

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

California Independent System) Docket No. ER06-615-041
Operator Corporation)

**ANSWER OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION TO
COMMENTS TO COMPLIANCE FILING**

Pursuant to Rules 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213 (2008), the California Independent System Operator Corporation (CAISO or ISO) respectfully submits this Answer to Comments addressing ISO's filing made on January 21, 2009 (January 21 Filing) in compliance with the Federal Energy Regulatory Commission (Commission or FERC) "Order Denying In Part And Granting In Part Rehearing and Conditionally Accepting Compliance Filing," 125 FERC ¶ 61,339, issued on December 19, 2008 (December 19 Order). Two parties have submitted comments concerning the January 21 Filing.¹

For the reasons explained below, the ISO respectfully requests that the Commission accept the ISO's recommended changes to the defined term "CAISO IFM Curtailed Quantity" to address the comments, which if so ordered the ISO will make in a subsequent compliance filing.

¹ Comments August 18 Filing were submitted by the California Department of Water Resources State Water Project (SWP) and Southern California Edison Company (SCE).

I. BACKGROUND

On February 9, 2006, the ISO filed a proposed MRTU Tariff that included modifications to the then-current ISO Tariff reflecting the numerous changes to the ISO's market structure included in the MRTU proposal. On September 21, 2006, the Commission issued an order conditionally accepting the MRTU Tariff for filing, subject to modifications.² In the September 2006 MRTU Order, the Commission directed the ISO to implement convergence bidding within twelve months of the effective date of MRTU, rather than postpone MRTU until the development and approval of a convergence bidding plan. The Commission also directed the ISO to develop and file interim measures to mitigate the potential economic incentives for Load Serving Entities (LSEs) to underschedule in the Day-Ahead Market. Such measures are further required to remain in effect until they are superseded by the implementation of an approved convergence bidding proposal.

On September 28, 2007, the ISO submitted a compliance filing that consisted of the following features: (1) a bright line test to define persistent underscheduling; (2) an interim scheduling charge for LSEs that persistently underschedule; and (3) confidential weekly reports to disclose scheduling performances. On July 17, 2008, the Commission issued its Order Conditionally Accepting, Subject to Modification, MRTU Compliance Filings requiring further compliance filings requiring the elimination of a five percent free pass for

² *California Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274 (2006) ("September 21 Order").

underscheduling. On August 18, 2008, SCE and PG&E both submitted Requests for Rehearing of the July 17 Order.³ Also, on August 18, 2008, the ISO submitted a filing in compliance with this requirement. On September 8, 2008, PG&E and SCE submitted comments as further discussed herein.

On December 19, 2008, the Commission issued its Order Denying In Part and Granting In Part Rehearing and Conditionally Accepting Compliance Filing. On January 21, 2009, the ISO made a filing in compliance with the Commission's order. SCE and SWP filed comments.

II. ANSWER

SCE commented that the ISO incorrectly states that under the current MRTU tariff rules, other than IFM self-scheduled demand there is no other load that is subject to administrative curtailment by the ISO in the Day-Ahead Market.⁴ SCE disagrees with the ISO's interpretation of the Commission's directive, and requests that the Commission require the ISO to provide a similar exemption for load, bid at the cap, not scheduled in the Day-Ahead Market when LMP prices dictate otherwise. SCE argues that there may be situations where one or more Scheduling Coordinators bid all or a portion of their load economically at the energy bid cap and, due to the principles of supply and demand, not all of the megawatts clear, even though the resultant LMP price is equal to the load bid. SCE states that when this situation occurs, the ISO software must take

³ See *Request for Rehearing of Pacific Gas and Electric Company*, filed in Docket No. ER06-615-013, on August 18, 2008, and *Request for Rehearing of Southern California Edison Company on July 17th Order Conditionally Accepting, Subject to Modification, MRTU Compliance Filings*, filed in Docket ER06-615-013, on August 18, 2008.

⁴ SCE Comments at pp. 1-3.

administrative action to determine the amount of each Scheduling Coordinator's bid-cap load bid not to schedule in the day-ahead market.

The ISO agrees with SCE that the language the ISO submitted in its January 21 Filing should also recognize the scenario just described, in addition to self-scheduled IFM demand. The ISO therefore proposes to revise the definition of "CAISO IFM Curtailed Quantity" as follows:

In each Trading Hour for each Scheduling Coordinator (a) the maximum of zero or the submitted Day-Ahead Self-Schedule for Demand minus the Day-Ahead Schedule for Demand in each applicable LAP, or (b) in the event a LAP price equals the maximum price for Energy Bids specified in Section 39.6.1.1, the maximum of zero or the submitted Day-Ahead Self-Schedule for Demand plus the quantity of Demand bid at the maximum price for Energy Bids specified in Section 39.6.1.1 minus the Day-Ahead Schedule for Demand in the relevant LAP.

