

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

Independent Energy Producers Association)	
)	
v.)	Docket No. EL05-146-002
)	
California Independent System Operator)	
Corporation)	

**ANSWER OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR
CORPORATION TO COMMENTS AND PROTEST REGARDING
COMPLIANCE FILING**

Pursuant to Rules 212 and 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. §§ 385.212, 385.213 (2006), the California Independent System Operator Corporation (“CAISO”)¹ submits this answer to the comments and protest submitted in the captioned proceeding concerning the compliance filing the CAISO submitted in the proceeding on October 20, 2006 (“Compliance Filing”).² As described below, the Commission should accept the

¹ Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff, and in the October 20, 2006, filing the CAISO submitted in the captioned docket.

² Only two parties submitted filings concerning the Compliance Filing: Williams Power Company, Inc. (“Williams”) submitted comments, and the California Department of Water Resources State Water Project (“SWP”) submitted a filing styled as its “comments and protest,” although SWP’s filing indicates that it presents no new protest but instead “reserves all objections previously set forth in this matter” (SWP at 2). The Commission’s Rule 213 permits the CAISO to submit an answer to the comments submitted. To the extent the Commission considers SWP’s filing to be a protest, the CAISO respectfully requests waiver of Rule 213(a)(2) (18 C.F.R. § 385.213(a)(2)) to permit the CAISO to file an answer to the protest. Good cause for this waiver exists here because the answer will aid the Commission in understanding the issues in the proceeding, provide additional information to assist the Commission in the decision-making process, and help to ensure a complete and accurate record in the case. *See, e.g., Entergy Services, Inc.*, 101 FERC ¶ 61,289, at 62,163 (2002); *Duke Energy Corporation*, 100 FERC ¶ 61,251, at 61,886 (2002); *Delmarva Power & Light Company*, 93 FERC ¶ 61,098, at 61,259 (2000).

Compliance Filing as submitted, with the minor modifications identified below.

I. ANSWER

A. The CAISO Has No Objection to a Modification of Section 43.5.1 of the ISO Tariff to Make it Clear that, Once RCST Capacity Has Been Designated, the RCST Capacity Must Offer Ancillary Services to the Extent Capable.

Among the provisions included in the Compliance Filing is Section 43.5.1 of the ISO Tariff, which concerns the obligations of Generating Units designated under the Reliability Capacity Services Tariff (“RCST”). Williams asserts that the CAISO should modify Section 43.5.1 to make it clear that, as stated in Section 4.3 of the Offer of Settlement and Explanatory Statement submitted in this proceeding on March 31, 2006 (“Offer of Settlement”), once RCST capacity has been designated, that RCST capacity must offer Ancillary Services to the extent capable.³ The CAISO has no objection to the modification that Williams requests.⁴

B. Minor Corrections to ISO Tariff Language Are Needed to Address the Concerns that SWP Raises.

SWP argues that the ISO Tariff language provided in the Compliance Filing “requires close scrutiny” and “contains errors.” However, SWP is the only party that has identified any errors or omissions, and SWP has identified only three issues regarding the tariff language. First, SWP correctly notes that the

³ Williams at 3-4.

⁴ The CAISO notes that the version of Section 43.5.1 included in the Compliance Filing was the same as the version of that section included for illustrative purposes in the Offer of Settlement (except that the CAISO corrected a few minor typographical errors in the Compliance Filing version). Compliance Filing at Attachment C (page 4).

references in Section 40.14 and in the definition of Must-Offer Capacity Payment to “Section 43.9” of the ISO Tariff are in error.⁵ As SWP indicates, the correct reference to the ISO Tariff language should be Section 40.14 rather than Section 43.9. The Commission should direct that the Compliance filing be amended accordingly. Second, SWP states that “a new, unexplained and undefined acronym ‘SCRA’ appears in proposed § 43.8.”⁶ The term in Section 43.8 that SWP is referring to is actually “SC-RA Entity,” which is defined in Section 2.2.2(a) of the Offer of Settlement as a “Scheduling Coordinator for an RA Entity.” The Commission should direct that the compliance filing be modified to add the definition of SC-RA Entity that appears in the Offer of Settlement to Appendix A to the ISO Tariff.

