

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

California Independent System)	Docket Nos. ER02-1656-030
Operator Corporation)	and ER02-1656-009
)	
Investigation of Wholesale Rates of)	Docket No. EL01-68-017
Utility Sellers of Energy and)	
Ancillary Services in the Western)	
Systems Coordinating Council)	
)	
California Independent System)	Docket No. ER06-615-000
Operator Corporation)	
)	(not consolidated)
)	

**MOTION FOR LEAVE TO FILE ANSWER AND ANSWER OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

On February 7, 2006, Williams Power Company, Inc. (“Williams”) filed an “Answer to the California Independent System Operator Corporation’s Status Report, and Motion to Supplement Protest and Supplemental Protest” in Docket Nos. ER02-1656 and EL01-68 (“Williams Filing”). Pursuant to Rules 212 and 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. §§ 385.212, 385.213, the California Independent System Operator Corporation (“CAISO”)¹ hereby submits its answer to the portion of the Williams Filing captioned as “Motion to Supplement Protest” and moves to file an answer to the portion of the Williams Filing captioned as a “Supplemental Protest” and as an “Answer to the CAISO’s Status Report.” The CAISO also moves to file an

¹ Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the CAISO Tariff.

Answer to the February 16, 2006, Answer of the Western Power Trading Forum (“WPTF”) supporting the Williams Filing.²

Williams requests that the Commission either: (a) direct the CAISO to incorporate “convergence” or “virtual” bidding or a similar balancing feature into the initial release (“Release 1”) of the CAISO’s Market Redesign & Technology Upgrade (“MRTU”) or (b) order an expedited, on-the-record technical conference to address the ability of the CAISO to include convergence bidding in MRTU Release 1. For the reasons set forth below, the Commission should deny Williams’ request without prejudice to the ability of Williams to raise similar issues concerning convergence bidding in response to the CAISO’s recent filing of revisions to the CAISO Tariff to implement MRTU Release 1 (the “MRTU Tariff Filing”).

I. STATEMENT OF ISSUES

In accordance with Rule 203(a)(7), 18 C.F.R. § 385.203(a)(7), the CAISO provides this Statement of Issues.

1. Whether the Commission should grant waiver of Rule 213(a)(2) (18 C.F.R. § 213(a)(2)) to permit the CAISO to make an answer to the

² The CAISO is entitled, under the Commission’s rules, to submit an answer to the portion of the Williams Filing captioned as a motion. The CAISO requests waiver of Rule 213(a)(2) (18 C.F.R. § 213(a)(2)) to permit it to make an answer to the portion of the Williams Filing designated as a Supplemental Protest and an Answer to the CAISO’s Status Report and to permit the CAISO to make an answer to the Answer filed by WPTF. 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., California Independent System Operator Corp.*, 105 FERC ¶ 61,074, at P 12 (2003); *Columbia Gas Transmission Corp. and Energy Corp. of America and Eastern American Energy Corp.*, 106 FERC ¶ 61,297, at P 13 (2004); *Niagara Mohawk Power Corp. v. New York State Reliability Council and New York Independent System Operator, Inc.*, 114 FERC ¶ 61,098, at P 18 (2006).

portion of the Williams Filing designated as a Supplemental Protest and as an Answer to the CAISO's Status Report and to permit the CAISO to make an answer to the Answer filed by WPTF. *See, e.g., California Independent System Operator Corp.*, 105 FERC ¶ 61,074, at P 12 (2003); *Columbia Gas Transmission Corp. and Energy Corp. of America and Eastern American Energy Corp.*, 106 FERC ¶ 61,297, at P 13 (2004); *Niagara Mohawk Power Corp. v. New York State Reliability Council and New York Independent System Operator, Inc.*, 114 FERC ¶ 61,098, at P 18 (2006).

2. Whether the Commission should deny Williams' requests either:
 - (a) that the CAISO be required to incorporate convergence bidding or a similar balancing feature into MRTU Release 1, or (b) that FERC order an expedited, on-the-record technical conference to address the ability of the CAISO to include convergence bidding in MRTU Release 1, provided that such denial is without prejudice to the ability of Williams to raise issues concerning convergence bidding in response to the CAISO's MRTU Tariff Filing.

