

System Resources if the CAISO determines, during the post-Release 1 stakeholder process, that the limitations to the value are not outweighed by the necessity and benefits of such a feature for the efficient functioning of the MRTU markets. If the Commission declines to provide this clarification, then the CAISO respectfully submits that the Commission erred in its decision to require the CAISO to implement multi-hour block constraint Bids for all System Resources in RUC in Release 2.

- With respect to the Commission's clarification that its directive concerning the filing of negotiated Default Energy Bids is satisfied with regular ex post informational filings made every 30 days, provided that parties have notice that the rate is tentative and may later be adjusted with retroactive effect, the CAISO requests further clarification that any retroactive adjustments to Default Energy Bids would not require the CAISO to engage in market reruns (*i.e.* would not involve changing market-wide Locational Marginal Prices ("LMPs")) but would instead simply require bid price payment adjustments to the affected generating unit. Additionally, the CAISO requests clarification that there will be a reasonable time limit on the ability to make retroactive adjustments to the filed Default Energy Bids (e.g. 60-days after filing). If the Commission declines to issue these requested clarifications, the CAISO requests rehearing on this issue because these clarifications are necessary in order to ensure an appropriate level of stability in the MRTU markets.
- The CAISO requests that the Commission clarify that its ruling in Paragraph 618 of the April 20 Order was not meant to exclude generation capacity under

bilateral contracts from consideration as Resource Adequacy Capacity. If the Commission declines to issue such clarification, the CAISO seeks rehearing on this issue. If the Commission grants clarification, and articulates that its concern is narrowly directed to the potential for “double” counting capacity that is both committed to an LSE within the CAISO Control Area and a Load-Serving Entity (“LSE”) without an obligation to submit a Resource Adequacy Plan, then the CAISO further seeks guidance or clarification as to nature of its compliance obligation, specifically that the current MRTU Tariff appropriately mitigates the threat of double counting.

- With respect to the Commission’s requirement in Paragraph 68 of the April 20 Order that the CAISO notify the appropriate Local Regulatory Authority of any non-compliance of RA resources, the CAISO respectfully requests that the Commission clarify the nature of its compliance obligation by confirming that the CAISO will contact the Scheduling Coordinators for the applicable LSE and suppliers with respect to any instances of non-compliance on the part of Resource Adequacy Resources listed by LSEs in Resource Adequacy Plans.

II. BACKGROUND

On February 9, 2006 the CAISO filed with the Commission its proposed MRTU Tariff, along with supporting expert testimony and other documentation (“MRTU Tariff Filing”). This filing represented the culmination of several years of conceptual filings and Commission orders on those filings, and addressed every aspect of the new MRTU market design.

Because of the complexity of this filing, the Commission provided parties with 60 days to file comments on the MRTU Tariff Filing, and an additional five weeks to file reply comments. A number of parties filed both initial and reply comments and protests concerning the MRTU Tariff Filing. On September 21, 2006, the Commission accepted for filing the MRTU Tariff to become effective November 1, 2007, subject to a number of modifications, as addressed in that order.² The Commission directed the CAISO to make a number of compliance filings in different timeframes. The CAISO, along with numerous other parties, filed requests for rehearing and clarification regarding certain aspects of the September 21 Order.

On April 20, 2006, the Commission issued an order granting in part and denying in part requests for clarification and rehearing of the September 21 Order. The Commission emphasized that it continues to find MRTU to be just and reasonable, but directed several changes be made in order to “further improve MRTU.”³

III. REQUESTS FOR CLARIFICATION, OR IN THE ALTERNATIVE, REHEARING

A. The Commission Should Clarify that the CAISO Will Not Necessarily be Required to Allow Multi-Block Constraint Bids as a Bidding Parameter of System Resources under RUC as Part of MRTU Release 2.

In response to an argument raised by Southern California Edison (“SCE”) that the MRTU proposal does not honor all bidding parameters of System Resources, the Commission, in the September 21 Order, concluded that it was reasonable for the CAISO to honor multi-block constraints as a parameter of System Resources under

² *California Independent System Operator Corp.*, 116 FERC ¶ 61,274 (2006) (“September 21 Order”).

³ *Id.* at P 2.

