22934	27108	27775

* indicates LCR deficiency areas.

Thus, while the CAISO recognizes the significant amount of information that stakeholders must monitor and evaluate, information identifying Big Creek/Ventura as a new Local Capacity Area existed even before publication of the CAISO’s draft 2008 LCR Study in March 2007. The CAISO would not necessary expect, however, that future studies would identify new Local Capacity Areas as opposed to refinements in the data for existing areas. Nevertheless, the outcome of the study is based on the application of Reliability Criteria to existing grid configurations and available generation and Load data.

V. BIG CREEK/VENTURA IS NOT A GENERATION POCKET

23. SWP is not correct in suggesting that the Big Creek/Ventura area is a “generation Pocket” and that there is insufficient information demonstrating that it is, in fact, a load pocket. As I have described, the CAISO’s LCR study evaluates Load within the area, available generation within the area to serve that Load, and import capabilities to provide additional resources under defined contingencies.

24. The same 2008 LCR Study that SWP cites as identifying the Big Creek-Ventura Local Capacity Area provides the demonstration that the area is a load pocket. The study states that the total 2008 busload within the area is 4,435 MW with 156 MW of losses and 420 MW of

pumps, for a total load of 4,911 MW. As noted earlier, it then identifies the most critical contingency as the loss of the Lugo-Victorville 500 kV followed by Sylmar-Pardee No. 1 or No. 2 230 kV line, which could thermally overload the remaining Sylmar-Pardee No. 1 or No. 2 230 kV line. According to the 2008 LCR Study, this limiting contingency establishes a LCR of 3658 MW in 2008 as the minimum generation capacity necessary for reliable load serving capability within this area.

25. Instead of relying on the data in the recent reports, SWP relies upon a 2004 SCE Transmission Expansion Plan's discussion of the Big Creek and San Joaquin System (the "Big Creek Corridor"), which indeed was not a load pocket but rather, as described by the plan, a radial generation feed into Southern California. The Big Creek Corridor is not coextensive with the Big Creek-Ventura Local Capacity Area. The Big Creek Corridor includes seven hydroelectric plants, one generator (with another planned), 76 MW of SWP generation, and wind QF generation for a total of 2055 MW (2805 MW with the planned addition.) The energy from the hydroelectric plans is carried on four 230 kV lines running south from the plants to the Magunden substation. The total forecast coincident peak load in the area was 1706 MW for 2008. The local load is located at Antelope, Bailey, Rector, Springville, and Vestal. The load also included a contractual wheel-through commitment of 757 MW for SWP's Edmunston plant. Simply stated, the report was concerned with the specific radial generation feed, not with a load pocket.

26. In contrast, the Big-Creek Ventura area, is bounded by the Antelope, Pardee, and Santa Clara substations. As discussed above, the Big Creek-Ventura area has a total load of 4911 MW, more than twice that served by the Big Creek Corridor. Total generation available within the area is 5396 MW. In other words, rather than referring to the data included in the

CAISO's studies regarding Local Capacity Areas, SWP refers to a three year old study of a different area. More fundamentally, even if the Big Creek-Ventura area was a "generation pocket," that would not preclude it from being a Load pocket. It is certainly possible that in the same area contingencies might exist that could interfere with the transmission of Energy out of the area (especially in the off-peak conditions – as the SCE study states) and contingencies might also exist that would interfere with the transmission of Energy into the area (especially in the on-peak conditions – as the CAISO study states). The CAISO addresses the latter issues with Congestion Management and curtailment of Generation, without endangering service to Load; the Load outside the area can be served with Generation outside the area. Under the latter contingencies, however, the CAISO cannot ensure that Load *within* the area can be served through Congestion Management. The CAISO must have access to Generation *within* the area to meet that need. The entire purpose of establishing Local Capacity Areas is to ensure that such Generation is available to the CAISO within the constrained area.

VI. THE CPUC PROCEEDING ON LOCAL CAPACITY AREA REQUIREMENTS

27. A significant flaw in the initial California market design was the absence of resource adequacy requirements. The CPUC has been working diligently to address this void. On October 27, 2005, the CPUC issued a Final Decision on resource adequacy requirements. The CPUC Final Decision implemented a program of resource adequacy requirements applicable throughout the service territories of California's three main investor owned utilities. The decision requires that these entities demonstrate that they have acquired the capacity needed to serve their forecast retail customer load and a 15-17 percent reserve margin beginning in June 2006.

28. In a June 29, 2006 decision, the CPUC addressed local resource adequacy requirements; it implemented a backstop and penalty for any LSE that is deficient in local capacity requirements, as established annually in accordance with the CPUC-devised allocation principles. In continuation of the process established in the June 2006 decision, the CPUC convened its “phase 1” proceeding to examine Local Capacity Requirements for 2008.

