

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

California Independent System Operator Corporation)

Docket No. ER08-1113-002

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

I. INTRODUCTION

The California Independent System Operator Corporation (CAISO) seeks to amend its Market Redesign & Technology Upgrade (MRTU) tariff to implement the Integrated Balancing Authority Area (IBAA) of the Sacramento Municipal Utility District (SMUD) and Turlock Irrigation District (TID) in compliance with the Commission's September 19, 2008 Order Conditionally Accepting Tariff Changes and Directing Compliance Filing.¹ The CAISO's proposed tariff language complies with the *IBAA Order*. In their protests, certain parties argue that the CAISO's proposed tariff language does not comply with the Commission's directives. Generally, these arguments misinterpret the *IBAA Order*. Parties also raise issues and arguments that go beyond the scope of the CAISO's November 25, 2008 compliance filing. The Commission should accept the compliance filing as filed with the additional suggested revision as discussed herein, such change to be made in a further compliance filing if the Commission so directs. Pursuant to Rules 212 and 213 of the Commission's Rules of Practice and Procedure,² the CAISO files this motion for leave to file an answer and answer to parties' protests and comments in response to the CAISO's November 25, 2008 compliance filing in this proceeding.

¹ *California Indep. Sys. Operator Corp.*, 124 FERC ¶ 61,271 (2008) (IBAA Order).

² 18 C.F.R. §§ 385.212 and 385.213 (2008).

II. MOTION FOR LEAVE TO ANSWER PROTEST

Answers to protests are generally not permitted.³ The CASIO respectfully requests waiver of the Commission's Rules of Practice and Procedure prohibiting answers to protests.⁴ Good cause exists for the waiver. Parties have raised specific concerns with the CAISO's proposed tariff compliance language. This answer will assist the Commission in considering these concerns. Accordingly, the Commission should permit the CAISO to file this answer and approve the proposed tariff amendments with any additional modifications it directs on further compliance.

III. ANSWER

A. The CAISO's Proposed Tariff Provisions Comply with the IBAA Order.

In response to the CAISO's compliance filing, parties assert that the CAISO's proposed tariff language deviates from the Commission's *IBAA Order* and discriminates against the SMUD and TID Balancing Authority Areas.⁵ The CAISO disagrees. The proposed tariff provisions effect a means for resources within the IBAA that support interchange transactions with the CAISO's Balancing Authority Area to receive a locational marginal price. Consistent with the *IBAA Order*, the proposed tariff language seeks to value and compensate resources that support interchange transactions between the IBAA and the CAISO Balancing Authority Area in a just and reasonable manner. In addition, the proposed tariff language will allow the CAISO to model the impact on the CAISO's nodal markets of interchange transactions between the IBAA and CAISO Balancing Authority Area.

³ See 18 C.F.R. § 385.213(a)(2).

⁴ The CAISO requests a waiver pursuant to 18 C.F.R. § 385.101(e).

⁵ See e.g., Protest of the Transmission Agency of Northern California at p. 2; Protest of SMUD at pp. 3-4; Protest of TID at pp. 12-13.

i. The Commission directed the CAISO to offer pricing pursuant to a Market Efficiency Enhancement Agreement for interchange transactions.

In their protests, parties argue that the CAISO's proposed tariff language does not offer *actual pricing* under a Market Efficiency Enhancement Agreement (MEEA) as directed by the Commission.⁶ This argument is incorrect. Under the proposed tariff language relating to an MEEA, the CAISO and an MEEA signatory will determine through negotiations which supply resources and loads within the IBAA support interchange transactions and the CAISO will pay locational marginal prices for eligible imports and exports supported by those resources. Those imports and exports that are not eligible to receive pricing under an MEEA will receive the respective default locational marginal price.

The CAISO responds to two arguments raised in parties' protests concerning pricing under an MEEA. First, some parties argue that the actual price that the Commission directed the CAISO to provide under an MEEA for imports to the CAISO is the price at the Tracy interchange point.⁷ Other parties argue that the actual price that the Commission directed that the CAISO to provide under an MEEA is the locational marginal price associated with a resource.⁸ The MEEA price or locational marginal price that applies to eligible imports to the CAISO is not the price at the Tracy interchange point. There are no supply resources at Tracy. The MEEA alternative is designed to provide locational marginal prices that reflect a supply resource or a group of supply resources that are dispatched to support an interchange transaction or load that is served by an interchange transaction. The *actual price* is the locational marginal price that will be developed from a set of assumptions negotiated with an MEEA signatory.