RUC.⁴ The Commission directed the CAISO to examine and report in its 60-day compliance filing whether the required software changes could be implemented by Release 1, and if not, when.

In the CAISO's request for rehearing and clarification of the September 21 Order, the CAISO requested rehearing of the Commission's conclusion that it is reasonable for the CAISO to honor multi-block constraint in Bids of System Resources in RUC, and asked the Commission to reverse this finding. The CAISO explained that because such resources are not dispatched in Real-Time (*i.e.* in the Hour Ahead Scheduling Process or "HASP") on a multi-hour basis, enforcing multi-hour block Bids from System Resources in RUC is not reasonable. As discussed in the CAISO's request for rehearing and clarification, RUC is a market for capacity, not energy. Unlike the Integrated Forward Market ("IFM"), RUC only designates capacity to be available in Real-Time, but does not actually dispatch Energy. Therefore, a resource whose capacity has been accepted in RUC is obligated to submit an Energy Bid for the RUC capacity into the Real-Time Market ("RTM"). However, there is no guarantee that the Energy from that RUC capacity will be needed and dispatched in the RTM. Therefore, the CAISO explained, enforcing such constraints in RUC would provide no practical benefit, and would only potentially increase RUC costs without achieving the underlying objective of the block constraint in the IFM, *i.e.*, to award the System Resource a constant Energy schedule over the block time period.

In the April 20 Order, the Commission noted that although it believed that there could be instances where capacity selected in RUC would have associated energy dispatched in real-time (e.g. generators producing energy at minimum output), it agreed

⁴ September 21 Order at P 143.

that “there are limitations to the value of multi-hour block constraint bids.”⁵ The Commission went on to note the significant expense and potential delay associated with implementing RUC multi-hour block constraints, and found that these costs outweighed “the potential benefits of including this functionality at this time.”⁶ The Commission stated that it was, therefore, granting the CAISO’s request for rehearing and directed the CAISO to “implement this bidding parameter in Release 2 of MRTU.”⁷

The CAISO fully agrees with the Commission’s statement that there are limitations to the value of multi-hour block constraint bids. In fact, as the CAISO explained in its request for rehearing and clarification of the September 21 Order, enforcing multi-hour block constraints for System Resources in RUC would currently provide no benefit whatsoever because it would not result in awarding System Resources a constant Energy schedule over the block time period. The fact that generators producing energy at minimum output could have capacity selected in RUC with associated energy dispatched in the RTM does not in any way undermine the CAISO’s point. As the CAISO stated in its request for rehearing and clarification of the September 21 Order, the determination of what capacity from RUC is needed and dispatched in real-time, in the case of non-dynamic System Resources, is made in the HASP, and because the HASP does not dispatch Energy on a multi-hour basis, and should not since the RTM is a real-time balancing market, multi-hour block constraints will not be observed in the HASP dispatch.

⁵ April 20 Order at P 55 (referring to the CAISO’s November 20, 2007 Compliance Filing reporting the cost and timing required to implement such functionality).

⁶ *Id.* at P 56.

⁷ *Id.*

The MRTU functionality already contemplates the ability to honor Minimum Load and minimum run time constraints for Resource Specific System Resources, which effectively is a physical based multi-hour constraint. This is so because for Resource Specific System Resources Scheduling Coordinators are able to define their Minimum Load and minimum runtime operating constraints, as they are related to physical constraints of the resource. However, as explained in the CAISO's request for rehearing and clarification, because some resources, specifically the non-dynamic System Resources, are dispatched in HASP, it would be inappropriate to allow just any System Resource to define multi-hour block constraints that must be enforced in RUC and Real-Time because doing so may allow these System Resources the ability to constrain the solution beyond the IFM, thus increasing costs. Therefore, for non-Resources Specific System Resources, there could be "limitations to the value of multi-block constraint bids" in RUC as they could unnecessarily constrain capacity.