29. Municipal entities have recognized the importance of CPUC’s review of the CAISO Local Area Requirements Study. In fact, CMUA intervened noting, “while CMUA’s members are not CPUC-jurisdictional for the purposes of establishing resource adequacy or power procurement rules, the decisions made in this proceeding may impact all entities within the California Independent System Operator Corporation (“CAISO”) Control Area” (Reply Comments dated April 20, 2007 at page 1). CMUA notes that the Local Capacity Area Resource requirement study results serve as the foundation for determining LCR obligations and the CAISO backstop procurement. (Page 1-2).

30. As noted by Ms. Cronin in her affidavit at paragraph 24, SWP intervened in that docket on May 10, 2007 (<http://www.cpuc.ca.gov/EFILE/MOTION/67803.pdf>). SWP claimed “it wanted to bring to the CPUC’s attention concerns about how the 2008 LCR Study was developed and factual errors underlying the study.” In its comments filed that same day (<http://www.cpuc.ca.gov/EFILE/CM/67841.pdf>), SWP raised similar issues as those presented to the Commission: (1) that the study lacked transparency or otherwise contained errors concerning SWP pump load data, and (2) that the CAISO erroneously identified pump loads as being subject to local procurement requirements.

31. On May 22, 2007, the Administrative Law Judge (“ALJ”) issued his proposed decision (<http://www.cpuc.ca.gov/EFILE/PD/68130.pdf>) (“Proposed Decision”). The Proposed

Decision found:

The 2007 to 2008 LCR increase for the LA Basin Area appears large, but it is explained by a combination of load growth and an up-to-date evaluation of the effect of transmission upgrades on the South-of-Lugo operational path rating. The CAISO notes that if accurate data had been available for the 2007 study, the LA Basin Area LCR for 2007 would have been 9,923 MW, not 8,843 MW. Stated differently, the 2007 LCR study understated LA Basin Area requirements due to the lack of a current evaluation of the path rating. That does not render the 2008 study inaccurate or unreasonable, however. On the contrary, now that more current information regarding the path rating is available, it would be unreasonable to adhere to an understated LCR determination that was made a year ago in connection with the 2007 study.

Proposed Decision at 21. The ALJ went on to conclude:

We find no substantial grounds for invalidating the LCR study, and therefore find that the Big Creek/Ventura Area should be established without a phase-in or blanket penalty waivers as proposed by SCE. LSEs have been on notice since the March 2007 release of the 2008 LCR study that CAISO is proposing to establish the new area. As the CAISO notes, the implementation schedule for procurement obligations arising from the newly identified area is comparable to the schedule that was followed when local procurement obligations were first established last year pursuant to D.06-06-064.

Proposed Decision at 21-22. With regard to SWP’s issues, the ALJ concluded:

CDWR has raised an important question about the appropriate treatment of pump load in the LCR study process that warrants investigation for future LCR studies. It may be the case that pump load should not be treated the same as tariffed interruptible DR programs, which programs generally qualify as resources under the RA program. It does not appear, however, that this issue was adequately and timely developed such that a modification to the 2008 LCR is justified at this time. On the other hand, it may be appropriate for the CAISO and parties to consider the CDWR’s concerns in the supplemental LCR review process described below. To the extent that pump load is reflected in the Big LCR for a local area but is also controllable or interruptible and therefore available as a DR resource, it may be feasible for CDWR and other agencies to enter into appropriate arrangements with LSEs for their use of this load in fulfillment of procurement obligations for the area.

Draft Decision at 25.

32. As I will discuss below, the ALJ is correct. The fact that SWP's pumps are identified as Load for purposes of determining the amount of Local Capacity Area Resources that may be necessary does not preclude SWP from using those pumps as demand-side resources to meet its LCR obligation. In other words, the CAISO must plan its system to meet the electrical needs of the pumps when they are in operation, including any locational requirements defined by reliability criteria. Such a requirement does not necessarily mean, however, that SWP must procure additional generation if SWP is willing to commit itself to using the pumps as demand-side resources during system emergencies.

VI. INTERACTIONS WITH SWP

33. The CAISO recognizes SWP's concerns with resource adequacy requirements. SWP argued to the Commission that state law specifically exempts it from such requirements, claiming that its pump loads are to pump water and not to serve retail load. The Commission found, however,

that the State Water Project is the CAISO's single largest transmission user representing five percent of load, we agree with the CAISO that exempting the State Water Project from resource adequacy requirements would significantly hamper the CAISO's ability to reliably operate the grid, and find that such a result would be unjust and unreasonable. Therefore, we find that the State Water Project is a LSE and subject to the resource adequacy requirements of the MRTU Tariff. We also find that the State Water Project is its own Local Regulatory Authority and therefore can establish its own planning reserve margin and determine how it will meet its reserve requirements, including counting curtailable load towards resource adequacy requirements.

