

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

California Independent System) Docket No. ER06-615-000
Operator Corporation)

**MOTION FOR LEAVE TO ANSWER AND ANSWER OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
TO POWEREX REPLY COMMENTS
ON DECEMBER 20, 2006 COMPLIANCE FILING**

Pursuant to Rules 212 and 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. §§ 385.212 and 385.213 (2006), the California Independent System Operator Corporation (“CAISO”) respectfully submits this Motion for Leave to Answer and Answer to the February 5, 2007, Motion for Leave To Reply and Reply of Powerex Corp. in this proceeding (“Powerex Reply”). The Powerex Reply addresses: (1) the CAISO’s compliance filing made on December 20, 2006 (“December 20 Compliance Filing”) in accordance with the Commission’s order of September 21, 2006 conditionally accepting the CAISO’s Market Redesign and Technology Upgrade Tariff (“MRTU Tariff”);¹ and (2) the CAISO’s Answer filed in this proceeding on January 25, 2007 (“January 25 Answer”).

I. BACKGROUND

On February 9, 2006, the CAISO filed with the Commission its complete MRTU Tariff and supporting documentation (“February 9 MRTU Tariff Filing”). This filing consisted of all of the proposed modifications to the CAISO Tariff reflecting the

¹ *California Independent System Operator Corp.*, 116 FERC ¶ 61,274 (2006) (“September 21 Order”).

numerous changes to the CAISO's market structure included in the MRTU initiative, as well as hundreds of pages of testimony from numerous witnesses explaining these changes, and a comprehensive transmittal letter and attachments describing the changes and the MRTU process in detail.

On September 21, 2006, the Commission accepted the MRTU Tariff subject to a number of modifications, as detailed in the September 21 Order. In addition to tariff changes, the Commission also directed the CAISO to take various other actions, including clarifications concerning several of the provisions of the MRTU Tariff, filing with the Commission of status reports on specific issues, and making certain information available to Market Participants.

In particular, in response to comments addressing MRTU Tariff provisions "that require Scheduling Coordinators to carry 100 percent operating reserve requirements for load served by interruptible imports," the Commission directed "the CAISO to make a compliance filing within 60 days of the date of this order clarifying the process for handling interruptible imports in the MRTU Tariff." September 21 Order at PP 388-89. The CAISO subsequently requested and received a 30-day extension for this compliance requirement.

On December 20, 2006, the CAISO submitted a compliance filing which, among other things, clarified the treatment of Interruptible Imports and associated Operating Reserve requirements under the MRTU Tariff. On January 10, 2007, two parties, Powerex and Williams, filed comments addressing the December 20 Compliance Filing. Powerex's comments addressed the Interruptible Import portion of the December 20 Compliance Filing.

On January 25, 2007, the CAISO filed an Answer in this proceeding responding to the January 10 Powerex comments and committing to make certain clarifying changes to address Powerex's questions in any further compliance filing ordered by the Commission. The February 5 Powerex Reply raises further issues on the Interruptible Import portions of the December 20 Compliance Filing.

II. MOTION FOR LEAVE TO ANSWER

The CAISO recognizes that the Commission's rules generally prohibit answers to answers unless otherwise permitted by a decisional authority. 18 C.F.R. § 385.213(a)(2)(2006). To the extent that the Commission accepts the Powerex Reply, which itself is a pleading not generally permitted by the Commission's rules, the CAISO requests waiver of Rule 213(a)(2) to permit it to make the instant answer to the Powerex Reply. Good cause for this waiver exists because this answer will aid the Commission in understanding the issues raised in this proceeding, provides information that will assist the Commission in the decision-making process, and ensures a complete and accurate record. *See, e.g., Nevada Power Company*, 108 FERC ¶ 61,074, at P 23 (2004); *Michigan Electric Transmission Company*, 108 FERC ¶ 61,205, at P 21 (2004); *AEP Power Marketing, Inc.*, 109 FERC ¶ 61,276, at P 16 (2004); *Vector Pipeline L.P.*, 89 FERC ¶ 61,242, at 61,713 (1999).