C. SWP’s Arguments Regarding the Must-Offer Capacity Payment Provisions in the Compliance Filing Are Without Merit.

The third issue raised by SWP pertains to the purported “extreme complexity” and “extreme opacity” of the ISO Tariff provisions in the Compliance Filing concerning the Must-Offer Capacity Payment.⁷ However, SWP is the only party that even submitted comments regarding these compliance filing provisions.⁸

⁵ SWP at 2-3.

⁶ *Id.* at 3.

⁷ *Id.*

⁸ As part of its support for its argument, SWP cites to comments made by the Six Cities earlier in this proceeding. SWP at 4 n.3. The Six Cities did not submit any comments in response to the Compliance Filing. Moreover, the CAISO has already responded to the Six Cities in the reply comments the CAISO submitted in this proceeding on September 26, 2006 (at pages 7-8).

SWP cites the CAISO's posting of successive reports showing different estimates of amounts of Must-Offer Capacity Payment costs as "evidence" that the CAISO has had difficulty understanding the ISO Tariff provisions that explain how to calculate such costs.⁹ SWP's claim that the CAISO updating of its Must-Offer Capacity Payment Report was due to the CAISO's difficulty in understanding the Must-Offer Capacity Payment Tariff provisions is simply wrong. Indeed, SWP's claims are undercut by CAISO statements that SWP references in its filing. As the CAISO has already explained, in language quoted by SWP in its protest,¹⁰ the difference between the Must-Offer Capacity Payment cost estimate contained in the July 31, 2006 report and amount reflected in the September 25, 2006 updated report is that the amount specified in the July 31, 2006 report was based on an estimated Peak Energy Rent ("PER"), but the amount specified in the September 25, 2006 report reflected the PER reduction based on actual high Market Clearing Prices during summer 2006. Thus, contrary to SWP's incorrect and unsupported claim, the CAISO did not revise its reports due to difficulty understanding how to make the required calculations under the Offer of Settlement; rather, the CAISO revised the estimated level of capacity payments after the actual, rather than the predicted, market prices became available and the CAISO calculated the actual PER in accordance with the Offer of Settlement.

⁹ SWP at 4-5.

¹⁰ *Id.*

SWP ignores the fact that, in the report issued July 31, 2006, the CAISO indicated that it was merely providing a

preliminary report of waiver denial activity for FERC-MOO [must-offer obligation] resources. The preliminary analysis and data provided (aggregate costs and quantities) are for information purposes only, and are subject to change.¹¹

The CAISO has also explained in all of its reports that “[a]ctual costs are subject to final FERC approval.” Therefore, the CAISO has reminded Market Participants at every step that its estimates may change and that the actual Must-Offer Capacity Payment costs to be paid are those the Commission has approved. The underlying process is no different (except far simpler by several orders of magnitude) than the Federal government’s calculation of the Gross Domestic Product, the unemployment rate, or job growth. There are preliminary estimates, estimates, and later revised estimates. The estimates change because the underlying data changes, not because the government agencies lack an understanding of the methodology for making the calculations.

D. In the Compliance Filing, the CAISO Has Already Requested an Effective Date of July 20, 2006 for the ISO Tariff Provisions As to Which SWP Requests a July 20 Effective Date.

SWP asserts that, if the Commission approves an effective date of July 20, 2006, for the provisions in the Compliance Filing concerning rates, the Commission should approve the same July 20 effective date for the provisions in the Compliance Filing relating to CAISO reporting requirements.¹² The CAISO

¹¹ CAISO Preliminary FERC-MOO Must-Offer Waiver-Denial Summary Report, available at <http://www.caiso.com/1844/184494484e740.pdf> (page 1) (emphasis added).

¹² SWP at 5-7.

has proposed an effective date of July 20, 2006, for all of the provisions in the Compliance Filing.¹³ Therefore, the CAISO agrees that the Commission should make the reporting provisions (and the rest of the provisions) effective as of July 20.

II. CONCLUSION

For the reasons discussed above, the CAISO respectfully requests that the Commission accept the Compliance Filing as submitted, except with regard to the changes to the provisions in the Compliance Filing that the CAISO has no objection to modifying as described herein.

Respectfully submitted,

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November 28, 2006

¹³ Transmittal Letter for Compliance Filing at 2; Compliance Filing at Attachment A.

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused the foregoing document to be served upon each person designated on the official service list maintained by the Secretary in this proceeding in accordance with Rules 2010 of the Commission's Rule of Practice and Procedure.

Dated at Folsom, California this 28th day of November, 2006.

/s/ Anthony J. Ivancovich
Anthony J. Ivancovich