September Order at P 1126.

34. In her affidavit at paragraph 5, Ms. Cronin alleges that the "CAISO's March 2007 stakeholder process was SWP's only opportunity to learn and comment on the CAISO's 2008 LCR designations." This statement is not correct. As described above, SWP could have participated in the stakeholder process in December 2006 to develop the underlying criteria and

data assumptions that eventually were used to produce the 2008 LCR Study. Moreover, there were already indications from the prior SCE study and the CAISO's own Long -Term LCR Study that Big Creek/Ventura would be identified as a new Local Capacity Area.

35. In her affidavit, Ms. Cronin alleges that when she questioned me regarding the figure of 420 MW for pump loads used in the study she was told that the "CAISO simply followed the California Energy Commission load forecast" and "all further questions should be directed to CEC." Affidavit at paragraph 9. This is also not correct. Ms. Cronin was informed at the March 21, 2007 stakeholder meeting that the CAISO must take the CEC's load forecast data and spread it to a bus-bar configuration in order for the CAISO to be able to run the studies and that the difference between the 506 MW and 443 MW (the CAISO will correct the previous version of the report that incorrectly refers to 420 MW) figures for the pumps was the result of some of their pumps being in bus-bar configurations outside the Big Creek/Ventura Local Capacity Area. Ms. Cronin was directed to the CEC with respect to their derivation of the base 506 MW number that the CAISO disaggregated. The CAISO understands that the 506 MW may not include the full nameplate capacity of the SWP pumps in the area and that the CEC may have made applied certain analyses to derive the final 506 MW figure. As explained in both the draft and final versions of the 2008 LCR Study, however, "[t]he California Energy Commission (CEC) derives the load forecast at the system as well as PTO levels. This relevant CEC forecast is then distributed across the entire system, down to the local area, division and substation level." Ms. Cronin did not request any additional information as to the specifics of the CAISO's disaggregation, although the CAISO would certainly review its methodology with SWP upon request.

36. In her affidavit at paragraph 14, Ms. Cronin alleges that the CAISO study did not include Load. This conclusion is based on an alleged conversation with the CAISO Associate Regional Transmission Engineer who prepared the presentations for the Big Creek/Ventura and LA Basin at the 2008 LCR Study stakeholder meeting and allegedly stated that the study was done in terms of generation coming into the Big Creek/Ventura Area. Either Ms. Cronin misunderstood Mr. Yi Zhang of the CAISO or Mr. Yi Zhang, was incorrect. What is correct, however, is that the 2008 LCR Study methodology evaluates the existing import capability of the local system in order to determine the minimum resource requirements needed in the Local Capacity Area to serve Load. That is the extent to which generation coming into the Big Creek/Ventura Local Capacity Area was considered.

37. Ms. Cronin states that she e-mailed the CAISO requesting information regarding: (1) the name of the contact at SCE or a copy of the original SCE base case for the 2008 LCR Study, (2) an explanation of how pump load data for the SCE Big Creek generation complex was treated for the 2008 LCR Study, and (3) Big Creek/Ventura pump Load data. Affidavit at paragraph 16. She also claims that the CAISO responded by forwarding e-mails between the CEC and SCE from January 2007. Affidavit at Paragraph 16. Ms Cronin alleges that this CEC “base study” was not shared immediately with participants in the CPUC proceeding and should have been under a “transparent” process. Affidavit at paragraph 16. She goes on to report that the CAISO indicated that: (1) SCE’s base case is “irrelevant;” (2) that the load forecast, including pump data was derived from the CEC; (3) of the 506 MW reported by the CEC, 420 was within Big Creek/Ventura (as noted, this was an error; the real number is 443 MW); (4) that SWP may use its pumps to make a demand side showing; (5) the CAISO is working with the WECC to post all base cases; and (6) SCE’s Big Creek pump storage generation pumping is not

treated in the same way as SWP's pumping facilities, since SCE's facility is considered generation only that pumps at night. Affidavit at paragraph 17.

38. I must disagree with Ms. Cronin's characterization of the CAISO's actions. Rather than "providing no information already available to SWP" or "contradicting information from CAISO and CEC technical staff" (Cronin affidavit at paragraph 18), the CAISO has sought to communicate information in a straightforward and consistent manner.