III. ANSWER

In the CAISO's January 25 Answer, the CAISO explained that, under the MRTU Tariff, Interruptible Imports will receive a higher priority than Economic Bids. The CAISO explained that this outcome is appropriate because the CAISO will procure, and

Scheduling Coordinators submitting Self-Schedules for Interruptible Imports will be responsible for, Operating Reserves equal to 100 percent of the quantity of Interruptible Imports. January 25 Answer at 17-18.

Powerex argues that firm (*i.e.*, non-interruptible) imports should have a higher priority than Interruptible Imports when the CAISO evaluates a series of Self-Scheduled transactions for adjustment. Powerex Reply at 4-5. Powerex also argues that Interruptible Imports should have a lower priority than “firm” Economic Bids on a constrained intertie. *Id.* at 5-7.

As an initial matter, Powerex’s comments on this issue should be rejected because they go beyond the scope of the December 20 Compliance Filing. In the September 21 Order, the Commission did not direct the CAISO to justify the priority of Interruptible Imports relative to firm imports or Economic Bids. Instead, the Commission directed the CAISO to clarify the process for handling Interruptible Imports in the MRTU Tariff because the Commission agreed with a commenter that the CAISO needed to provide more detail on the treatment of the 100 percent Operating Reserve requirement associated with Interruptible Imports. September 21 Order at PP 388-89. The December 20 Compliance Filing fully complies with this directive.

Powerex’s comments also fail to take into account that Interruptible Imports are not a new concept introduced under MRTU. Interruptible Imports are authorized under the current ISO Tariff. Under the current tariff, Interruptible Imports are defined as “Energy sold by a Generator or resource located outside the ISO Controlled Grid which by contract can be interrupted or reduced at the discretion of the seller.” Under the current ISO Tariff, as under the MRTU Tariff, Operating Reserves are procured and

allocated to Scheduling Coordinators scheduling Interruptible Imports, and Interruptible Imports do not receive a lower scheduling priority than other “firm” imports. Similarly, under the current ISO Tariff, Day-Ahead and Hour-Ahead Schedules involving transactions over the interties do not receive a higher priority than Interruptible Imports. Powerex has not met the burden of demonstrating that the existing scheduling practices for imports are rendered unjust and unreasonable under MRTU. Moreover, to the extent that Powerex contends that Interruptible Imports should be treated differently under MRTU due to the potential impact of Interruptible Imports on the optimization of Energy and Ancillary Services in the Day-Ahead Market, they have provided no evidence that such a change is justified. Powerex’s proposal to establish a new (lower) priority for Interruptible Imports also does not address the potential impact of Interruptible Imports on the Day-Ahead optimization, it simply alters the priority of Self-Schedules on a particular transmission path.

In addition, Powerex’s proposed modifications to the scheduling priority for Interruptible Imports should not be required because they could delay the initial implementation of MRTU, delaying the customer benefits the Commission has recognized will come with MRTU. Implementing the Powerex proposal would require substantial software modifications. Specifically, the proposal would require a software pre-processing of Bids and Self-Schedules before the running of the MRTU optimization. This pre-processing must also occur before final Ancillary Service requirements (including Operating Reserve requirements) are set. The software changes needed to add such a pre-processing design feature cannot be accommodated under the current scope of the MRTU Release 1 project.

The CAISO does believe the proposal to establish a different scheduling priority for Interruptible Imports relative to non-interruptible imports and Economic Bids may have some merit and warrants consideration as a potential future enhancement to the MRTU design. The CAISO therefore commits to present this proposal for further development and comment as part of the ongoing stakeholder process considering post-Release 1 enhancements to the MRTU design.

