



California Independent
System Operator Corporation

August 29, 2008

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Amendments to MRTU Tariff Provisions, Docket No. ER08-1113-000.

Dear Secretary Bose:

On August 8, 2008, the California Independent System Operator Corporation ("CAISO") filed an answer to nine answers filed by various entities in the above-captioned proceeding between July 29, 2008 and August 7, 2008 to the CAISO's July 23, 2008 Answer. Enclosed for filing in the above-referenced docket is the CAISO's Motion for Leave to File Answer and Answer to the pleadings that were filed on August 14 and 15, 2008 in response to the CAISO's August 8, 2008 Answer.

Thank you for your assistance in this matter.

Respectfully submitted,

/s/ Anna McKenna
Anna McKenna

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motion for leave to file an answer and an answer to the answers filed by these parties (“August 8 Answer”). On August 14, 2008, the Indicated Parties² and Western Area Power Administration (“Western”) filed motions opposing the August 8 Answer.³

Set forth below is the CAISO’s motion for leave to file an answer and answer to the pleadings filed by the Indicated Parties and Western on August 14, 2008.

I. MOTION TO FILE ANSWER

Pursuant to Rule 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.213 (2007), the CAISO hereby requests leave and a waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to file this answer to the following pleadings: the August 14 answers filed by the Indicated Parties and Western and the August 15 answer correcting typos filed by the Indicated Parties. Good cause for this waiver exists because the CAISO’s 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 this case.⁴ While the record is replete with evidence in support of the June 17 Filing, the CAISO is compelled to submit the instant Answer in order to address misleading claims in the

Answer, and TANC filed a Supplement to its July 8, 2008 Protest; and (vi) on August 7, 2008 the United States Department of Energy (“DOE”) filed an answer to the CAISO’s July 23, 2008 Answer.

² The Indicated Parties include City of Redding, California (“Redding”); Modesto Irrigation District (MID”); Sacramento Municipal Utility District (“SMUD”); Transmission Agency of Northern California (“TANC”); and Turlock Irrigation District (“TID”).

³ On August 15, 2008, the Indicated Parties filed a second answer to the August 8 Answer correcting typos in their August 14 answer.

⁴ 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); *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).

answers filed by Indicated Parties and Western and to ensure that the Commission has an accurate and complete record to assist it in understanding and evaluating the issues raised by Indicated Parties and Western.

II. ANSWER

A. CAISO Has Clearly, Accurately and Consistently Stipulated to the Commission and the Parties CAISO's Intent Regarding the Nature of the Previously Pending Discussions Between the CAISO and the Indicated Parties and Western.

Pursuing an unfortunate theme of incorrectly characterizing the record, ignoring certain statements, taking other statements out of context, and stepping dangerously close to unethical accusations of misrepresentation, Indicated Parties and Western once again attempt to divert the Commission's attention with histrionic allegations aimed at casting a pale on CAISO's integrity rather than addressing the merits of important policy decisions. If the Indicated Parties and Western would like to re-characterize their negotiations with CAISO, where CAISO believed that all parties were trying to find a solution that would resolve concerns and promote transparency while maintaining the integrity of the market structure, the Indicated Parties and Western are free to do so. Nothing in CAISO's pleadings was intended to undermine TANC's procedural posture. CAISO merely reflected the facts as it knew them.

In their August 14 answer (as corrected on August 15), the Indicated Parties allege that the CAISO's August 8 Answer contains a "serious misrepresentation" regarding the CAISO's anticipated discussions with the IBAA Entities because the CAISO's August 8 Answer states that it "is in discussions with TANC and the other IBAA Entities regarding the establishment of a MEEA," and that the CAISO "will continue with

those negotiations and has already requested the use of the Commission's Dispute Resolution Service ("DRS") to assist in the negotiations."⁵ Western similarly requests that the Commission deny the CAISO's August 8 Answer claiming, *inter alia*, that it provides inaccurate information rather than clarifying the record.⁶