⁶ See, e.g., Protest of SMUD at p. 4; Protest of Western Area Power Administration at pp. 6-8; Protest of TID at pp. 11-13; Protest of TANC at p. 21; Comments of City of Santa Clara at p. 5; Protest of Modesto at pp. 2-3.

⁷ Protest of City of Santa Clara at p. 5; Protest of Modesto at p. 3.

⁸ Protest of SMUD at p. 5; Protest of Western at p. 7.

Consistent with the CAISO's nodal market design, these locational marginal prices will change in any interval for which a price is calculated.

Second, parties argue that once an MEEA signatory provides the CAISO with the minimum information necessary to model interchange transactions the MEEA signatory is entitled to receive *actual pricing* for all interchange transactions.⁹ For instance, TID implies that the CAISO should guarantee MEEA signatories that they will receive actual pricing for all of their interchange transactions, once MEEA signatories have provided the CAISO with information. This argument ignores a fundamental purpose of an MEEA to provide the pricing benefit associated with the location of a resource supporting a specific interchange transaction, not necessarily all interchange transactions. The argument renders meaningless the concept of providing a locational marginal price for a resource or set of resources within the IBAA. The whole purpose of the IBAA in the first instance is to address the fact that an import at the Tracy Scheduling Point is not supported by an actual physical injection at Tracy and is likely to be physically sourced north of Captain Jack. If the MEEA signatory were now allowed to set a price for actual resources outside of the IBAA, which is a source north of Captain Jack, it undermines the whole purpose of the MEEA.

To obtain MEEA pricing, MEEA signatories will need to provide after-the-fact information, which the CAISO will use to identify and settle those volumes that qualify for an MEEA price. The CAISO will settle remaining volumes at the default price. The Commission should approve the CAISO's proposed tariff language that refers to an MEEA price because it complies with the *IBAA Order's* directives to provide an alternative to the default pricing points consistent with the IBAA proposal filed by the CAISO.

⁹ See, e.g., Protest of TID at p. 11-17.

ii. The CAISO has defined the minimum information necessary to accurately model interchange transactions.

In their protests, parties argue that the CAISO has failed to identify the minimum information necessary to accurately model and price external resources supporting interchange transactions.¹⁰ Parties also argue that the proposed tariff language is impermissibly vague. The CAISO disagrees.

Section 27.5.3.2 of the CAISO's proposed tariff compliance language specifies two sets of information required to develop and price transactions under an MEEA: (1) historical information used to develop an IBAA network topology that underlies the interchange transactions that will be subject to MEEA pricing;¹¹ and (2) after-the-fact information for financial settlement of interchange transactions.¹² With respect to historical information necessary to develop an MEEA, the proposed tariff compliance language is written to allow the CAISO and an entity negotiating an MEEA to identify a representative set of historical hourly-metered generation and loads within the IBAA. The amount of historical information could depend on any number of factors, including among others, weather, generator unit outages, and load growth.

With respect to after-the-fact settlement data, this information is used to verify the performance of the entity engaging in interchange transactions and that is subject to MEEA pricing. The CAISO needs hourly resource and load information to determine whether an MEEA signatory should receive a locational marginal price that reflects a resource within the

¹⁰ Protest of SMUD at p. 4 and 7-12; Protest of Los Angeles Department of Water and Power at pp. 5-6; Protest of TID at pp. 20-21; Protest of Imperial Irrigation District at pp. 6-7; Protest of TANC at pp. 17-20.

¹¹ Proposed Tariff Section 27.5.3.2.1.

¹² Proposed Tariff Section 27.5.3.2.2.

IBAA used to support an interchange transaction.¹³ The proposed tariff language sets forth the minimum information to provide the CAISO with a reasonable assurance that an IBAA resource underlies an interchange transaction. The scope of this data is well defined and consistent with the IBAA proposal filed by the CAISO, which the Commission conditionally approved in the *IBAA Order*.¹⁴ Moreover, consistent with the *IBAA Order*, the proposed tariff language explains that the purpose of this information is to verify the location and operation of resources supporting an interchange transaction.¹⁵

iii. The CAISO’s proposed MEEA pricing mechanisms are consistent with the Commission’s Order.

