

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

**California Independent System) Docket No. ER09-1529-000
Operator Corporation)**

**ANSWER TO COMMENTS, MOTION TO FILE ANSWER,
AND ANSWER TO A LIMITED PROTEST OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

Pursuant to Rules 212 and 213 of the Federal Energy Regulatory Commission's (Commission) Rules of Practice and Procedure, 18 C.F.R. §§ 385.212 and 385.213, the California Independent System Operator Corporation (ISO) hereby files an answer to comments by various parties and moves for leave to answer a limited protest and answers such protest by the California Public Service Commission (CPUC) to the ISO's July 31, 2009, filing in the above captioned proceeding (July 31 Filing). As explained below, the Commission should accept the July 31 Filing subject to the single modification discussed below.

I. Background

On April 1, 2009, the ISO implemented the new market design pursuant to the currently effective ISO FERC Electric Tariff as filed with and accepted by the Commission. Following the launch of the new market design, the ISO has been closely observing the market and operational results and has been in close consultation with market participants regarding their market experiences. These efforts continue as the ISO enters the sixth month of operations under the new market design.

As a result of these efforts, the ISO identified three modifications needed to better align operational outcomes with actual costs and avoid market or settlement

distortions that arise out of existing market rules. The proposed changes filed on July 31 are as follows:

- Modify the restriction on the frequency with which a resource can modify its election of how to recover start-up and minimum load costs from once every six months to once every thirty days;¹
- Provide a rule for determining the locational marginal price (LMP) for an electrically disconnected pricing node (PNode); and
- Simplify the financial settlements of congestion revenue rights (CRRs) to reflect credits and charges as they will actually be made at the time of each invoice.²

II. MOTION FOR LEAVE TO ANSWER LIMITED PROTEST

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 ISO moves for leave to answer protests to the July 31 Filing. The ISO requests waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to permit it to make an answer to the limited protest of the CPUC. Good cause exists for this waiver here because the answer will aid the Commission in understanding critical facts regarding the proposed tariff changes pertaining to the start-up and minimum load cost registration process and will help to ensure a complete and accurate record in this case.³

¹ As discussed below, the ISO is proposing to modify the election to be a monthly election rather than a 30-day election.

² Intervenors do not protest or comment on the proposed CRR settlement change.

³ See, e.g., *Entergy Services, Inc.*, 116 FERC ¶ 61,286, at P 6 (2006); *Midwest Independent Transmission System Operator, Inc.*, 116 FERC ¶ 61,124, at P 11 (2006); *High Island Offshore System, L.L.C.*, 113 FERC ¶ 61,202, at P 8 (2005).

III. Answer

A. The ISO's Proposed Revisions Regarding Start-up and Minimum Load Cost Compensation are Just and Reasonable; However, the ISO Prefers a Calendar Month Election Rather Than The 30-Day Election Originally Proposed.

Consistent with feedback in the stakeholder process, parties generally support the ISO's proposal to permit more frequent elections between the "Proxy Cost" and "Registered Cost" options for compensating resources for their start-up and minimum load costs. Three parties raise issues in comments or protests to which the ISO responds.

First, the California Department of Water Resources conditions its support of the ISO's proposal on a three year sunset date and the development of a longer term approach to replace the filed "interim" approach. The ISO urges the Commission to reject these conditions as unnecessary. The ISO has begun a stakeholder process for developing a longer term solution but does not believe that any particular time table should be dictated. Based on stakeholder involvement to date, the ISO has decided to spend additional time to develop an alternative solution and currently does not plan to seek Board of Governors approval for a longer term solution at its October 2009 meeting. Given the number and complexity of the market enhancement additions under way, the ISO's priorities should be dictated by the need to satisfy Commission directives and to address actual, rather than theoretical, problems that arise. The ISO intends to monitor the effects of the interim solution. This information will dictate the pace of the stakeholder process to develop a longer term solution.

Second, Western Power Trading Forum (WPTF) opposes the ISO's proposal to reduce the cap on the Registered Cost option to 200% for all resources, not just

those located in a local capacity requirements area. WPTF correctly notes that this option was one of two proposed by the ISO's Market Surveillance Committee (MSC) to address potential market power abuse. The other alternative was to keep the 400% cap for resources not located in local capacity areas but to allow the ISO's Department of Market Monitoring (DMM) to reduce the cap unilaterally to 200% if DMM determines the owner is exercising market power. WPTF prefers the MSC's alternative approach. The ISO believes that the MSC's alternative approach is untenable. On hand, if the authority were self-implementing, it would in effect give unilateral authority to DMM to change rates without notice. Such authority would be inconsistent with the Federal Power Act. On the other hand, if the authority were not self-implementing, then, presumably, a tariff amendment and prior approval of the ISO's Board of Governors would be required. This approach would not provide any market power mitigation at all. WPTF also fails to demonstrate that the ISO's proposal is not just and reasonable. No market participant in the stakeholder process, and no party in this proceeding, has provided any support that the 200% cap is not just and reasonable. Finally, as noted in the ISO's transmittal letter, DMM supports the approach filed by the ISO.