The Indicated Parties and Western characterizations about this statement are not accurate. CAISO has communicated clearly, factually and consistently its intent regarding the discussions that had been planned with the IBAA Entities. CAISO's intent is reflected in numerous places in the record and in CAISO's direct communications with the IBAA Entities.⁷ Despite these repeated statements of the CAISO's intent, at no time from May 30, 2008, when the CAISO first sent its letter to Mr. Bryan Greiss stating its intent to negotiate with the IBAA Entities "alternative arrangements if such

⁵ Indicated Parties August 14 Answer citing to CAISO's August 8 Answer at 52-53.

⁶ Western August 14 Answer at 3.

⁷ See, e.g., excerpt from the May 30, 2008 Letter by Jim Detmers, Vice-President Grid Operations, CAISO to Mr. Bryan Griess, Assistant General Manager Transmission Agency of Northern California ("May 30 Letter"), attached hereto.

As you know, the CAISO is proceeding with filing the Board-approved IBAA proposal for approval by the Federal Energy Regulatory Commission (the Commission or FERC). This should not, however, prevent the *CAISO and the IBAA Entities from continuing to discuss alternative arrangements given that the Board-approved proposal specifically provides for the alternative arrangements if such arrangements provide market efficiency enhancements and provide CAISO with more data it can use in its modeling and pricing intertie transactions.* To this end, the CAISO provides a high level overview of a potential alternative pricing arrangement that it believes would address certain concerns raised by the IBAA Entities regarding the integrated operation of the facilities that affect the California-Oregon Intertie (COI). [emphasis added]

See June 17 Filing Transmittal Letter at p.55-56 ("The CAISO is continuing to work towards an alternative arrangement with the IBAA Entities and at the time of this filing has scheduled a follow-up meeting those entities."); and July 23 CAISO Answer at p. 118 ("As noted in the June 17 Filing, the CAISO is in negotiations regarding and alternative arrangement of MEEA with the IBAA Entities and will continue with those negotiations. However, those negotiations do not diminish or eliminate the need for the Commission's approval of the IBBA with the default pricing points prior to start of MRTU."); Joint Seams Report July 31, 2008, in Docket No. ER06-615 ("Western, other IBAA entities, and the CAISO, plan to meet on August 13 to discuss the issues and concerns raised in the CAISO's May 30, 2008, letter to the IBAA entities.").

arrangements provide market efficiency enhancements and provide CAISO with more data it can use in its modeling and pricing intertie transactions” until August 14, 2008, did the Indicated Parties communicate to CAISO, or state in their pleadings in this proceeding, that they disagreed with the CAISO’s characterization of what the CAISO believed was going to be discussed in the then pending discussions between the parties or that they wished to cease pursuing such discussions with the CAISO. Until the filing on August 14, CAISO remained optimistic that the discussions could have led the parties to a Market Efficiency Enhancement Agreement (“MEEA”) that would address the issues the Indicated Parties and Western have raised in this proceeding. While CAISO’s optimism and perspective, repeated in its August 8 answer, might have been Pollyannaish in light of this last round of concerns raised by Western and the Indicated Parties, it did not mischaracterize the past and was not intended to mislead the Commission.

Contrary to their August 14 Answers, CASIO never said that “Western would be willing to execute an MEEA”⁸ nor can Western point to any specific language where the CAISO actually said that Western itself was willing to execute a MEEA. Likewise, CAISO has not established any “ground rules” for negotiations or implied that the IBAA Entities “acceded” to any such ground rules.⁹ In its August 8 Answer, CAISO simply stated that: “CAISO has already agreed to discuss an alternative arrangement that would be accommodated under an MEEA with TANC and the other IBAA Entities.”¹⁰

⁸ Western August 14 Answer at 3.

⁹ Indicated Parties August 14 Answer at 2.

¹⁰ August 8 Answer at 41 (*emphasis added*).