II. ANSWER

Williams requests that the Commission direct the CAISO to incorporate convergence or virtual bidding or some other market-based balancing feature into MRTU Release 1. Williams Filing at 11, 19. In the alternative, Williams requests that the Commission set the issue of the CAISO's burden and inability

to include convergence bidding in MRTU Release 1 for an expedited, on-the-record technical conference. *Id.* at 17-18. These requests are premature and should be denied. Issues concerning the justness and reasonableness of the MRTU Release 1 market design must be considered in the context of the comprehensive MRTU Tariff Filing, which includes an explanation of why certain market features were not included in the Release 1 design. The CAISO has taken great care to ensure that the Release 1 design includes all elements necessary for the successful start-up of the MRTU markets. It is not appropriate to assess the justness and reasonableness of a particular aspect of the Release 1 design – in this instance, the matter of whether or not that design includes virtual or convergence bidding – in isolation from the Release 1 design as a whole system. Williams has provided no basis for considering the matter of convergence bidding separately or more quickly than other issues concerning the comprehensive MRTU Release 1 design.

As discussed below, Williams makes a number of inaccurate claims to support its request for pre-emptive Commission action on whether convergence bidding should be included in MRTU Release 1. A full review of the MRTU Tariff Filing and the public record reveals that these claims are incorrect. These inaccuracies only reinforce the lack of a justification for the expedited relief requested by Williams.

A. The Status of the MRTU Tariff Filing and the CAISO's Consideration of Convergence or Virtual Bidding

Just two days after Williams submitted its filing in Docket Nos. ER02-1656 and EL01-68, the CAISO submitted its long-anticipated MRTU Tariff Filing (in Docket No. ER06-615) for Commission approval pursuant to Section 205 of the Federal Power Act (“FPA”). The MRTU Tariff Filing includes full tariff language implementing the design features designated for inclusion in MRTU Release 1 along with thousands of pages of supporting testimony and documentation. The MRTU Tariff Filing also includes an extensive discussion of the process for determining which design features would be included in MRTU Release 1, including supporting testimony.³

In the MRTU Tariff Filing, the CAISO noted that, in an August 2, 2005 filing in the instant proceeding, submitted to comply with *California Independent System Operator Corp.*, 112 FERC ¶ 61,013 (2005), the CAISO proposed to submit a report to FERC by March 15, 2006 explaining when the CAISO anticipated implementing convergence virtual bidding as part of a subsequent release of MRTU. In that filing, the CAISO explained that it intends to undertake a complete evaluation of the pros and cons of virtual bidding once the details of

³ In the filing letter submitted with the MRTU Tariff Filing, the CAISO explained that, as with any large-scale project of this nature, the scope and design of the MRTU project must be “frozen” well in advance of the target implementation date. At the same time, the CAISO recognized that some market design features that are not essential for the initial implementation of MRTU might be desirable for future updates of the MRTU market design. Therefore, the CAISO identified a number of proposed market design features that will not be included in the “Release 1” design upon start-up of the new markets, but would be considered for a subsequent “Release 2” of the market design. For purposes of distinguishing between Release 1 and Release 2, the CAISO proposes to include in Release 1 all those features and elements of the market design that are necessary to: (1) ensure reliable operation of the grid, (2) ensure that the market design works properly, *i.e.*, does not have a “fatal flaw”, or (3) satisfy a regulatory requirement. MRTU Tariff Filing Transmittal Letter at 4-5.

the MRTU Release 1 market design were resolved in sufficient detail to submit the MRTU Tariff to the Commission.

As the Commission is aware, the process of finalizing the details of the MRTU Tariff took more time than anticipated last summer. The CAISO now intends to discuss the schedule and deliverables for Release 2 of the MRTU design, including the issue of convergence or virtual bidding, at its Board of Governors meeting scheduled for March 8, 2006. The CAISO intends to submit a report in Docket Nos. ER02-1656 and ER06-61 by March 15, 2006,⁴ that will reflect the discussion with the CAISO Governing Board and will update the Commission on the status of the CAISO's efforts to implement convergence or virtual bidding. See MRTU Tariff Filing Transmittal Letter at 95.

In the MRTU Tariff Filing, the CAISO also explained that convergence or virtual bidding cannot be implemented for MRTU Release 1 without a delay in the initial release of MRTU. *Id.* As discussed in the testimony of Brian Rahman (provided as Attachment M to the MRTU Tariff Filing), a decision to implement convergence or virtual bidding in Release 1 could delay the implementation of MRTU Release 1 by as much as an additional 12 months beyond the projected November 2007 MRTU implementation date because of the software modifications required.

