

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

California Independent System) Docket No. ER06-615-028
Operator Corporation)

**ANSWER OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

Pursuant to Rule 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.213 (2008), the California Independent System Operator Corporation (“CAISO”) respectfully submits this Answer to comments addressing CAISO’s filing made on August 18, 2008 (“August 18 Filing”) in compliance with the Federal Energy Regulatory Commission (“Commission” or “FERC”) “Order Conditionally Accepting, Subject to Modification, MRTU Compliance Filings,” 123 FERC ¶ 61,043, issued on July 17, 2008 (“July 17 Order”). Two parties have submitted comments concerning the August 18 Filing.¹

For the reasons explained below, CAISO respectfully requests that the Commission accept CAISO’s further recommended changes to Section 11.24 of the Market Redesign and Technology Upgrade (“MRTU”) Tariff to ensure that the applicable charge is more clearly articulated than previously proposed, which if so ordered CAISO will make in a subsequent compliance filing.

¹ Comments on CAISO’s August 18 Filing were submitted by Pacific Gas and Electric Company (“PG&E”) and Southern California Edison Company (“SCE”).

I. BACKGROUND

On February 9, 2006, CAISO filed a proposed MRTU Tariff that included modifications to the then-current ISO Tariff reflecting the numerous changes to CAISO's market structure included in the MRTU proposal. On September 21, 2006, the Commission issued an order conditionally accepting the MRTU Tariff for filing, subject to modifications.² In the September 2006 MRTU Order, the Commission directed CAISO to implement convergence bidding within 12 months of the effective date of MRTU, rather than postpone MRTU until the development and approval of a convergence bidding plan. The Commission also directed CAISO to develop and file interim measures to mitigate the potential economic incentives for Load Serving Entities ("LSEs") to underschedule in the Day-Ahead Market. Such measures are further required to remain in effect until they are superseded by the implementation of an approved convergence bidding proposal.

On September 28, 2007, CAISO submitted a compliance filing that consisted of the following features: (1) a bright line test to define persistent underscheduling; (2) an interim scheduling charge for LSEs that persistently underschedule; and (3) confidential weekly reports to disclose scheduling performances.

On July 17, 2008, the Commission issued its Order Conditionally Accepting, Subject to Modification, MRTU Compliance Filings requiring further

² *California Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274 (2006) ("September 21 Order").

compliance filings requiring the elimination of a five percent free pass for underscheduling. On August 18, 2008, SCE and PG&E both submitted Requests for Rehearing of the July 17 Order.³ Also, on August 18, 2008, CAISO submitted a filing in compliance with this requirement. On September 8, 2008, PG&E and SCE submitted comments as further discussed herein.

II. ANSWER

The August 18 Filing, submitted in compliance with the July 17 Order, appropriately eliminated the five percent free pass as required by the July 17 Order. As further discussed below, however, the proposed changes submitted at that time were not sufficiently clear and unambiguous. The further changes proposed below more correctly represent the underscheduling charge without the five percent persistent underscheduling provision. Therefore, CAISO respectfully requests that the Commission accept these further changes, which CAISO will submit in a future compliance filing.

In its September 8 Comments, PG&E commented that the changes filed by CAISO in compliance to the July 17 Order go far beyond what is necessary to discourage persistent underscheduling in the Day-Ahead Market, as required by the Commission April 20 Order. PG&E argues that the revisions would penalize Scheduling Coordinators the very first hour in which the amount of its load clearing the day-ahead market falls below of the 15 percent deadband as accepted by the Commission. PG&E opposes the requirement that the

³ See *Request for Rehearing of Pacific Gas and Electric Company*, filed in Docket No. ER06-615-013, on August 18, 2008, and *Request for Rehearing of Southern California Edison Company on July 17th Order Conditionally Accepting, Subject to Modification, MRTU Compliance Filings*, filed in Docket ER06-615-013, on August 18, 2008.

elimination of the five percent free pass in the July 17 Order, but does suggest that the language as filed on August 18, 2008 is not in compliance with the July 17 Order.

Similarly, in its September 8, 2008 Comments, SCE also opposes the removal of the five percent persistent underscheduling provisions from the previously submitted tariff language, and strongly urged the Commission to revise its directives in its July 17 Order. SCE further comments that if the Commission declines to reinstate the provision, at a minimum CAISO's revised tariff language needs to address instances of underscheduling, as discussed in more detail *infra*, that are largely outside of the Scheduling Coordinator's control. SCE argues that because of uncertainty in weather, load, and customer behavior at a minimum the revised tariff language needs to accommodate the inherent load forecasting uncertainty during shoulder and non-peak hours to avoid unfairly applying underscheduling charges to Scheduling Coordinators due to conditions largely outside of their control.

SCE also comments that in order to economically serve their load and avoid underscheduling charges, Scheduling Coordinators may effectively be forced to self-schedule significant portions of their load. SCE refers to the relatively higher priority of demand self-schedules over economic bids as reflected in Section 31.4 and 34.10 of the MRTU Tariff. Even if a substantial amount of its load is self-scheduled, SCE argues that there is no guarantee that their load will clear the Integrated Forward Market ("IFM") under the current MRTU construct and if CAISO cuts demand self-schedules, the Scheduling

Coordinator's load will not clear the IFM and therefore could be subject to underscheduling charges in every event. Therefore, SCE argues that the revised tariff language needs to protect Scheduling Coordinators from underscheduling charges in hours in which CAISO was forced to curtail self-scheduled demand in the IFM.