CAISO did not state that the Indicated Parties or Western, or anyone else for that matter, subscribed to the CAISO's intent. Rather, CAISO was merely clearly stipulating the state of affairs from its perspective which was consistent with the CAISO's un-rebutted statements in the May 30 Letter and previous pleadings filed in this proceeding. CAISO also stated that: "CAISO will continue to pursue those negotiations."¹¹ CAISO did not attribute or suggest any concessions on the part of the Indicated Parties or Western, but simply stated its intent to pursue discussions of this nature. CAISO also said that it "will use the Commission's Dispute Resolution Service ("DRS") to assist in the negotiation."¹² CAISO has already requested DRS's assistance in CAISO's pursuit that the Indicated Parties and Western agree to attempt to resolve the issues they raise through the auspices of a MEEA. On or about the time the Indicated Parties and Western filed their pleadings, the CAISO was specifically informed by DRS that the Indicated Parties and Western did not wish to engage in such discussions and therefore since then CAISO has not pursued any such discussions. But that was after CAISO filed its own August 8 Answer, and there was no way CAISO could have reflected the other side's opinion on the matter to the Commission at that time.

¹¹ *Id.*

¹² *Id.*

B. The Indicated Parties' and Western's Possible Misunderstanding of the Flexibility the Market Efficiency Enhancement Agreements can Provide all Parties May be The Root Cause of Their Persistent Opposition to Engaging in Such Discussions.

The root of the Indicated Parties' and Western's concerns may lie in a misunderstanding of CAISO's position regarding the option for non-default modeling and pricing and the need to memorialize such an arrangement in a written agreement (*i.e.*, an MEEA). In previous pleadings in this proceeding, the IBAA Entities have assumed incorrectly that: (i) an MEEA is only available on a Balancing-Authority-Area-wide basis,¹³ (ii) the information required to obtain an MEEA is vague or unknown,¹⁴ and (iii) the information required to obtain an MEEA is only sensitive day-ahead information.¹⁵ These apparent assumptions are misinformed.

In CAISO's August 8 Answer, as opposed to misrepresenting the position of the IBAA Entities, CAISO *highlighted* the fact that the IBAA Entities object to both: (i) the default modeling and pricing aspects of the IBAA proposal *and* (ii) the available option of having more accurate non-default modeling and pricing via an MEEA.¹⁶ Regarding the claim that sensitive day-ahead information is required to execute an MEEA, CAISO specified in its August 8 Answer that: "it is possible that the information required would not have to be day-ahead information but instead could be after-the-fact information

¹³ TANC July 8 Protest at 69 (P 132).

¹⁴ TID July 8 Protest at p. 30-33.

¹⁵ See SMUD July 8 Protest at 14, 52; and SMUD's July 29, 2008 Answer at 16.

¹⁶ August 8 Answer at 39-40. The CAISO's point was that the IBAA Entities' objection to both aspects of the proposal serves to reinforce that their only proposed resolution is to have the CAISO use multiple pricing points and to have the CAISO model generation injections and withdrawals at those boundary points (*i.e.*, to have the CAISO assume the injections and withdrawals were from resources located at or near the Intertie Scheduling Points with the IBAA). *Id.*

made available to the CAISO.”¹⁷ CAISO repeated Dr. Hildebrandt’s testimony that CAISO would need the right to audit the submitted data, but that after the fact data can in fact be used for an entity to obtain non-default pricing.

CAISO understands the opposition of Indicated Parties and Western to both the default proposal and the non-default modeling and pricing option via an MEEA and that the CAISO has faithfully represented the opposition of these entities throughout this proceeding. However, as CAISO has represented throughout this proceeding and as discussed in its stakeholder process and in specific discussions with the Indicated Parties and Western, it is possible to have an IBAA-wide resolution of the issues raised by Indicated Parties and Western through the MEEA and leave the default pricing and modeling in place in the event that such measures fail (or in the event that the MEEA is limited in term or scope). The CAISO reiterates that an MEEA could be entered into on an individual basis, among a group of entities, or on an IBAA-wide basis.¹⁸ The CAISO has indicated clearly and consistently that it is not opposed to settling with Indicated Parties and Western on a Balancing Authority Area-wide basis or on an individual basis, but in either circumstance CAISO needs to have the ability to verify the location and dispatch of the external resources used to implement the interchange transactions between the IBAA and the CAISO BAA.