⁴ Although this report will be submitted in both Docket Nos. ER02-1656 and ER06-615, the CAISO does not believe these two proceedings should be consolidated. The extensive service list in Docket No. ER02-1656 includes many parties who are no longer actively commenting on the development of the MRTU market design and who need not receive copies of all filings related to the MRTU Tariff in Docket No. ER06-615. The service list in Docket No. ER02-1656 does not include e-mail addresses for many parties and therefore is not conducive to electronic service of filings. All interested parties will have an opportunity to intervene in Docket No. ER06-615 and to receive electronic service of all future filings related to the MRTU Tariff.

B. Williams' Requested Relief is Premature

The relief requested by Williams is premised on a Commission finding that MRTU Release 1 will not be just and reasonable or would be unduly discriminatory and preferential if it does not include convergence or virtual bidding. See Williams Filing at 2, 9. The Commission cannot make such a finding, however, until it fully considers the CAISO's pending Section 205 filing which provides the full detail on MRTU Release 1, including the explanation of why certain design features were not included in Release 1. Indeed, Williams notes that "unaddressed issues [such as convergence bidding] will no doubt be extensively litigated once the CAISO files its MRTU Release 1 Tariff" and even acknowledges that the justness and reasonableness of the MRTU Release 1 design must be considered in the context of the full MRTU Tariff Filing.⁵ There is no reason why the Commission should make a pre-emptive finding that the MRTU Tariff Filing is not just and reasonable due to the absence of a Release 1 convergence or virtual bidding feature before it has fully assessed the MRTU Tariff itself and the thousands of pages of supporting testimony and documentation. The Commission also should not act on issues related to the MRTU Release 1 design until it has received the comments of all interested parties on the MRTU Tariff Filing.

⁵ Williams Filing at 11 n.26 ("Williams notes that even with the inclusion of convergence bidding, the overall Release 1 design may not be just, reasonable, not unduly discriminatory or not unduly preferential. While directing the inclusion of convergence bidding in Release 1 is certainly a step in the right direction, Williams reserves the right to object to other aspects of the CAISO's proposed Release 1 design following the CAISO's Tariff filing.").

Similarly, the question of whether the Commission should order a technical conference or additional proceedings on the inclusion of convergence or virtual bidding in MRTU Release 1 can only be answered after the Commission has fully assessed the record presented in the MRTU Tariff Filing proceeding.

The Commission should therefore deny the relief requested in the Williams Filing. The CAISO notes that such a denial will be without prejudice to the ability of Williams to raise its concerns about convergence or virtual bidding. Such concerns can be raised in the more proper forum – in comments submitted in Docket No. ER06- 615 in response to the MRTU Tariff Filing.

C. Inaccuracies in the Williams Filing

Williams makes a number of inaccurate statements that it claims justifies its request for pre-emptive Commission action on the issue of whether convergence bidding should be included in MRTU Release 1.

First, Williams substantially misrepresents the difficulty of incorporating convergence bidding into the MRTU Release 1 design, suggesting that convergence bidding is “an off-the-shelf product that can fit easily into the Release 1 design, *especially* since convergence bidding already exists in the very same markets upon which the CAISO claims to have modeled MRTU.” Williams Filing at 17. Although the MRTU design is based on market designs implemented in eastern ISOs, the MRTU software is based on a different architecture. Thus, features from other markets cannot simply be incorporated

into the MRTU markets without substantial effort to design and develop the software and data structures that would implement these features under the CAISO's software architecture, to test the new features, and to integrate these features into the MRTU market software. The process for incorporating new design features into MRTU Release 1, and the likelihood of delay arising from adding any new features that require software modifications, are described in the testimony of Brian Rahman submitted as Attachment M to the MRTU Tariff Filing.

Moreover, apart from Williams' over-simplification of the implementation process, their "off the shelf" argument assumes away the development of the conceptual design of convergence bidding for the MRTU markets. Williams' reference to the other ISO markets that have convergence bidding suggests erroneously that there is a single conceptual design of convergence bidding that all the other ISOs have adopted and that the CAISO could adopt under MRTU without any stakeholder engagement in a conceptual design process. In fact, the implementation of convergence bidding is not the same in all ISO markets. Thus, there are significant design options that need to be considered in the context of a stakeholder process before the CAISO could finalize a conceptual design for convergence bidding and direct its vendors to begin the software development and implementation process described above.