In their protests, parties argue that the CAISO’s proposed pricing mechanisms place inappropriate limits on interchange transactions under an MEEA.¹⁶ These parties argue that the proposed tariff language in Sections 27.5.3.2.3 and 27.5.3.2.4 impermissibly limit volumes that may qualify for pricing under an MEEA in connection with an import to or export from the

¹³ SMUD argues that an MEEA signatory will not know until after-the-fact whether transactions will be subject to an MEEA price or a default price. Protest of SMUD at p. 14-16. To the extent the applicable pricing depends on after-the-fact settlement data other than schedules that are arranged by a MEEA signatory itself, SMUD is technically correct. However, contrary to SMUD’s argument, an MEEA signatory can project whether an interchange transaction will receive a location marginal price pursuant to an MEEA or a default price pursuant to the tariff based on the MEEA signatory’s knowledge of its own resources and loads in any given hour. The applicability of MEEA pricing is based on schedules arranged by the MEEA signatory, not primarily on data created by the CAISO.

¹⁴ *IBAA Order* at P 162. Parties also argue that the CAISO’s proposed compliance language is unclear by requiring the information to be submitted in “standard electronic format.” See Protest of Modesto at p. 7; Protest of TANC at p. 21. The CAISO does not believe these arguments have any merit. The plain meaning of the proposed tariff language is clear: As long as an MEEA signatory submits information in an electronic format that is generally recognized and usable, the MEEA signatory will satisfy this tariff requirement. Parties also raise concerns about the need to submit after-the-fact data in a manner and timeline consistent with the rules for the submission of meter data under Section 10.3.6 of the tariff. Modesto Protest at p. 7. Modesto states that a MEEA signatory metering and data sharing equipment and capabilities may not be sufficient to satisfy Section 10.3.6 of the tariff. The CAISO believes Modesto’s concern is overstated. Section 10.3.6 requires Scheduling Coordinators to submit Settlement Quality Meter Data in accordance with certain timeframes. Settlement Quality Meter Data is defined broadly to include “Meter Data gathered, edited, validated, and stored in a settlement-ready format, for Settlement and auditing purposes.” Appendix A of CASIO MRTU Tariff.

¹⁵ *IBAA Order* at P 183. See Proposed Tariff Section 27.5.3.2.2.

¹⁶ Protest at TID at pp. 18-19; Protest of Modesto at pp. 5-6; Protest of SMUD at pp. 5-12; Protest of LADWP at pp. 7-10; Protest of TANC at pp. 23-25.

CAISO Balancing Authority Area. To the contrary, these sections set forth the formula that the CAISO will use to obtain a reasonable assurance that an MEEA signatory is using an IBAA resource to support a particular interchange transaction. The circumstances identified by CAISO in which MEEA pricing will not be applicable for imports into the CAISO Balancing Authority Area involve the “maximum eligible imports” to the CAISO. The maximum eligible imports excludes purchases by the entity from outside the IBAA (*i.e.*, the formula begins with “MEEA metered generation within the IBAA”).¹⁷ The maximum eligible imports subject to MEEA pricing is the metered generation within the IBAA less gross exports from the IBAA to other Balancing Authority Areas and less gross sales within the IBAA.¹⁸ The point of these provisions in part is to ensure that any increase in imports to the CAISO is supported by an increase in generation located within SMUD-TID IBAA. Similar provisions apply to exports from the CAISO to the IBAA and are to ensure, in part, that any increase in exports from the CAISO to the SMUD-TID IBAA is supported by a decrease in generation (or increase in load) within the SMUD-TID IBAA.¹⁹ Consistent with the CAISO’s IBAA proposal and in compliance with the *IBAA Order*, these tariff sections set forth the information necessary to settle an interchange transaction under an MEEA (*i.e.*, the information necessary to verify the performance of resources subject to MEEA pricing).²⁰

Parties also argue that the proposed tariff language in Section 27.5.3.2.2 exceeds the Commission’s directives because it would apply default prices to all interchange transactions if an MEEA signatory schedules imports and exports with the CAISO Balancing Authority Area in

¹⁷ See proposed MRTU Tariff § 27.5.3.2.3.

¹⁸ *Id.*

¹⁹ See proposed MRTU Tariff § 27.5.3.2.4.

²⁰ *IBAA Order* at PP 161, 162 and 182.

any given hour. In its testimony in this proceeding, the CAISO articulated the need for clear rules to ensure that an MEEA signatory is dispatching an IBAA resource to support an interchange transaction and referenced this pricing rule as an example.²¹ In the *IBAA Order*, the Commission explicitly recognized that PJM has applied a similar rule.²² No party provides a compelling argument why this rule is not an effective means to protect against circular trading. The CAISO believes this rule does not unreasonably limit interchange transactions subject to an MEEA and that it is consistent with the IBAA proposal conditionally approved by the Commission.