In the CAISO's January 25 Answer, the CAISO agreed with a Powerex proposal to eliminate the term "non-firm" from the MRTU Tariff definition of Interruptible Imports but noted that the CAISO's scheduling templates would still use the term "Non-Firm." January 25 Answer at 14-15. Powerex argues that the CAISO scheduling template should also be changed to eliminate the term Non-Firm because the inconsistency between the Tariff and the template could be confusing. Powerex Reply at 8-9.

There is no evidence that such confusion will occur. The current CAISO scheduling template uses the term "Non-Firm" while the current ISO Tariff uses the term Interruptible Imports. The use of these terms does not create confusion or uncertainty. As such, there is no reason to require the CAISO to make a software change to modify the scheduling template. In order to provide further transparency without the potential for delay created by a software change, however, the CAISO is prepared to add language in the applicable Business Practice Manual clarifying that the "Non-Firm" term in the scheduling template corresponds to the term Interruptible Import in the MRTU Tariff.

Lastly, Powerex argues that the CAISO should perform additional market monitoring of Interruptible Imports. Specifically, Powerex requests that the Commission direct the CAISO:

to collect, calculate, and post publicly the following data in a timely manner:

- (a) Total MWh of Interruptible Import Self-Schedules accepted;
- (b) Total MWh of Interruptible Import Self-Schedules interrupted;
- (c) Average Real-Time Energy price in hours in which an interruption occurred in (b), above;
- (d) Average price of Operating Reserves during hours describe [*sic*] in (a), above; and
- (e) Total cost of Operating Reserves allocated to Scheduling Coordinators submitting accepted Self-Scheduled Interruptible Imports.

Powerex Reply at 7-8.

For the reasons discussed above, Powerex's comments on this issue should be rejected because they go beyond the scope of the December 20 Compliance Filing. The CAISO's compliance obligation under P 389 of the September 21 Order has nothing to do with the monitoring of potential market impacts of Interruptible Imports.

The CAISO also notes that, consistent with the Commission-approved procedures set forth in Appendix P to the MRTU Tariff, the CAISO's Department of Market Monitoring performs ongoing evaluation of a wide range of data categories and market monitoring indices. These data categories and market monitoring indices address, among other things, the potential impacts of import transactions on the CAISO's markets.

Absent evidence of specific market concerns that will not be addressed by the approved market monitoring provisions in Appendix P, there is no basis to impose on the CAISO or its Department of Market Monitoring the specific requirements proposed by Powerex.

Given the CAISO's limited resources for market monitoring under MRTU, it is critical that the Department of Market Monitoring have the flexibility and discretion to prioritize its monitoring and reporting efforts under MRTU and not be burdened with mandatory, ongoing reporting requirements based on hypothetical concerns, particularly when such reporting requirements are requested by only an individual participant. The CAISO also notes that the Department of Market Monitoring works closely with the Commission's Office of Enforcement staff on an ongoing basis to provide data and analysis of various issues and concerns that may actually materialize, and that this provides a much more efficient channel by which any concerns about the potential market impacts of Interruptible Imports can be addressed.

IV. CONCLUSION

Wherefore, for all the reasons stated above, the CAISO respectfully requests that the Commission accept the December 20 Compliance Filing without the changes proposed in the Powerex Reply and with only those clarifications and revisions that the CAISO agreed to make in its January 25 Answer.

Respectfully submitted,

/s/ Sidney M. Davies
Sidney M. Davies
Assistant General Counsel
Anna McKenna
Counsel
Grant Rosenblum
Senior Counsel
Michael Dozier
Counsel
Beth Ann Burns
Senior Counsel
California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400

Sean A. Atkins
Michael Kunselman
Bradley Miliauskas
Alston & Bird LLP
The Atlantic Building
950 F Street NW
Washington, DC 20004
Tel: (202) 756-3300

Dated: February 20, 2007

Certificate of Service

I hereby certify that I have this day served a copy of this document upon all parties listed on the official service list compiled by the Secretary in the above-captioned 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 this 20th day of February, 2007 at Folsom in the State of California.

/s/ Sidney M. Davies

Sidney M. Davies

(916) 608-7144