Second, Williams is incorrect that the delay in filing the MRTU Release 1 Tariff and the new target implementation date for Release 1 allowed the CAISO to "incorporate additional functionality into Release 1 with regard to Metered Subsystems." Williams Filing at 2 n.1, 7. It is true that the delay in the MRTU

Tariff Filing allowed the CAISO to complete discussions with affected parties and to document in the Tariff Filing certain details of how Metered Subsystems will be treated under MRTU. However, this process did not result in the addition of new functionality to the Release 1 software. Because Metered Subsystems exist in today's market structure, the CAISO has always recognized that Release 1 would have to address the treatment of Metered Subsystems under the new market design. The existing software development process was designed to include any necessary features to reflect the treatment of Metered Subsystems and will accommodate, without any additional functionality, the new details which the CAISO presented to its Board of Governors in January and to which Williams refers. The delay in the MRTU Tariff Filing simply allowed the CAISO to finalize these policy decisions for inclusion in the Tariff Filing.

Williams also claims that its request for relief is justified by the CAISO's "announcement" in January 2006 that it intends to drop the 95% forward scheduling requirement for load-serving entities ("LSEs") upon implementation of MRTU Release 1. Williams Filing at 2 n.1, 7, 14. As the memorandum cited by Williams (Williams Filing at n. 33) makes clear, however, it was the Commission's own November 21, 2005 order on Amendment No. 72 that confirmed that the Commission only intended for the 95% forward scheduling requirement to be "an interim measure that will be suspended upon implementation of MRTU."

California Independent System Operator Corp., 113 FERC ¶ 61,187 at P 22 (2005) ("Amendment No. 72 Order").

In its February 16, 2006, Answer, WPTF attempts to rectify Williams' error on this point, arguing that the Commission's reference to "implementation of MRTU" may refer not to the initial implementation of MRTU but rather to a subsequent release of MRTU. WPTF Answer at 6. WPTF offers no support for this creative interpretation that is contrary to the plain meaning of the Amendment No. 72 Order. A full review of the record in the Amendment No. 72 proceeding, including the CAISO's filings, confirms that "upon implementation of MRTU" is intended to refer to the Release 1 implementation. WPTF also argues that "Release 1, as proposed, does not contain mechanisms that will provide the appropriate incentive for LSEs to forward schedule, and therefore, lacks the necessary foundation for supporting the elimination of the scheduling requirement, per the November 21 Order." WPTF Answer at 6. This claim is, itself, inaccurate. The Amendment No. 72 Order expressly references those "mechanisms that will provide the appropriate incentives for LSEs to forward schedule their forecasted load" discussed in the CAISO's Amendment No. 72 transmittal letter. 113 FERC ¶ 61,187 at P 22 n.8. Contrary to the claims of WPTF, the mechanisms discussed in that transmittal letter – specifically, the Residual Unit Commitment ("RUC") process, the ability to procure Energy in the Day-Ahead Market representing transmission constraints, and the resource adequacy requirements under development by the California Public Utilities Commission – are included in MRTU Release 1 as reflected in the MRTU Tariff Filing.

Lastly, the Williams Filing shows a lack of understanding of other design features for MRTU Release 1. For example, Williams suggests that LSEs may be permitted to self-provide RUC capacity under MRTU Release 1. Williams Filing at 16. As explained in the MRTU Tariff Filing, the CAISO eliminated this feature from Release 1 due to the lack of stakeholder support for RUC self-provision. MRTU Tariff Filing Transmittal Letter at 46-47.

Collectively these inaccuracies show that Williams has not justified the expedited relief that it requests and only reinforces the conclusion that the issues raised in the Williams Filing are more appropriately raised in Docket No. ER06-615 in response to the MRTU Tariff Filing.

III. CONCLUSION

Wherefore, for the foregoing reasons the CAISO respectfully requests that the Commission deny Williams' requests either: (a) that the CAISO be required to incorporate convergence bidding or a similar balancing feature into MRTU Release 1, or (b) that FERC order an expedited, on-the-record technical conference to address the ability of the CAISO to include convergence bidding in MRTU Release 1, without prejudice to the ability of Williams to raise issues concerning convergence bidding in response to the CAISO's MRTU Tariff Filing.

Respectfully submitted,

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Dated: February 22, 2006

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 22nd day of February, 2006 at Folsom in the State of California.

/s/ Kathryn Corradetti

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