Third, the CPUC filed a "limited protest." Although it generally supports the ISO's proposed tariff amendment, it urges the Commission to impose additional but unspecified market power measures beyond the reduction of the cap from 400% to 200% for resources located in local capacity areas. Both the ISO's MSC and the DMM have concluded that reducing the cap to 200% for all resources is an adequate market power mitigation measure. Accordingly, the ISO believes that no

additional mitigation measures should be required unless evidence of market power abuse materializes.

In addition, the CPUC also objects to allowing resources to change their election during the middle of the month. The ISO interprets the CPUC comments as arguing for a monthly option rather than an option that could be exercised mid month. As filed, the ISO proposed to allow the option to be exercised every thirty days, which would allow any given 30 day period to span over two months. The CPUC believes that mid-month switching could exacerbate market power concerns. Although the ISO does not believe that to be the case—whenever the election is made, the cap in effect at the time of the election will apply to the entire 30 day period—the ISO believes that a monthly option would be easier to administer and manage from a business perspective and, therefore, does not object to the CPUC’s proposed change from a 30-day option to a monthly option and prefers the monthly option from a business perspective.

B. The Proposed Pricing Method for Disconnected PNode is Just and Reasonable.

As revealed through the stakeholder process preceding the July 31 Filing, no intervenor protests or otherwise opposes the proposed tariff provisions as they pertain to the proposed rule for determining the LMP at an electrically disconnected PNode. PG&E also supports the disconnected PNode method. However, PG&E asserts that the ISO “offers no specific theoretic basis for setting the LMP for the disconnected PNode in this fashion,” and “recommends that the CAISO be directed to develop, at some point in the future, a more sound theoretic approach to setting

LMPs at disconnected PNodes.”⁴ PG&E also recommends that the the ISO be directed to evaluate, as a component of its implementation of upcoming new market features, whether its pricing approach for disconnected PNodes could have unintended consequences as a result of the implementation of the new market features, and if necessary to modify its disconnected PNode pricing approach at that time to avoid those consequences. PG&E’s recommendations are unsubstantiated and unnecessary. The ISO has demonstrated that the currently proposed methodology is just and reasonable and as reflected by the record is fully supported by stakeholders.

PG&E’s request that the ISO be required to pursue a more theoretically sound approach inappropriately suggests that the current methodology is not and that the ISO provides no support for its proposal. To the contrary, the current methodology is based on similar methodologies used in the other independent system operators and regional transmission operators (ISO/RTOs). The ISO has reflected fully vetted the rational for choosing the proposed method through the stakeholder process preceding this filing and has reflected its findings in the Transmittal Letter. As explained therein, the methodology is based on the ISO’s findings of the ISO survey of the methodologies used by other ISOs/RTOs and lessons learnt from its survey. The ISO explained and evaluated the alternatives the survey yielded with stakeholders prior to this filing. The ISO chose the alternative proposed method as a result of the evaluation of the alternative methods and the substantial support from stakeholders for proposed method.

⁴ Motion of the Pacific Gas & Electric Company to Intervene and Comments, at p. 5.

PG&E does not challenge or object to any of the conclusions made through this process and reflected in the record. Instead it merely suggests that the ISO should continue to seek alternative methods that are in some way more “theoretically” sound, without explaining why the current method is not.

PG&E’s request that the Commission direct the ISO to resolve this issue in the context of upcoming enhancements is vague. The ISO recognizes that as it develops new policies it must consider how its existing policies and rules fare in the context of changes. However, the need for such consideration is true of all aspects of the ISO tariff rules and not just these proposed changes and need not be ordered by the Commission for such evaluation to occur. The Commission should reject PG&E’s unsubstantiated requests and accept the proposed tariff provisions as filed.

IV. Conclusion

For the reasons provided herein, the Commission should accept the tariff revisions as submitted by the ISO in the July 31 Filing.

September 8, 2009

Respectfully submitted,

/s/ Sidney M. Davies

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CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service lists for the above-referenced 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 at Folsom, CA this 8th day of September, 2009.

/s/ Jane Ostapovich
Jane Ostapovich