The CAISO believes it is reasonable to conclude that in requiring the CAISO to implement this bidding parameter in Release 2 of MRTU, the Commission did not intend to suggest that any limitations in the value of allowing multi-hour block constraint bids should be overlooked through its implementation. Therefore, the CAISO requests that the Commission clarify that the CAISO will be permitted to follow a stakeholder process prior to implementing this requirement for non-Resource Specific System Resources to ensure that any limitations in such functionality are addressed in the rules it will ultimately adopt. The CAISO will then report to the Commission its findings concerning any such limitations and the usefulness and feasibility of honoring multi-hour block constraints for non-Resource Specific System Resources in RUC for Release 2. If

through this stakeholder process the CAISO determines that including such functionality for non-Resource Specific System Resources would provide no practical benefit that would outweigh any identified limitations in the value of multi-hour block constraint bids for non-Resource Specific System Resources, the Commission would not at that time require the CAISO to implement this feature for all System Resources across the board as part of Release 2. Granting this clarification will provide the CAISO with the flexibility to explore this issue in tandem with its development of MRTU Release 2, and will avoid requiring the CAISO to incur the expense associated with implementing a feature that may provide no practical benefits to Market Participants, and, in fact, might result in increased RUC procurement costs.

If the Commission declines to issue such a clarification, the CAISO requests rehearing on this issue. Requiring the CAISO to implement a feature that, given the Commission's own recognition that there are limitations to the value of the multi-hour block constraints bids, may very well prove to provide no practical benefit whatsoever, suffers from not having been vetted through a stakeholder process, and may only lead to increased costs to Market Participants, would not constitute a just and reasonable result. Indeed, the Commission has already acknowledged that the MRTU design is just and reasonable without this feature.

B. The Commission Should Provide Further Clarification With Respect to the Filing of Default Energy Bids

In the September 21 Order, the Commission conditionally accepted, subject to modification, the CAISO's proposal to provide generators four options for calculating Default Energy Bids as part of the MRTU Tariff's "PJM-style" local market power

mitigation procedures, including the Negotiated Rate Option.⁸ However, the Commission directed the CAISO to modify the MRTU Tariff to provide that, “at the time the CAISO and market participants negotiate a bid price, the CAISO must file the negotiated Default Energy Bid with the Commission.”⁹ In its request for rehearing and clarification of the September 21 Order, the CAISO asked that the Commission clarify that this filing requirement can be satisfied by *ex post* informational filings made on a regular time interval basis (the CAISO suggested every 30 days), and that the negotiated Default Energy Bids need not be reviewed and approved by the Commission prior to becoming effective.

In the April 20 Order, the Commission granted the CAISO's request for clarification, stating that the September 21 Order's directive to file the Default Energy Bids “would be satisfied by a regular *ex post* informational filing of these bids, provided parties have notice that the rate is tentative and may later be adjusted with retroactive effect” and that “every 30 days constitutes a sufficiently regular time interval basis for making such filings.”¹⁰ The CAISO appreciates the Commission's granting clarification on this issue. However, there are two additional items that the CAISO submits should be clarified with respect to these informational filings.

First, the CAISO agrees with the Commission's caveat that Default Energy Bids are tentative and may be adjusted after they are filed with retroactive effect. However, the Commission should clarify that any such retroactive adjustments will be limited to adjusting the bid price payments of the affected Generating Unit, and will not require the CAISO to engage in reruns in order to revise market-wide LMPs that might have been

⁸ September 21 Order at P 1033.

⁹ *Id.* at P 1057.

¹⁰ April 20 Order at P 510.

impacted by these Default Energy Bids. Such clarification is appropriate because the alternative would be to subject nearly all CAISO Market Participants to a high degree of price uncertainty on a regular basis, that is, any time an LMP is affected by a Default Energy Bid. Also, the CAISO submits that although making regular informational filings of Default Energy Bids constitutes sufficient notice for purpose of the specific Default Energy Bids under consideration, it would be unreasonable to expect that the entire market will be on notice as a result of such filings simply because of the fact that Default Energy Bids may impact market-wide LMPs. Such an expectation would place an unreasonably high administrative burden on Market Participants.

Second, the CAISO requests that the Commission clarify that there will be a reasonable time limit on the ability to make retroactive adjustments to the filed Default Energy Bids. The CAISO believes that 60 days after filing is appropriate. Such a reasonable limitation is necessary to provide Market Participants with a sense of price stability and commercial certainty, which would be undermined if there were an unlimited amount of time during which the Commission can retroactively adjust Default Energy Bids. The CAISO submits that providing Market Participants with a sense of price stability is particularly important given the transition to a new market structure and Market Participants' concerns relating to this transition.

