

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

California Independent System) Docket No. ER06-615-015
Operator Corporation)

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

On October 26, 2007, the California Independent System Operator Corporation (“CAISO”) submitted a filing in the captioned proceeding (“October 26 Filing”) that contained proposed revisions to the *pro forma* Reliability Must-Run (“RMR”) Contract and included the revised *pro forma* RMR Contract in the CAISO’s Market Redesign and Technology Upgrade (“MRTU”) Tariff.¹ The October 26 Filing also contained related changes to the MRTU Tariff to move the provisions concerning the settlement and billing of RMR Charges and payments from Part J of Appendix N to Section 11.13, update those provisions, update the related provisions of Section 41, and add to and modify the definitions in Appendix A.

The Commission established a November 16, 2007 comment date regarding the October 26 Filing. In response, the following parties submitted protests: the City of Santa Clara, California (doing business as Silicon Valley Power) and the M-S-R Public Power Agency (jointly, “SVP/M-S-R”); Southern

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 26 Filing. The *pro forma* RMR Contract is also known as the *pro forma* Must-Run Service Agreement.

California Edison Company (“SCE”)²; and Transmission Agency of Northern California (“TANC”). Pursuant to Rules 212 and 213 of the Commission’s Rules, 18 C.F.R. §§ 385.212, 385.213, the CAISO respectfully requests leave to file an answer, and files its answer, to these parties’ protests.³ For the reasons explained below, the Commission should accept the October 26 Filing without modification.

I. ANSWER

A. The Definition of CAISO Controlled Grid Contained in the Revised *Pro Forma* RMR Contract Does Not Need to Be Modified.

SVP/M-S-R and TANC argue that the definition of the term CAISO Controlled Grid in the revised *pro forma* RMR Contract differs from the definition of that same term in the MRTU Tariff, and that the difference in wording may create confusion, conflicts in interpretation, and improper implementation of MRTU Tariff and RMR procedures.⁴ SVP/M-S-R request that the Commission direct the CAISO to revise the definition of CAISO Controlled Grid contained in

² SCE also filed a motion to intervene in the proceeding. The CAISO does not oppose the motion to intervene.

³ The CAISO requests waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to permit it to make an answer to the protests. 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 this case. 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).

⁴ The definition of CAISO Controlled Grid contained in the revised *pro forma* RMR Contract reads as follows: “CAISO Controlled Grid’ means the system of transmission lines and associated facilities that from time to time are under CAISO’s operational control.” In the MRTU Tariff, the CAISO Controlled Grid is defined as “[t]he system of transmission lines and associated facilities of the Participating TOs that have been placed under the CAISO’s Operational Control.”

the revised *pro forma* RMR Contract so that it is consistent with the MRTU Tariff definition.⁵

It is unnecessary to revise the definition of CAISO Controlled Grid contained in the revised *pro forma* RMR Contract, for several reasons. First, there is no substantive difference between that definition and the corresponding definition contained in the MRTU Tariff. Each definition specifies the types of facilities that constitute the CAISO Controlled Grid, and, pursuant to the MRTU Tariff (and the current CAISO Tariff), the CAISO can exercise Operational Control *only* over such facilities that are turned over to the CAISO pursuant to execution by a Participating TO of the Transmission Control Agreement. Therefore, the definition of CAISO Controlled Grid contained in the revised *pro forma* RMR Contract is already consistent with the definition of that same term contained in the MRTU Tariff.

Moreover, except for the substitution of the word “CAISO” in place of “ISO,” the definition of CAISO Controlled Grid contained in the revised *pro forma* RME Contract reads exactly the same as it did under the previous version of the *pro forma* RMR Contract, which has been in effect practically since the start of CAISO operations. Similarly, except for the substitution of the word “CAISO” in place of “ISO,” the definition of CAISO Controlled Grid contained in the MRTU Tariff reads exactly the same as the definition of that same term in the pre-MRTU versions of the CAISO Tariff that have been in effect since the start of CAISO operations. The Commission approved those definitions as just and reasonable,

⁵ SVP/M-S-R at 3-5; TANC at 3-5.

and in all of the years between the start of CAISO operations and now, there have been no conflicts in interpretation, confusion, or improper implementation arising from any differences between the CAISO Tariff and the *pro forma* RMR Contract with regard to the definition of the term CAISO Controlled Grid. SVP/M-S-R and TANC fail to show that any such issues may suddenly arise due to the inclusion of the *pro forma* RMR Contract in the MRTU Tariff, and also fail to show that the Commission-approved definitions are no longer just and reasonable. As a result, the Commission should reject the argument of SVP/M-S-R and TANC.