In its protest, Roseville argues that the application of IBAA default pricing would be unjust and unreasonable if during any Trading Hour, an MEEA signatory entered into an interchange transaction at the request of the CASIO. Roseville proposes language to exclude such transactions from default pricing. The Commission should reject this language. Roseville's proposed language could be read to encompass all schedules accepted by the CAISO for interchange transactions. More likely, however, Roseville contemplates a situation in which the CAISO initiates a transaction with a generator outside of the CAISO Balancing Authority Area in a system emergency or in anticipation of a system emergency. The CAISO's MRTU Tariff already authorizes the CAISO to initiate such a transaction at a negotiated price.²³ The CAISO could negotiate a separate price for these transactions under these circumstances and would settle

²¹ Exhibit ISO-2, Testimony of Dr. Hildebrandt, at p. 17; Exhibit ISO-3, Testimony of Dr. Harvey, at pp. 38-41.

²² *IBAA Order* at P 162.

²³ MRTU Tariff Sections 11.5.6.1 and 34.9.1.

these transactions accordingly and not disqualify volumes otherwise eligible for MEEA pricing. For these reasons, Roseville's proposed language is not necessary.²⁴

Parties also argue that the proposed MEEA pricing mechanisms limit the types of entities that may execute an MEEA.²⁵ For instance, parties argue that the after-the-fact information specified in Sections 27.5.3.2.3 and 27.5.3.2.4 may preclude entities that do not control generation or serve loads within the IBAA from obtaining pricing for interchange transactions under an MEEA.

Consistent with the CAISO's IBAA proposal conditionally approved by the Commission, the purpose of an MEEA is to enable the CAISO to accurately model and price supply resources and loads within the IBAA that support interchange transactions.²⁶ In order to obtain pricing under an MEEA, an MEEA signatory must demonstrate that it controls resources within the IBAA. If this were not a requirement, then neither the CAISO nor the MEEA signatory would be able to ensure that bids for the resources that are being scheduled in the CAISO Markets are actually at the modeled locations, which is necessary to ensure accurate pricing of these

²⁴ In its protest, Roseville also poses a question concerning the application CAISO's proposed tariff language to a hypothetical transaction. The hypothetical transaction contemplates that an MEEA signatory purchases 25MW in the Day Ahead market at the Existing Zone Generation Hub within the CAISO's Balancing Authority Area and schedules the transaction as an export into the IBAA, but then in the Hour Ahead Scheduling Process sinks the 25 MW within the CAISO Balancing Authority and increases the level of generation within the IBAA to meet load within the IBAA. In this instance, the MEEA signatory's metered generation within the IBAA equals the MEEA signatory's load within the IBAA. As a result the 25 MW transaction would not be eligible for MEEA pricing. If the MEEA signatory executes a trade at the Existing Zone Generation Hub within the CAISO Balancing Authority Area, the trade at the EZ Gen Hub would be settled at the CAISO locational marginal price for the EZ Gen Hub during that hour regardless of whether or not the MEEA signatory scheduled any imports or exports between the IBAA and the CAISO Balancing Authority Area. Roseville's hypothetical transaction also asks what pricing would apply if an MEEA signatory generated an additional 5 MW from generation within the IBAA to support an import into the CAISO Balancing Authority Area during a Trading Hour in which the MEEA signatory's output from its IBAA generation resource is 120 MW and the MEEA signatory's metered load within the IBAA is 115MW and the MEEA signatory has no exports into IBAA from the CAISO Balancing Authority Area or other Balancing Authority Areas. Here, the 5MW import scheduled from the IBAA into the CAISO Balancing Authority Area would receive MEEA pricing.

²⁵ Protest at Modesto at pp 5-6; Protest of TANC at pp. 11-17.

²⁶ *IBAA Order* at P 160.

resources. However, the establishment of the IBAA in no way interferes with existing transactions that are scheduled in the CAISO markets or in the IBAA. Moreover, the CAISO has specified that in the case of supply resources “control” includes ownership or contractual arrangements with generators within the IBAA that provide authority to schedule and/or receive the financial benefits of a resource.²⁷ This provision allows entities with contractual arrangements to receive the benefit of MEEA pricing if they can provide after-the-fact information to demonstrate that a supply resource within the IBAA supported an interchange transaction.