If the Commission declines to issue these requested clarifications, the CAISO requests rehearing on this issue. As explained above, these clarifications are necessary in order to ensure an appropriate level of stability in the MRTU markets. Without them, Market Participants run the risk of being exposed to significant and open-ended price modifications. Given the many challenges faced by MRTU, the

Commission should be particularly receptive to opportunities such as this to assuage the concerns of Market Participants with respect to the stable functioning of the MRTU markets.

C. The Commission Should Clarify That it Did Not Intend to Exclude Generation Capacity Under Bilateral Contracts From Consideration as Resource Adequacy Capacity

In its request for rehearing of the September 21 Order, Imperial Irrigation District requested that MRTU Tariff Sections 40.6.6 and 40.6.11, relating to Partial Resource Adequacy Resources and the curtailment of exports during a System Emergency, respectively, be “amended to specify that the Resource Adequacy (“RA”) requirement does not apply to generation designated to serve bilateral contracts or ‘committed for minimum operating reserves.’”¹¹ The Commission agreed with Imperial that generating capacity under bilateral contract or committed for minimum Operating Reserves should not be offered as Resource Adequacy capacity. The Commission reasoned that such capacity cannot satisfy the Resource Adequacy availability requirements. However, the Commission found that this issue more appropriately relates to the verification of Supply Plans and directed the CAISO to alter its Supply Plan-related tariff provisions so that “Scheduling Coordinators representing RA capacity must show that their generation capacity is not already under bilateral contract or committed for minimum operating reserves.”¹²

The CAISO requests clarification of this Commission directive. There is nothing intrinsically inconsistent between a bilateral commitment for Energy or Operating Reserves from particular generation capacity to an LSE serving Demand in the CAISO

¹¹ April 20 Order at P 614.

¹² *Id.* at P 618.

Control Area and the Resource Adequacy availability obligation. So long as the generation capacity is committed to service in the CAISO Control Area and is “visible” to the CAISO through a Self-Schedule or Bid, the underlying contractual commitment for the power product is unimportant to the Resource Adequacy provisions of the CAISO tariff. The critical factor, which is already captured in the MRTU Tariff, is that the generation capacity be listed in a Supply Plan and a corresponding Resource Adequacy Plan from an LSE serving Demand in the CAISO Control Area. It is the symmetrical and corresponding designation of the generation capacity by the respective Scheduling Coordinators for load and supply that defines Resource Adequacy Capacity and triggers the availability obligation. Accordingly, the Commission’s directive is potentially overbroad and, in fact, may be detrimental to the Resource Adequacy program if the intent is to exclude generation capacity “already” under a bilateral contract from consideration as Resource Adequacy Capacity. Therefore, the Commission should clarify that it did not intend to do so. If the Commission declines to provide this clarification, the CAISO then respectfully requests rehearing on this issue.

That said, the CAISO agrees that capacity bilaterally committed to serve Demand external to the CAISO cannot satisfy the fundamental goal of resource adequacy. Therefore, if the Commission articulates that its concern is narrowly directed to the potential for “double” counting capacity that is both committed to an LSE within the CAISO Control Area and an LSE without an obligation to submit a Resource Adequacy Plan, *i.e.*, a LSE exclusively serving Demand outside the CAISO Control Area, then the CAISO further seeks guidance or clarification as to nature of its compliance obligation.

Section 40.4.7 requires that Scheduling Coordinators for Resource Adequacy Resources submit the Supply Plan “in the form of the template provided on the CAISO Website.” The Supply Plan template provides in pertinent part:

By submitting this Supply Plan to the CAISO, the Scheduling Coordinator is confirming that the Supply Plan has been prepared by someone with authority to do so, contains all of the information required by the CAISO to be reported in the Supply Plan, and that all such information is true and accurate. Further, the Scheduling Coordinator affirms and agrees that by submitting this Supply Plan, the CAISO is entitled to rely on the accuracy of the information provided in the Supply Plan to perform those functions set forth in CAISO Tariff Section 40, including, but not limited to, matters that can affect the operation, dispatch and settlement treatment of resources listed in the Supply Plan. All Supply Plans submitted to the appropriate electronic mailbox as specified by the CAISO shall be deemed to originate from the Scheduling Coordinator referenced in the Supply Plan; however, the Scheduling Coordinator will be notified of multiple submissions, discrepancies with Resource Adequacy Plans, and/or other errors.