Finally, SCE argues that because already in market simulation demand bids have not made it into the market due to human error or as result of software problems, the tariff language now needs to protect Scheduling Coordinators' customers from potentially substantial underscheduling charges due to accidental human error or unexpected software problems.

While CAISO does not disagree with PG&E and SC's comments regarding the need for the five percent persistent underscheduling provision, CAISO at this time does not object to the Commission's decision and submits that its August 18 Filing, subject to further clarifications provided herein, is appropriately submitted in compliance with the Commission's decision. While CAISO agrees that many of the issues raised by PG&E and SCE are the reasons why CAISO had originally proposed the five percent persistent underscheduling provision, CAISO submits that the expansion of the tariff language as proposed by SCE in the absence of the five percent persistent underscheduling provision in the subject compliance filing is beyond the scope of this proceeding. Moreover, an enhancement of the tariff with such additional exemptions would hamper the implementation of this charge for MRTU go live, at a time when CAISO resources are already strained in its intensive efforts towards go live. Therefore, CAISO

submits that at this time it is appropriate to implement the underscheduling provision as approved by the Commission. However, to address the concerns raised by SCE and PG&E, CAISO will monitor these charges in the early months of MRTU, and if it is determined that LSEs are inappropriately being penalized due to CAISO's cutting of demand schedules, or due to human error and software problems, or if the penalty is causing a high degree of demand self-scheduling, CAISO will convene an expedited stakeholder process to address these issues and make any necessary filings with the Commission to accommodate changes out of that stakeholder process.

CAISO further submits that the following further changes are necessary to make the tariff provision clear and unambiguous. In its August 18 filing, CAISO proposed to make the following changes:

11.24.2 Interim Scheduling Charge

In the event that a Scheduling Coordinator's Net Negative CAISO Demand Deviation in its applicable LAP exceeds fifteen percent (15%) of the Scheduling Coordinator's cleared total CAISO Demand as represented in its Day-Ahead Schedule in its applicable LAP for ~~five percent (5%) or more of the total Trading Hours in any given month~~, the Scheduling Coordinator shall pay through the end of the applicable calendar month the monthly Interim Scheduling Charge as follows:

These changes appropriately eliminate the five percent language but retain the structure of the original five percent threshold requirements, which inappropriately suggest that a fifteen percent threshold is still accounted for in

any given month. CAISO submits that the additional changes below are required in order to ensure that the charge is calculated and understood appropriately without the five percent provision as required by the Commission. The elimination of the five percent persistent underscheduling provision essentially results in a charge that is immediately triggered if in any given Trading Hour in any given month the Scheduling Coordinator's Net Negative CAISO Demand Deviation in its applicable Load Aggregation Point ("LAP") exceeds fifteen percent (15%) of the Scheduling Coordinator's cleared total CAISO Demand as represented in its Day-Ahead Schedule in its applicable LAP.

11.24.2 Interim Scheduling Charge

~~In the event that a Scheduling Coordinator's Net Negative CAISO Demand Deviation in its applicable LAP exceeds fifteen percent (15%) of the Scheduling Coordinator's cleared total CAISO Demand as represented in its Day-Ahead Schedule in its applicable LAP for any given month, the Scheduling Coordinator shall pay through the end of the applicable calendar month.~~ The monthly Interim Scheduling Charge will be calculated and charged to Scheduling Coordinators as follows:

- (a) For any given Trading Hour in which the Scheduling Coordinator's Net Negative CAISO Demand Deviation in its applicable LAP is greater than fifteen percent (15%) and less than twenty percent (20%) of the Scheduling Coordinator's cleared total CAISO Demand as represented in its Day-Ahead Schedule in its applicable LAP, the

Scheduling Coordinator shall pay \$150/MWh for its Net Negative CAISO Demand Deviation that is greater than fifteen percent (15%) and less than twenty percent (20%) of its cleared total CAISO Demand as represented in its Day-Ahead Schedule in the applicable LAP in that Trading Hour.

- (b) For any given Trading Hour in which the Scheduling Coordinator's Net Negative CAISO Demand Deviation in its applicable LAP is greater than or equal to twenty percent (20%) of the Scheduling Coordinator's cleared total CAISO Demand as represented in its Day-Ahead Schedule in its applicable LAP, the Scheduling Coordinator shall pay \$250/MWh for its Net Negative CAISO Demand Deviation greater than or equal to twenty percent (20%) of its cleared total CAISO Demand as represented in its Day-Ahead Schedule in the applicable LAP in that Trading Hour.

III. CONCLUSION

Wherefore, for all the reasons stated above, CAISO respectfully requests that the Commission accept the August 18 Filing with the further proposed modifications as provided herein.

Respectfully submitted,

/s/ Anna McKenna
Anna A. McKenna
Counsel

California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400

Dated: September 19, 2008

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 19th day of September, 2008.

/s/ Susan L. Montana
Susan L. Montana