

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System)
Operator Corporation) Docket No. ER05-718-003

**MOTION FOR LEAVE TO FILE ANSWER,
AND ANSWER TO COMMENTS AND PROTESTS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

Pursuant to Rules 212 and 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. §§ 385.212 and 385.213, the California Independent System Operator Corporation (“CAISO”) hereby submits this Motion for Leave to File Answer and Answer to Comments and Protests filed in the above-captioned docket. The answers and protests were filed in response to the CAISO’s July 26, 2005 proposal to maintain the “as-bid” settlement rules for settling intertie transactions (import/export bids) as the longer-term solution to remain in effect beyond the September 30, 2005 sunset date specified in the Commission’s *Order on Tariff Filing*, 111 FERC ¶ 61,008 (2005) on April 7, 2005 (“Amendment 66 Order”).

Specifically, the CAISO would like to respond to the *Comments of Powerex Corporation* (“Powerex Comments”) and the *Comments and Protest of the Bonneville Power Administration* (“BPA Comments and Protest”).¹ These filings raise similar and interrelated concerns that merit a response. The CAISO requests leave to file an answer and files its answer in response to these comments and protest.²

¹ The only other party filing comments, the California Electricity Oversight Board, strongly supports the CAISO’s proposal to maintain the “as-bid” settlement rules prior to implementation of the CAISO’s Market Redesign and Technology Upgrade (“MRTU”) in February 2007.

² The CAISO requests waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to the extent this answer is deemed an answer to protest. Good cause exists for this waiver because the answer will aid

I. ANSWER

Only one party, BPA, has protested the CAISO's July 26, 2005 proposal to extend the "as-bid" settlement solution beyond September 30, 2005. Powerex, on the other hand, recognizes that the "as bid" solution is working well and, therefore, does not oppose the continuation of the as-bid settlement solution until MRTU is implemented. Powerex Comments at 3. Both BPA and Powerex, however, continue to press similar concerns that other alternatives to the "as-bid" settlement solution are superior. In addition, BPA argues that the "as bid" settlement solution is "neither just nor reasonable." BPA Comments at 4.

The CAISO has recognized from the outset that there are theoretically superior alternatives to the "as bid" settlement solution. In its March 23, 2005 transmittal letter in this docket, the CAISO noted that the "as-bid" solution is not its "preferred" solution (page 6), but is a solution that can be implemented with relative ease and would mitigate the high-uplift costs the CAISO was experiencing between October 2004 and March 24, 2005, the effective date of Amendment 66. More than five months of weekly reports and the Department of Market Analysis Whitepaper entitled "CAISO Import/Export Market Performance Under 'As-Bid' Versus 'Bid-or-Better' Settlement Rules" submitted in support of the July 26, 2005 proposal to extend the "as-bid" solution, establish that the "as-bid" solution is working well. All the CAISO needs to demonstrate under Section 205 of the Federal Power Act is that the tariff amendment is "just and reasonable." There is ample evidence on the record that the "as-bid" solution

the Commission in understanding the issues in the proceeding, provide additional information, assist the Commission in the decision-making process, and help to ensure a complete and accurate record in this case. See e.g., *Entergy Services, Inc.*, 101 FERC ¶ 61,289 at 62,163 (2002); *Duke Energy Corp.*, 100 FERC ¶ 61,251 at 61,886 (2002); *Delmarva Power & Light Co.*, 93 FERC ¶ 61,098 at 61,259 (2000).

is working well and that the two concerns associated with the “as-bid” rule—high cost bids for intertie transactions and reduced liquidity—have not materialized to any significant degree.

Moreover, it is difficult to conceive how a seller could establish that a particular settlement rule that provides that a seller is paid the very price that it bids is not just and reasonable. This is exactly what BPA argues. BPA argues that the “as-bid” settlement rule denies it the market value of the energy. BPA Comments at 4. One of the theoretical deficiencies of a “pay as bid” market is that market participants will not bid aggressively by submitting “price-taker” bids and, instead, will mark-up their bids to reflect what they anticipate the market –clearing price would be. In this way, sellers are paid a market value for energy, which could be higher than lower than a market-clearing price would be. The general concern, however, is that the “as bid” settlement rule is inefficient because sellers would bid higher than they would otherwise, and buyers would have to pay more than they would have in a market-clearing regime.

Indeed both BPA and Powerex appear argue that “as bid” settlement solution for pre-dispatch transactions will raise costs for consumers: the combination of consumers paying more for inter-tie transactions due to the bidding incentives; and potentially reduced liquidity on the inter-ties (compared to the “bid or better” rule), could raise the total imbalance energy costs. BPA Comments at 6-10; Powerex Comments at 5-8. In this respect, it is noteworthy that no load-serving entity has protested the “as bid” settlement solution.

Finally, Powerex urges the Commission to continue requiring the CAISO to submit weekly reports and to include additional information in those weekly reports.

The CAISO will continue to monitor the “as-bid” settlement rules and has no objection to continuing to submit weekly reports. However, the CAISO believes that the information previously requested by the Commission is more than adequate to assess whether the “as bid” rule continues to function adequately. Accordingly, the CAISO urges the Commission not to increase the CAISO’s reporting obligations.

II. CONCLUSION

Wherefore, for the reasons discussed above, the CAISO respectfully requests that the Commission accept the CAISO’s July 26 filing extending the “as bid” settlement rules beyond the September 30, 2005 sunset date specified in the Amendment 66 Order.

August 31, 2005

Respectfully submitted,

/s/ Sidney Mannheim Davies

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August 31, 2005

VIA ELECTRONIC FILING

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: California Independent System Operator Corporation
Docket No. ER05-718-003**

Dear Secretary Salas:

Transmitted herewith for electronic filing in the above-referenced proceeding is the Motion for Leave to File Answer, and Answer to Comments and Protests of The California Independent System Operator Corporation

Thank you for your attention to this matter.

Yours truly,

/s/ Sidney Mannheim Davies
Sidney Mannheim Davies

Counsel for the California Independent
System Operator Corporation

Enclosure

cc: Service List

CERTIFICATE OF SERVICE

I hereby certify that I have, this 31st day of August 2005, caused to be served a copy of the foregoing document upon all parties listed on the official service list compiled by the Secretary of the Federal Energy Regulatory Commission in this proceeding.

/s/ Sidney Mannheim Davies
Sidney Mannheim Davies