In contrast to other parties, Southern California Edison Company argues for additional rules to determine whether a transaction should receive pricing under an MEEA as opposed to a default price.²⁸ Edison proposes that MEEA signatories submit actual cost information of all transactions to the CAISO, which the CAISO would then use to create a resource stack to identify generation within the IBAA that could qualify for MEEA pricing. Edison’s proposal is problematic for at least two reasons. First, it is not clear if potential MEEA signatories have the ability to assess the actual cost of each transaction or if the CAISO has a means to verify whether these costs reflect actual costs. Edison’s proposal would potentially create unduly burdensome requirements for the CAISO and market participants to validate costs for interchange transactions as well as transactions that occur solely within the IBAA. Second, Edison’s proposal expands the requirements of the CAISO’s proposal for MEEA transactions, which was conditionally approved by the Commission. The CAISO is not seeking to expand its IBAA proposal on compliance. Accordingly, the Commission should reject Edison’s proposal.

²⁷ Section 27.5.3.2.1 of the CAISO proposed tariff language.

²⁸ Comments of Edison at pp. 6-8.

iv. The proposed terms and conditions for negotiating an MEEA comply with the Commission's Order.

In their protests, parties argue that various tariff provisions relating to the negotiation and the terms and conditions of an MEEA are unjust and unreasonable or provide the CAISO with too much discretion.²⁹ The CAISO proposed tariff language relating to negotiation of an MEEA as well as its terms and conditions follows the Commission's directives in the *IBAA Order*.

Parties argue that the proposed tariff language provides a cut-off to MEEA negotiations after 180 days. The proposed tariff compliance language does not provide for a negotiation cut-off. Instead, Section 27.5.3.3 would permit a potential MEEA signatory to initiate a dispute with the CAISO in the event the potential MEEA signatory believes it has reached an impasse in negotiations. The language is permissive and in no way precludes ongoing MEEA negotiations. Section 27.5.3.3 complies with the Commission's directives to specify procedures to initiate negotiations and provide dispute resolution procedures.³⁰

TANC argues that the dispute resolution procedures and confidentiality provisions specified by the CAISO are inappropriate. However, these procedures have already been approved by the Commission and apply today to other disputes that arise with the CAISO. TANC provides no good reason why these procedures should not apply here.

Parties also complain that the proposed tariff language in Section 27.5.3.7 does not state the scope of information the CAISO may seek as part of any audit. Section 27.5.3.7 specifies that the CAISO may request information from an MEEA signatory that supports data presented to develop and price transactions under an MEEA. This is a reasonable audit right in that it allows the CAISO to ask an MEEA signatory for a category of information directly related to historical

²⁹ Protest of Modesto at pp. 7-8; Protest of TANC at pp. 26-30.

³⁰ *IBAA Order* at P 184.

and after-the-fact hourly information submitted to develop an MEEA and obtain MEEA pricing. To the extent an MEEA signatory objects to a request for information, it may initiate a dispute against the CAISO under the MEEA. Section 27.5.3.7 complies with the Commission's directives set forth in the *IBAA Order*.³¹

v. The calculation of default pricing for interchange transactions with the SMUD-TID IBAA is consistent with the Commission's Order.

SMUD argues that the calculation of default pricing for exports is incomprehensible and is not transparent. SMUD questions: 1) how does the CAISO intend to calculate the distribution factors for exports; 2) how often are the distribution factors recalculated and for what reasons; 3) what seasonal power flow base case study will the CAISO use to calculate default prices; and 4) what is meant by an equivalencing technique?³² TANC raises similar concerns.³³

The CAISO proposed tariff language provides sufficient detail in section G.1.1 of Appendix C in response to the Commission requirement that the CAISO tariff "include the default pricing points." Importantly, parties do not dispute the detail provided in the tariff regarding the IBAA default price for imports. The Commission should accept that proposed language as filed without further changes.

The Commission should also accept the proposed language regarding the default price for IBAA exports as it provides the reciprocal approach to imports and clearly provides all the necessary rules that must apply for determining that locational marginal price. With respect to the export default IBAA locational marginal price, the proposed tariff language provides:

The SMUD/TID IBAA Export LMP will be calculated based on the Sacramento Municipal Utility District hub that reflects Intertie distribution factors developed from a

³¹ *Id.*

³² Protest of SMUD at pp. 12-14.

³³ TANC Protest at p. 30.

seasonal power flow base case study of the WECC region using an equivalencing technique that requires the Sacramento Municipal Utility District hub to be equivalenced to only the buses that comprise the aggregated set of load resources in the IBAA, with all generation also being retained at its buses within the IBAA. The resulting load distribution within each aggregated set of load resources within the IBAA defines the Intertie distribution factors for exports from the CAISO Balancing Authority Area.