The ISO will submit this change in a subsequent compliance filing if the Commission agrees that this appropriately addresses SCE's comment.

SWP states that it "acknowledges that Participating Load is exempted from Under-scheduling Penalties under MRTU tariff § 11.24.3(c), in view of its potential to agree to the ISO dispatches to increase or decrease loads above or below the Day Ahead Schedule." Nevertheless, SWP asks that the Commission require that the ISO: "(1) protect all types of loads from all cost consequences (penalties or cost allocations) associated with all deviations caused by the ISO schedule adjustments or dispatch instructions (load reductions or increases)

beyond the control of the Scheduling Coordinator; and (2) define CAISO Curtailed Quantity to include Participating Load, so that when loads are protected against all cost consequences of any deviations caused by CAISO schedule adjustments or dispatch instructions and thus beyond the control of the Scheduling Coordinator, Participating Loads will be protected.”

The ISO completely agrees with SWP’s statement that Section 11.24.3(c) exempts Participating Load from the underscheduling penalty altogether. The compliance filing made by the ISO in this proceeding was to explicitly implement the Commission’s directive that the ISO exempt parties that are in the first instance subject to the underscheduling penalty from the penalty for underscheduled amounts resulting from an administrative action by the ISO that is entirely outside the Scheduling Coordinator’s control. The fact that Participating Load is exempt from the penalty in the first instance renders unnecessary any further requirements to exempt Participating Load from the charge. Therefore, SWP’s second request asking that Participating Load be explicitly included in the definition CAISO IFM Curtailed Quantity is entirely unnecessary given that Participating Load is exempt from that charge altogether.

To the extent that SWP is requesting any further exemptions from ISO charges and penalties, SWP’s request is entirely outside the scope of this proceeding. Indeed, in asking that the ISO “protect *all types of loads* from *all cost consequences* (penalties or cost allocations) associated with *all deviations* caused by *CAISO schedule adjustments or dispatch instructions* (load reductions

or increases) beyond the control of the Scheduling Coordinator”⁵ SWP inappropriately seeks to expand the scope of the exemption ordered by the Commission in the December 19 Order.

Further, this SWP request is in conflict with the fundamental principles of MRTU. SWP essentially asks that the ISO provide a financial guarantee for whatever load a Scheduling Coordinator submits as a self-schedule in the IFM. This contradicts the essence of the ISO’s responsibility to perform congestion management and create feasible IFM schedules. Congestion management under MRTU will sometimes require that the IFM optimization curtail some self-scheduled load so that feasible schedules can be produced. In clearing the market, the optimization ensures that the resulting schedules are feasible, that prices are set to reflect the curtailment of self-scheduled price-taker load, and that Scheduling Coordinator’s accepted IFM schedules are settled correctly. The market does not compensate Scheduling Coordinator for portions of their bids, economic or self-scheduled, that are not accepted in the market. Clearly, the Commission did not intend to gut MRTU of this fundamental principle when in the December 19 Order it simply ordered that underscheduled load that results from an administrative curtailment by the ISO be exempt from the underscheduling penalty.

Finally, while as discussed above it is entirely unnecessary to include Participating Load in the definition of “CAISO IFM Curtailed Quantity,” the ISO takes this opportunity to clarify a misconception reflected in SWP’s comments asserting that the exemption as contained in the ISO’s submitted tariff language

⁵ SWP Comment at pp.1-2 [emphasis added].

only applies to load scheduled and settled at the Default LAP.⁶ The ISO deliberately drafted this definition and the accompanying language in 11.24 using the phrase "applicable LAP" so that the exemption would apply also to loads scheduled and settled at custom LAPs as well as the Default LAPs. Therefore, no further changes are required.

III. CONCLUSION

Wherefore, for all the reasons stated above, the ISO respectfully requests that the Commission accept the January 21 Filing with the further proposed modifications as provided herein.

Respectfully submitted,

/s/ Anna McKenna
Anna A. McKenna
Senior Counsel

California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400

Dated: February 26, 2009

⁶ SWP Comment at p. 3.

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 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 this 26th day of February, 2009 at Folsom, California.

Jane Ostapovich
Jane Ostapovich