As such, the Supply Plan reflects an incorporated MRTU Tariff obligation to provide accurate and complete information. By providing this information, the resource becomes bound by provisions governing Resource Adequacy Capacity. The CAISO believes that this addresses Imperial’s concern by allowing the CAISO to initiate enforcement action against the Scheduling Coordinator for a resource should it become known that double counting of capacity occurred. Entities such as Imperial also have the ability to protect themselves by including in their bilateral arrangements provisions that create a financial disincentive for suppliers to utilize their capacity in a manner that would prevent complying with the contractual obligations. From the foregoing, it is clear that the CAISO’s Supply Plan and Resource Adequacy Plan mechanisms provide a means to identify Resource Adequacy Capacity. The CAISO also provides the functionality to register Resource Adequacy Capacity that will support firm exports.

However, the CAISO does not currently contemplate an explicit registration for non-Resource Adequacy Capacity. Other than embarking on such a course, and absent further Commission clarification, the CAISO believes the current MRTU Tariff mitigates the threat of double counting that prompted Imperial's concern.

D. The Commission Should Clarify that the CAISO Will Contact the Scheduling Coordinator Representing an LSE With Respect to Any Instances of Non-Compliance on the Part of RA Resources Listed on that LSE's Resource Adequacy Plan

In the April 20 Order, the Commission agreed with the Six Cities that the second and third paragraphs of Section 8.10.8.1 of the MRTU Tariff seem to conflict, and agreed that undispatchable RUC capacity from both RA and non-RA resources should be disqualified from the receipt of a capacity payment. However, the Commission also found that Section 8.10.8.1 creates some confusion regarding the payment obligations of RA resources and non-RA resources. The Commission noted that since RUC resources that are RA resources are compensated for availability through their RA contracts, they do not receive a RUC availability payment, and accordingly would have no payment to be rescinded by the CAISO. Further, the Commission stated its belief that Local Regulatory Authorities ("LRAs") can impose penalties on RA resources for not adhering to the terms and conditions of their RA contracts. Thus, the Commission noted that it is inappropriate for the CAISO to impose additional payment obligations upon RA resources that would otherwise be imposed by LRAs and directed the CAISO to submit tariff sheets clarifying MRTU Tariff Section 8.10.8.1 to provide, among other things, that the CAISO will notify the appropriate LRA of any non-compliance of RA resources.¹³

¹³ April 20 Order at PP 66, 68

With respect to this directive, the CAISO requests clarification that the Commission intended to require the CAISO to communicate with the Scheduling Coordinators, not LRAs, for LSEs that list non-compliant RA resources on Resource Adequacy Plans. LRAs generally cannot impose additional payments on suppliers. However, through the bilaterally negotiated contract, an LSE may be entitled to additional payments for non-compliance of a contractual obligation. Because the CAISO generally communicates to LSEs through their respective Scheduling Coordinators, the CAISO respectfully requests that the Commission clarify the nature of its compliance obligation by confirming that the CAISO will contact the Scheduling Coordinators for the applicable LSE and suppliers with respect to any instances of non-compliance on the part of Resource Adequacy Resources listed by LSEs in their Resource Adequacy Plans.

IV. CONCLUSION

Wherefore, for the reasons discussed above, the CAISO respectfully requests that the Commission grant the requests for clarification, or in the alternative, rehearing of the April 20 Order described above.

Respectfully submitted,

/s/ Sidney M. Davies
Sidney M. Davies
Assistant General Counsel
Anna McKenna
Counsel
Grant Rosenblum
Senior Counsel
California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400

Sean A. Atkins
Michael Kunselman
Alston & Bird LLP
The Atlantic Building
950 F Street NW
Washington, DC 20004
Tel: (202) 756-3300

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Certificate of Service

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

Dated this 21st day of May, 2007 at Folsom in the State of California.

/s/ Sidney M. Davies

Sidney M. Davies
(916) 608-7144