This language sets forth the elements on which the CAISO will base the hub export price. The language is not overly specific as to the distribution factors on which the hub price will be based because the CAISO does not have specific load information in the SMUD and TID Balancing Authority Areas and therefore the CAISO will need to rely on the information it has available to determine how load is distributed at the SMUD hub for the purposes of calculating the hub price. More specifically, as stipulated in the proposed tariff language, the CAISO will determine the distribution of load through the use of an equivalencing technique using a seasonal power flow base case study of the WECC region.

With respect to SMUD and TANC's concerns regarding the use of the term "equivalencing," that term is commonly used by electric industry professionals in electric power flow representations and refers to a technique that provides a more simplified but electrically equivalent representation of a more complicated underlying electrical system. The CAISO will use this technique with available WECC data to create the distribution factors for the aggregated set of load resources in the IBAA.

As explained in the proposed tariff language, the CAISO will use the most recent seasonal WECC model on the WECC web site at the time the CAISO calculates the seasonal distribution factors. The WECC models are commonly used in the industry and are peer reviewed so that they represent a reliable and robust model that is appropriate for such uses. The WECC process allows industry participants such as CAISO grid planning staff to produce enhanced versions of the WECC cases by improving the modeling of the CAISO system that is

reflected in the larger WECC base case. When this occurs, the CAISO ensures these versions are also published on the WECC web site for access by other industry participants. The tariff specifically states that the CAISO would use the *seasonal WECC model*. As a result, the default price for exports will likely change for each season based on the seasonal WECC base models available at the time the prices are calculated.

While SMUD and TANC argue that this language does not clearly specify how the distribution factors will be determined, neither SMUD nor TANC articulate what additional language would provide the clarity they seek. The Commission directed the CAISO to specify the default pricing points and the proposed tariff language complies with that directive. The language provides the details as to how the CAISO will calculate the default pricing at those points so that the Commission and all market participants understand the calculation methodology. Moreover, the language ensures that were the CAISO to decide to deviate from the prescribed methodology by, for example, no longer calculating an IBAA export price that is based on distribution factors that vary by season and are fixed throughout the year, the CAISO could not do that without Commission-approval of a tariff change. The same restriction would apply to changes if the CASIO were to use a model other than the WECC seasonal base case. Indeed, the proposed tariff language provides the adequate level of detail to ensure that market participants have full notice and sufficient detail on how the CAISO will calculate the default export price at the SMUD hub at any given time. The Commission should accept it as filed.

- vi. The demonstration required of COTP customers to receive a loss adjustment to the marginal price for imports from the IBAA complies with the Commission's Order.**

Although parties raise objections to the methodology for applying the marginal losses adjustment, none of these parties object to the proposal to apply the adjustment by replacing the

marginal cost of losses for imports with a marginal cost of losses component based on an assumption that the actual physical injection is made at the Tracy interchange point. The Commission should therefore approve the CAISO's proposed tariff language addressing marginal losses adjustment. In its answer to Requests for Rehearing and Clarifications filed separately in the FERC Docket No. ER08-1113-001, the CAISO also requests that the Commission clarify that as a result of the required losses adjustment, the CAISO must now calculate the loss component of the locational marginal losses applied to imports using the COTP as if there were a physical resource (or injection) located at or near the Tracy interchange point.

In their protests, parties assert certain concerns, including that the CAISO's proposed tariff language fails to define what information Scheduling Coordinators will need to provide to demonstrate legitimate use of a Resource ID for the purposes of obtaining a marginal loss adjustment for COTP schedules.³⁴

The Commission should reject these protests and comments and approve the CAISO's proposed tariff language. In compliance with the *IBAA Order*, the CAISO has provided an efficient and effective process with minimal burden on the participants. The CAISO proposed tariff language restricts the adjustment to users of COTP that make deliveries at Tracy. The *IBAA Order* required that the CAISO provide an appropriate adjustment to marginal losses