As the CAISO has indicated previously, it explicitly included the possibility of adopting a MEEA to provide the IBAA Entities with a mechanism to address their concerns, without forcing the CAISO to ignore the potential adverse impact that could

¹⁷ August 8 Answer at 39.

¹⁸ See Exhibit ISO -1, Testimony of Mr. Rothleder and Dr. Price at 15; and July 23 Answer at 83.

befall its own ratepayers. As the record shows, the MEEA constitutes a “win-win” opportunity for both the IBAA Entities and the CAISO. Specifically, an MEEA offers an opportunity to accommodate an IBAA Entity’s specific requests for alternative pricing, in return for the IBAA Entity providing information that the CAISO needs to validate interchange transactions with the IBAA Entity. An MEEA will promote transparency and market efficiency and will benefit both the IBAA Entity and the CAISO. Absent a mutually agreeable exchange of data that allows the CAISO to demonstrate market efficiency enhancements, which is precisely what can be achieved through a MEEA, the CAISO must still have a mechanism for addressing the market inefficiencies that have been identified in this proceeding.

III. CONCLUSION.

Wherefore, the CAISO respectfully requests that the Commission accept the CAISO’s Answer and approve the CAISO’s IBAA proposal as discussed herein (and as discussed in previous answers submitted by CAISO, and in the June 17 Filing) without suspension or hearing.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in the above-captioned docket.

Dated at Washington, D.C. on this 29th day of August, 2008.

/s/ Andrew M. Jamieson

ATTACHMENT



Jim Detmers
Vice President, Operations

May 30, 2008

Via Electronic and U.S. Mail

Mr. Bryan Griess
Assistant General Manager
Transmission Agency of Northern California
3100 Zinfandel Drive, Suite 600
Rancho Cordova, CA

Dear Mr. Griess:

This letter is in response to the "Proposed Alternative to the CAISO's April 18th IBAA Proposal" provided to the California Independent System Operator Corporation (CAISO) on May 8, 2008, by the Sacramento Municipal Utility District (SMUD) - Western Area Power Administration (Western) Balancing Authority, the Turlock Irrigation District (TID) Balancing Authority, the Transmission Agency of Northern California (TANC), and TANC members (collectively, IBAA Entities). The CAISO is appreciative of the high-level of thought and effort that went into the IBAA Entities' proposal. In addition, the CAISO valued the opportunity to discuss the IBAA Entities' proposal at our May 8, 2008, meeting. While the CAISO is not ready to accept the IBAA Entities proposal as detailed in the May 9 presentation, the CAISO believes that continued discussions can yield a mutually acceptable alternative pricing arrangement. As you know, the CAISO is proceeding with filing the Board-approved IBAA proposal for approval by the Federal Energy Regulatory Commission (the Commission or FERC). This should not, however, prevent the CAISO and the IBAA Entities from continuing to discuss alternative arrangements given that the Board-approved proposal specifically provides for the alternative arrangements if such arrangements provide market efficiency enhancements and provide CAISO with more data it can use in its modeling and pricing intertie transactions. To this end, the CAISO provides a high level overview of a potential alternative pricing arrangement that it believes would address certain concerns raised by the IBAA Entities regarding the integrated operation of the facilities that affect the California-Oregon Intertie (COI).