39. First, the SCE's "base case" is not relevant because it only represents the technical modeling of all transmission components (including all SWP pumps). The actual dispatch of the pumps was done by the CAISO based on best available historical data in order to match the CEC forecast of 506 MW (for SP 26 in this case).

Second, the CAISO has consistently advocated using uniform Load data derived from the CEC. Indeed, the CAISO sought and received Commission rehearing in order to be able to rely to the maximum extent possible on CEC data. Moreover, the CAISO has been up front in both the study itself and its follow-up conversations with SWP that the CAISO allocates the CEC's 506 MW figure to the relevant buses in SP 26.

Third, the fact that the CAISO has indicated a willingness to work with SWP so that its pumps could be used as demand-side resources to meet its responsibilities with respect to Local Capacity Area Resource requirements, without the need to purchase additional resources, should be welcomed and not criticized.

Finally, SWP asked for, and received, an explanation as to why its pumps were not considered the same for purposes of the study as the pumps for SCE's Big Creek pump storage generation facility. The explanation was straightforward – SCE's facility exists primarily to promote grid operations and would not be run in its pumping mode if doing so would create

reliability problems. In contrast, SWP has frequently and understandably stated that its primary concern is management of its water delivery responsibilities in compliance with its statutory mandates and environmental requirements. Thus, the SWP pumps are not a generation facility but a Load – in fact the largest category of Load on the CAISO system. This does not preclude SWP from considering their pumps demand-side resources that satisfy Local Capacity Area requirements if available under system emergencies. The CAISO expects to work with SWP to ensure appropriate treatment of its resources.

40. In her affidavit at paragraph 4, Ms. Cronin notes that in the Amendment No. 60 proceeding at the Commission, the CAISO stated that SWP's Edmonston and related loads were not located in any local reliability area – as defined by the RMR studies. It is true that SWP's Edmonston pumping plant was not included in any local reliability area as defined for RMR designation purposes. The LCR Study assumptions, methodology, and criteria are different than the RMR assumptions, methodology, and criteria, which are a small subset of the Applicable Reliability Criteria and do not alone allow the CAISO to meet the minimum mandatory NERC reliability criteria that will be enforced with fines starting July 1, 2007. In fact this constitutes a primary motive for why the CAISO has proposed to eliminate the existing RMR criteria and apply the LCR Study criteria for establishing capacity requirements in Local Capacity Areas.

41. In her affidavit, Ms. Cronin also states that during the Amendment No. 60 hearings, the CAISO stated that it does not include pump load capacity when determining reliability needs for some or all contingencies. She cites an CAISO response to a data request from July 2005 indicating that the pump loads would have no impact on South-of-Lugo operations or effect generation dispatch. While it may be true that the SWP pumps in SP 26 are not effective in mitigating the South-of-Lugo 500 kV path, it does not follow from that

conclusion that the SWP pumps are ineffective in mitigating any or all reliability constraints in the grid. Such pumps are effective in mitigating constraints in the Big Creek/Ventura Area for example.

42. Ms. Cronin also faults the CAISO for not providing certain operating procedures and despite alleged statements by counsel for the CAISO stated they would respond to SWP's request by May 5 or 7. Affidavit at paragraphs 19- 22. My response to Ms. Cronin on this point has several components. First, the CAISO understands that it must provide SWP, and all Market Participants, with timely and substantive responses to inquiries. If the CAISO does not meet the expectations of the third-party, the likely cause is the significant number of competing priorities most CAISO employees currently face as the CAISO attempts to develop and implement a number of new regulatory initiatives. Second, I have reviewed electronic communications between SWP and its CAISO Account Manager regarding this matter. In such communications, SWP was advised that many of the requested operating procedures are subject to disclosure restrictions based on the market sensitivity, system security and/or the presence of proprietary information, including T-171, "Antelope-Vincent 220 kV Overload Mitigation," or T-163, "South of Magunden Nomogram." Of the twelve operating procedures SWP requested, five are publicly available (although some attachments are confidential) and the rest are restricted. Moreover, of the restricted operating procedures, the vast majority is irrelevant to the Big Creek/Ventura Local Capacity Area. Only the two operating procedures I noted above directly impact Big Creek/Venture and were considered in determining the capacity needed in that Local Capacity Area.

The CAISO also advised SWP of Operating Procedure A-03, entitled "Determining Distribution Restrictions for CAISO Operating Procedures." A copy of that document can be

found at <http://www1.caiso.com/docs/2005/07/21/2005072111572515578.pdf>. That operating procedure provides that the CAISO generally discloses such operating procedures only to PTOs or other entities that have some management of transmission or distribution facilities. Even for these entities, the CAISO does not distribute Market Sensitive procedures unless the entity has an established “firewall” between “them and their Marketing or Trading business side.”