B. The Definition of Manual RMR Dispatch Notice Contained in the Revised *Pro Forma* RMR Contract and Section 41.5.1 of the MRTU Tariff Do Not Need to Be Modified.

SCE argues that the Commission should reject the proposed definition of Manual RMR Dispatch Notice contained in the revised *pro forma* RMR Contract in favor of SCE's suggested definition of that term, on the ground that the definition in the revised *pro forma* RMR Contract fails to put proper limits on the CAISO's ability to dispatch RMR Units, suggesting that the CAISO is proposing to expand its authority to issue RMR Dispatches under MRTU compared with its current authority. SCE also argues that Section 41.5.1 of the MRTU Tariff should be modified to include a sentence indicating that the CAISO will not use Manual RMR Dispatch Notices unless and until the CAISO has exhausted all other effective Resource Adequacy and Interim Capacity Procurement Mechanism ("ICPM") Dispatch alternatives.⁶ As discussed below, SCE's arguments should be rejected. The CAISO's proposal provides the CAISO with the same authority

⁶ SCE at 2-3.

to dispatch RMR Units under MRTU that it has to today and that authority should not be limited until and unless the CAISO itself proposes to modify its authority through a filing pursuant to Section 205 of the Federal Power Act (“FPA”) or that authority is found not to be just and reasonable under Section 206 of the FPA.

First, the Commission should reject SCE’s suggested changes to the definition of Manual RMR Dispatch Notice and to Section 41.5.1. The revised *pro forma* RMR Contract defines a Manual RMR Dispatch Notice as “a Dispatch Notice issued other than as a result of the Market Power Mitigation and Reliability Requirements Determination process as described in the CAISO Tariff.” The only purpose of this definition is to reflect that RMR Dispatches under MRTU can be initiated in one of two ways – (1) pursuant to the same non-automated process that is described under the current CAISO Tariff or (2) pursuant to the new automated process under MRTU through the Market Power Mitigation and Reliability Requirement Determination (“MPM-RRD”) mechanisms. The phrase “Manual RMR Dispatch” refers to the non-automated process under MRTU and captures the sort of RMR Dispatches that are issued today. The CAISO’s authority to issue RMR Dispatches (manually or otherwise) is entirely governed by the RMR Contract, which authority is limited to address local reliability needs and to resolve “intra-zonal” Congestion. Since intra-zonal Congestion is modeled under the “All Constraint Run” of the MPM-RRD process, the CAISO anticipates that RMR Dispatches to resolve intra-zonal Congestion would be made primarily, if not entirely, as a result of the automated MPM-RRD process and not through Manual RMR Dispatches. Accordingly, the CAISO’s authority under MRTU to

dispatch RMR Units under an RMR Contract is coextensive to its authority to issue RMR dispatches today. The only difference is that the CAISO will have an automated tool that will generate RMR Dispatches.

The CAISO has explained this many times in this proceeding, going back to its transmittal letter in support of the MRTU Tariff filing submitted on February 9, 2006, its May 16, 2006 reply comments, and its compliance filing dated November 20, 2006. Further, the Commission found earlier in the MRTU proceeding that the “MRTU Tariff section 41 provides a reasonable amount of detail regarding the procurement procedures of RMR units by the CAISO.”⁷ Section 41.5.1 already existed in its current form when the Commission made this statement,⁸ and therefore the Commission has found that Section 41.5.1 provides a reasonable amount of detail.