As you know, the CAISO is seeking to model and price interchange transactions between the SMUD-Western and TID Balancing Authority Areas and the CAISO Balancing Authority Area for purposes of effectively and efficiently managing the impacts of interchange schedules on the CAISO transmission system. The CAISO understands that the IBAA Entities believe that the CAISO's IBAA proposal conflicts with contractual rights and established business practices and therefore raises certain equity issues. The CAISO recognizes that the IBAA Entities, through their proposed alternative proposal provided to the CAISO on May 8, 2008, seek to address the CAISO's stated modeling and pricing objectives by implementing alternative modeling and pricing mechanisms and providing certain data in support of such mechanisms. The CAISO believes that the IBAA Entities' alternative proposal presents a reasonable foundation for future discussions regarding a long-term modeling methodology and information

exchange process. However, the CAISO continues to have concerns regarding the IBAA Entities' modeling and pricing proposal. First, it is unclear how the additional data suggested by the IBAA Entities would enhance the CAISO's modeling of the IBAA's, and additional discussions are needed to confirm what kind of data and what uses of such data would actually be permissible under the arrangement. Second, under the IBAA Entities' proposal the CAISO will not have visibility regarding the location of the resources within the IBAA used to implement interchange transactions; rather, it appears as though each transaction would be modeled at the boundary (*i.e.*, assuming the resources are located at or near the intertie Scheduling Points (ISP) themselves). Without greater knowledge or visibility regarding the sources within the IBAA used to implement interchange transactions, the CAISO believes that the prices produced at the identified ISPs will not be representative of the value of the interchange schedules at those locations for purposes of managing the impacts of those schedules on the CAISO transmission system. Third, the CAISO is not convinced that the monitoring and information exchange process proposed by the IBAA Entities is sufficient to address the pricing concerns. Finally, it is not clear how the alternative proposal (with its boundary modeling and pricing of interchange transactions) solves the alleged violation of the contract provisions that the IBAA Entities claim accompanies the CAISO's current proposal.

Upon further internal discussion of these issues, the CAISO believes the parties can reach a mutually beneficial alternative pricing arrangement which could resolve certain of the issues previously raised by the IBAA Entities regarding the impact of the CAISO's IBAA proposal on the IBAA Entities' use and their assessment of the value of the California Oregon Transmission Project (COTP). The CAISO also believes that such an alternative arrangement dealing specifically with the COTP schedules should not preclude the parties from continuing to discuss alternative arrangements for further exchange of data and pricing between the CAISO and the effected IBAA's. While the CAISO does not agree that the CAISO's IBAA proposal in any way violates the existing contractual agreements that govern the use of the COTP and the larger California Oregon Intertie (COI), the CAISO recognizes that the TANC owners' also assert that the IBAA proposal: (i) violates the spirit of the existing contracts if not the actual provisions, and (ii) this is particularly pronounced, in the IBAA Entities' opinion, with regard to the losses paid by an IBAA Entity with load embedded within the CAISO Controlled Grid.

At a high level, the alternative arrangement to address these issues raised by the TANC owners would provide TANC members using the COTP to serve their load within the CAISO Balancing Authority Area with an exemption from the losses component of the single hub price for the SMUD and TID IBAA's associated with the use of the COTP that is not part of the CAISO Grid. The exemption would be granted in return for the provision of additional data by the TANC member IBAA Entities, which the CAISO would have to be able to use to enhance its modeling including enhanced modeling of losses. The CAISO understands that in order to be prepared to fully accept any such alternative, the parties and the CAISO would have engage in further discussions to define more clearly the terms under which such an exemption would be provided. However, we hope

Mr. Bryan Griess
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that you will agree that it would be beneficial to pursue such an alternative and agree to meet with us to discuss further the details.

Please feel free to contact me or Steve Greenleaf (916) 608-7323, at your convenience if you have any follow up questions and when you are ready to schedule a meeting. Thanks for your time and consideration.

Sincerely,



Jim Detmers
Vice President, Operations

Cc: S. Greenleaf
A. McKenna
M. Rothleder
N. Saracino
A. Sheffrin