³⁴ Modesto at p. 5; City of Santa Clara Comments at pp. 14-16. Santa Clara also asserts that the proposed tariff language may not recognize in-kind payment for losses to TANC or Western to qualify for a loss adjustment or instances in which the entity importing over COTP is not the entity that pays TANC or Western for the COTP losses. City of Santa Clara Comments at pp. 14-19. TID protests that the proposed requirements for Scheduling Coordinators to provide a certification and obtain Resource IDs for COTP transactions go beyond the Commission's Order and are unduly burdensome. TID argues that entities should be permitted to provide the CAISO with a certification and agree to provide data and information on a going forward basis to support the certification. TID Protest at pp. 21-22. Similarly, TANC argues that the use of Resource IDs and potential information requests creates complexity and burdens. TANC Protest at pp. 8-11. NCPA argues that the adjustment for losses that applies to COTP deliveries should apply equally to deliveries from Western's facilities to Tracy even if those resources are not using COTP. NCPA Protest at p. 2. Powerex argues that it is unclear why CAISO may require information from SCs to verify legitimate use of a Resource ID when E-tag information should be sufficient. If it is not, the CAISO should specify in its tariff what additional information it needs. Powerex Comments at p.4.

payments by entities that can demonstrate that they use the COTP to import energy to the CAISO Balancing Authority Area and that they already pay WAPA or TANC for transmission losses for such imports.³⁵ The *IBAA Order* clearly stated that “COTP users that import to CAISO who *demonstrate* that they *pay for losses* to Western or TANC should receive an appropriate adjustment in the marginal cost component of the price paid for their import” and clearly directed CAISO to “allow *COTP customers* to make this *demonstration* and, in compliance, to propose *what showing* will be needed for this treatment.” As a result, the Commission should reject NCPA’s claim that the losses adjustment should apply to deliveries at Tracy even if those transactions do not use COTP.³⁶

The CAISO recognizes that requiring that the parties make a demonstration of their payment of losses to TANC and Western could become a complicated matter over time. This is precisely why the CAISO proposed the simplified methodology which avoids actual production of proof of payment for each transaction and simply requires users of the COTP that schedule imports at Tracy to assert that they will use a specific Resource ID only for the purposes of transactions for which they pay losses to TANC or Western. This approach makes the demonstration on a regular basis as simple as possible because it only requires that the parties that pay TANC or Western for losses on COTP transactions make the assertion that they qualify and thereby receive the adjustment. The CAISO believes this is appropriate because those parties that pay losses to TANC and Western know that they do and can safely make this assertion. This demonstration is simply not burdensome for market participants.

³⁵ In Paragraph 106 of the *IBAA Order*, the Commission determined that because “*COTP customers* already pay TANC or Western a rate under the TANC or Western tariff for losses,” such “*COTP customers who serve load in the CAISO could be over-charged for losses.*”

³⁶ In its Answer to Requests for Rehearing filed in ER08-1113-001 separately, the CAISO explains why the Commission should not change this requirement.

The CAISO must, however, have the ability to verify that parties are appropriately using such Resource IDs and are not abusing this process in order to obtain a more favorable price. Therefore, the CAISO's proposed tariff language provides for a right to verify from time-to-time the legitimate use of such Resource IDs. The CAISO did not specify what type of documentation the parties may provide to make this demonstration because it is not clear that one approach or one category of documentation will fit all entities. For example, a party may produce documentation from TANC or Western that certain COTP transactions were subject to TANC and/or Western charges for losses. However, as explained above, the CAISO does not believe it is necessary to burden day-to-day transactions with any such demonstrations to receive the adjustment and has provided a mechanism that avoids such complications.

The CAISO acknowledges Santa Clara's request that the Commission clarify that the adjustment should apply also to payments in kind for losses. The CAISO believes the *IBAA Order* is clear that there has to be payment for losses to TANC or Western. However, the *IBAA Order* does not specify that there has to be *monetary* payment for such losses and understands that certain arrangements between TANC and Western may require the payment of losses by an exchange of equivalent energy. The methodology proposed by the CAISO requires only that the parties certify their *payment* of losses to Western or TANC. Therefore, if the Commission confirms that the payment of in kind losses to Western or TANC for COTP users also qualifies for the marginal loss adjustment, the proposed methodology can easily accommodate this clarification with no further changes.

Powerex states that E-tags should suffice for demonstration that COTP users pay for losses to Western or TANC for imports into the CAISO grid. The CAISO disagrees. E-Tags will not demonstrate that a party has paid for losses to Western or TANC for their COTP

schedules. They will only demonstrate that they used COTP for the import into the CAISO grid at Tracy. That does not suffice to meet the Commission's requirement that the losses adjustment apply to customers that import at Tracy using COTP and *demonstrate* that they pay for losses to TANC or Western.