Nevertheless, when a party requests a restricted operating procedure, the CAISO may request a face-to-face meeting to avoid sharing written information, or the CAISO can release those portions of the procedures that are not sensitive or that can be redrafted. Again, to the extent the CAISO did not perform these tasks fast enough, the CAISO recognizes the need to better manage the expectations of its market participants.

Third, I am aware that the Commission has already found that the SWP pumps are not interruptible by the CAISO. The CAISO’s operating procedures are consistent with this ruling and require that the pumps be dispatched through market mechanisms, such as Operating Procedure M-401. Accordingly, to the extent SWP needs to understand what is expected of SWP pumps to qualify as a Local Capacity Area Resource, I believe a better approach is for SWP, as its own LRA, to meet with the CAISO to reach a mutually agreeable arrangement.

43.

VII. NEXT STEPS TOWARD IMPLEMENTING THE LOCAL AREA CAPACITY REQUIREMENTS OF MRTU

44. The CAISO recognizes SWP’s concerns over the implementation of the new LCRs and has an equal desire to ensure that any such determinations are made based on the appropriate reliability criteria and the best available data. To the extent that there are differences of opinion or that SWP believes that it has not received information in a timely manner, the CAISO firmly believes there are better ways of working through issues.

45. The CAISO recognizes that it will be providing additional information regarding its application of the Applicable Reliability Criteria in its August 3, 2007 compliance filing, as the Commission has stated:

On rehearing we agree with parties that the record before us is insufficient to address the reliability criteria that the CAISO will use to determine local capacity area resource requirements. In the September 2006 Order, the Commission directed the CAISO to clarify in a compliance filing the set of reliability criteria used to determine local capacity area resource requirements and to incorporate these criteria into the MRTU Tariff. Therefore, we deny requests for rehearing of this issue, without prejudice to parties raising their concerns in the CAISO's compliance filing when a more complete record can be presented.

April Order at P 576. The CAISO will be providing that information in the upcoming filing. At that time, the CAISO will explain that the reliability criteria used in both the 2007 and 2008 studies conform in nearly all respects to NERC reliability standards that will become mandatory by July 1, 2007 with penalty sanctions as approved by FERC.

46. Further, the CAISO understands the need to continue to improve the stakeholder process with respect to development of the LCRs. The CAISO has begun the process of doing so through the transmission planning compliance requirements of Order No. 890. The CAISO's strawman proposal, posted on May 29, 2007 at <http://www.caiso.com/1bda/1bdab40d5960.html>, provides with respect to the LCR study a timeline and milestones that I believes allow for robust stakeholder input. The proposed timeline, which is likely subject to some revision during the stakeholder process, is as follows:

By early January: Stakeholder or standing committee meeting to address potential modifications to study criteria, assumptions or methodology.

By February 1st: Develop base cases

By February 7th: Stakeholder or standing committee meeting to verify base case development

March 4-5th: Publish preliminary results

By March 20th: Stakeholder meeting to address preliminary results and trigger request for operating procedures

By April 7-8th: Receive operating procedures and stakeholder comments on preliminary results

By May 7-8th: Review and validate operating procedures and make any necessary changes to address stakeholder comments.

By May 7-8th: Publish proposed final results and request final stakeholder comments

By May 15th: Receive comments and hold stakeholder meeting to discuss final results

By May 31st: Revise LCR Study as appropriate based on stakeholder comments

By May 31st: Send final LCR Study to CPUC and other LRAs

47. Ms. Cronin accuses the CAISO of having “violated CDWR’s own Resource Adequacy Program” in suggesting that the Edmonston and Oso Pumping plants be used as demand-side resources. Affidavit at paragraph 32. Such statements are unfounded. The CAISO is not trying to encroach into areas that are clearly those for SWP or other entities to determine. The CAISO must respect that SWP, as its own LRA, has the ability to make determinations with respect to the level of service reliability it is willing to accept (if that level does not degrade service to other customers) and can make determinations with respect to how its pumps may serve as demand-side resources to meet its Reserve Margin.

48. The CAISO, however, remains committed to trying to work through the transitional issues so that the necessary reliability requirements can be met in a non-discriminatory and reasonable manner.

I declare under penalty of perjury that the foregoing is true and correct and that this declaration was executed in Folsom, California on June 5, 2007.



Catalin M. Micsa

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for 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 Folsom, California this 5th day of June, 2007.

/s/ Grant Rosenblum
Grant Rosenblum