Second, FERC should reject attempts by SCE to limit the CAISO’s authority to issue RMR Dispatches as currently identified in the RMR Contract and as noted above for local reliability and for intra-zonal Congestion, which under MRTU is handled through the non-competitive constraint run of the MPM-RRD process. If SCE believes that the CAISO should be relying on ICPM and Resource Adequacy rather than on RMR, it can raise these concerns in the ICPM stakeholder process. Notably, the CAISO has consistently demonstrated its desire to rely on Resource Adequacy and a tariff-based backstop mechanism rather than on RMR. This is evidenced by the dramatic reduction in the number

⁷ *California Independent System Operator Corp.*, 116 FERC ¶¶ 61,274, at P 429 (2006).

⁸ The October 26 Filing does not contain any proposed revisions to Section 41.5.1.

of RMR Units covered under and the reduced fixed costs paid under RMR Contracts. In 2006, the CAISO had 70 units under RMR Contracts, representing 10,060 MW of capacity. In 2007, the number of units under RMR Contracts fell to 35, representing 3,324 MW of capacity. For 2008, there are now only 23 units, representing 2,278 MW of capacity. This reduction in the number of RMR Contracts and the costs of RMR Contracts should not mean that the CAISO's authority to issue RMR Dispatches under an existing RMR Contract should be limited or that the *pro forma* RMR Contract should be limited in the event an RMR Contract is needed for a particular resource. Moreover, given that the Commission has found the current *pro forma* RMR Contract to be just and reasonable, the burden must be placed on SCE to demonstrate that it is not just and reasonable.

C. It is Unnecessary at this Time to Revise the RMR Cost Allocation.

SCE argues that the CAISO's existing RMR cost allocation methodology under the MRTU Tariff is incompatible with the current Load Serving Entity ("LSE")-based Resource Adequacy provisions contained in the Tariff. SCE asserts that the Commission should require the CAISO to modify the RMR cost allocation provisions to allocate all such costs to applicable LSEs, so that the CAISO can be ready in the event that it needs to enter into an RMR Contract with a resource not currently under an RMR Contract.⁹

The Commission should deny SCE's request. As SCE notes, the CAISO explained as follows in the transmittal letter for the October 26 Filing:

⁹ SCE at 3-4.

[S]ome stakeholders, including Southern California Edison Company, have urged the CAISO to change the cost allocation so that RMR costs would be allocated to Load Serving Entities rather than the Responsible Utility under an RMR Contract. The CAISO has indicated that it would pursue this change if, but only if, it became necessary to enter into an RMR Contract with a resource not currently under an RMR Contract.

To date, it has not become necessary for the CAISO to enter into an RMR Contract with a resource not currently under an RMR Contract, nor does the CAISO foresee that it will be necessary to do so in the future. Therefore, there is no merit to SCE's argument that the CAISO should have revised RMR cost allocation provisions in place in order to be ready in case the CAISO determines that it needs to enter into an RMR Contract with a new resource that takes effect in January 2008.¹⁰

Even if the CAISO were to decide that it must extend an RMR Contract to an entity not currently under such a contract, the cost allocation issue would need to be addressed under the currently effective CAISO Tariff as well as the MRTU Tariff, as was explained during the October 2, 2007 stakeholder conference call on issues concerning the revised *pro forma* RMR Contract. Moreover, the CAISO would explore ways of changing the cost allocation that would avoid or minimize the need to make any additional changes to the *pro forma* RMR Contract. As explained in the October 26 Filing, the purpose of that filing was simply to align the *pro forma* RMR Contract with the MRTU Tariff while preserving the balance of benefits and burdens inherent in the existing *pro forma* RMR Contract.

¹⁰ See *id.* at 4.

The CAISO reiterates that it will propose changes to the RMR cost allocation methodology if it becomes clear that it will need to enter into an RMR Contract with a resource not currently under an RMR Contract. However, the CAISO should not be obligated to make changes to the MRTU Tariff well before any need for them has arisen, especially given that the CAISO is currently working to address more time-sensitive MRTU-related matters.

II. CONCLUSION

For the reasons explained above, the Commission should accept the October 26 Filing without modification.

Respectfully submitted,

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Dated: December 3, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service list in 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 Washington, D.C. this 3rd day of December, 2007.

/s/ Bradley R. Miliauskas
Bradley R. Miliauskas