Finally, parties raise concerns with footnote 5 of the CAISO's compliance filing in which the CAISO notes that the proposed loss adjustment for COTP schedules will increase the under-collection of marginal losses from scheduled flow on the CAISO grid. In footnote 5 of its compliance filing, the CAISO merely stipulated that the losses adjustment will result in the further undercollection of marginal losses from scheduled flow on the CAISO grid. This outcome results from the fact by replacing the losses component of the default price for imports under the IBAA proposal with a losses component that is derived from a false assumption that there is an injection at Tracy results in a reduced collection of marginal losses than if the CAISO made no such adjustment. The CAISO's proposed tariff language fully implements the Commission's *IBAA Order* to effect this outcome, but the loss adjustment directed by the Commission does result in a cost to the rest of the market and the CAISO wants to ensure that the impact of the adjustment is understood and minimized. The recovery of losses by transmission owners within the SMUD-TID IBAA does not produce any recovery of the cost of losses within the CAISO Balancing Authority Area.

The undercollection described in footnote 5 of the CAISO's compliance filing arises from the phenomena the CAISO has previously explained resulting from the interconnected nature of the transmission grid at the California Oregon Intertie, which results in the majority of the flows at the intertie to occur on the CAISO controlled grid. The CAISO's IBAA proposal as filed only included losses on transmission facilities within the CAISO Balancing Authority Area and only

charged for schedules in the CAISO Balancing Authority Area. This approach should not change with the losses adjustment directed by the Commission. However, the undercollection of losses increases with the Commission's adjustment because there are no loss charges on power that flows from Malin for schedules at Tracy using COTP. This fact will result in a reduced collection of marginal losses than CAISO would otherwise collect if it were to model the actual flows coming from Tracy schedules. The City of Santa Clara correctly states that with better data the CAISO could mitigate this issue. The record in this proceeding reflects that the CAISO and potential MEEA signatories would benefit from better data exchanges. Footnote 5 merely acknowledges the above-described phenomena and states that the CAISO will continue to monitor the performance of its modeling assumptions upon MRTU implementation, which is entirely appropriate if not an obligation for the CAISO to ensure its modeling and pricing produce just and reasonable results over time.

B. The Commission Should Reject Arguments that are Beyond the Scope of the CAISO's Compliance Filing.

In their protests parties argue that the Commission should not require the CAISO to implement its IBAA proposal simultaneously with MRTU absent the CAISO completing sufficient market simulations.³⁷ The Commission should reject these protests. The Commission's *IBAA Order* already addresses this issue and authorizes the CAISO to implement the IBAA simultaneous with MRTU.³⁸ Consistent with the *IBAA Order*, the CAISO continues to test the implementation of the IBAA through its market simulations and incorporate participant feedback.

³⁷ Protest of Western at pp. 3-5; Comments of City of Santa Clara at pp. 22-23.

³⁸ *IBAA Order* at P 350.

In its comments, the California Department of Water Resources – State Water Project argues that the CAISO has not adequately described the impact of the IBAA on congestion rents and Congestion Revenue Rights. As the Commission recognized, the CAISO will not charge for congestion except to the extent an interchange transaction creates congestion on the CAISO’s system.³⁹ The Commission determined that the CAISO proposal to provide holders of Congestion Revenue Rights with an option to make a one-time election to reassign their designated source or sink or maintain their original source and sink designations is reasonable.⁴⁰ The Commission’s *IBAA Order* specifically addresses the effect of the IBAA on Congestion Revenue Rights and did not direct the CAISO to modify its tariff on compliance. Accordingly, the State Water Project’s comments should be rejected.

C. The CAISO Agrees to Change its Tariff Language on Further Compliance.

Western argues that Section 27.5.3.5 does not provide adequate protection for confidential data during MEEA negotiations in the event negotiations do not result in an MEEA. Western asks that the Commission direct the CAISO to modify its tariff to provide that in the event an entity does not execute an MEEA, the CAISO shall destroy or return the confidential data provided by that entity during MEEA negotiations.⁴¹ Western’s proposal is reasonable and the CAISO agrees to accept it on further compliance, if the Commission so directs.⁴²

³⁹ *Id.* at P 307.

⁴⁰ *Id.* at P 306.

⁴¹ Protest of Western at pp. 10-11.

⁴² Western did not provide this recommendation during the stakeholder process. Had Western done so, the CAISO would have included the language in its compliance filing.

III. CONCLUSION

The CAISO's proposed tariff amendments comply with the *IBAA Order*. The Commission should approve the proposed tariff amendments with the modifications the CAISO agrees to make in this answer.

Respectfully submitted,

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Dated: January 9, 2009

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 Folsom, California this 9th day of January, 2009.

/s/ Susan L. Montana
Susan L. Montana