

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

California Independent System) Docket Nos. ER09-1281-000

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

Pursuant to Rules 212 and 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. §§ 385.212 and 385.213 (2008), the California Independent System Operator Corporation (“ISO”) respectfully submits this Motion for Leave to File Answer and Answer to comments and protests addressing the tariff amendment filed by the ISO on June 5, 2009, in which the ISO proposed a minor modification to the provisions regarding the designation of a reference bus as it pertains to the calculation of the marginal cost of energy (“Reference Bus Amendment”).

Although an answer is permitted in response to comments, the CAISO recognizes that, unless authorized by the Commission, the Commission’s Rules of Practice and Procedures precludes an answer to protests. However, the Commission has accepted answers that are otherwise prohibited if such answers clarify the issues in dispute, *Southwest Power Pool, Inc.*, 89 FERC ¶61,284 at 61,888 (2000); *Eagan Hub Partners, L.P.*, 73 FERC ¶ 61,334 at 61,929 (1995), or assist the Commission, *El Paso Electric Co.*, 72 FERC ¶ 61,292 at 62,256 (1995). The CAISO submits that this answer does both, and therefore respectfully requests that, to the extent that this pleading involves answers to protests, the Commission accept this answer.

I. BACKGROUND

In the Reference Bus Amendment, the ISO proposed to modify its tariff to permit it to use a distributed generation reference bus to calculate the System Marginal Energy Cost component of LMPs in those circumstances in which the Integrated Forward Market (“IFM”) cannot complete using a distributed load reference bus. The ISO explained that although there is only a small chance of being unable to clear the IFM using a distributed load reference bus as currently required by the tariff, it is prudent to have the option to use a distributed generation reference bus as a backstop measure in order to avoid the consequences of not being able to reach a market solution in the Day-Ahead Market. The ISO also explained that it expects the prices that would result from using a distributed generation reference bus would be reasonably consistent with those produced using a distributed load reference bus.

Three parties – Sacramento Municipal Utility District (“SMUD”), Southern California Edison (“SCE”), and Western Area Power Administration (“WAPA”) – submitted comments and protests concerning the March 23 Filing.¹ As explained below, the Commission should reject suggestions that it has not provided sufficient justification for its proposed amendment, and accept the Reference Bus Amendment as filed.

¹ Additionally, motions to intervene without substantive comments were filed by the following entities: California Public Utilities Commission; City of Santa Clara, California and the M-S-R Public Power Agency (“Santa Clara”); The Metropolitan Water District of Southern California (“Metropolitan”); the Modesto Irrigation District (“MID”); the Northern California Power Agency (“NCPA”); Pacific Gas and Electric Company (“PG&E”); State Water Project of the California Department of Water Resources (“SWP”); and the United States Department of Energy.

II. ANSWER

A. The ISO Has Provided Sufficient Support to Demonstrate that the Reference Bus Amendment Is Just and Reasonable

WAPA and SMUD contend that the ISO has not provided sufficient evidence to demonstrate that the Reference Bus Amendment is just and reasonable. They claim that this is the case because the ISO has not provided data regarding the frequency and magnitude of price impacts on individual market participants resulting from using a distributed generation reference bus.² This argument is flawed for several reasons. First, and most importantly, it ignores the primary purpose and justification for the amendment, which is to provide the ISO with the operational flexibility to clear the market using a distributed generation reference bus in situations when the IFM will not clear using a distributed load reference bus. As the ISO's witness Mr. Rothleder explained in his declaration supporting the tariff proposal, this flexibility is necessary because the inability to clear the IFM would have serious repercussions, including causing a Market Disruption in the Day-Ahead Market which would therefore not provide a market set-up for real-time. Without a market solution, the ISO would be forced to undertake emergency measures to ensure the availability of sufficient day-ahead supply, such as falling back to the prior day's market results or conducting numerous Exceptional Dispatches and unit commitments to meet day-ahead requirements.³ The ISO's first priority is to avoid serious disruptions to the ISO markets and threats to the reliable operation of the grid, which inevitably result in higher costs to market participants, both financial and otherwise. Having the ability to use a distributed generation reference bus to calculate LMPs in the IFM when a solution cannot be reached using a distributed load

² WAPA at 3-6; SMUD at 2-3.

³ Reference Bus Amendment, Exhibit ISO-1 at 12.

reference bus will allow the ISO to fulfill this responsibility. For this reason alone, the Reference Bus Amendment is justified, and WAPA and SMUD's suggestion that the ISO has failed to sufficiently support it is without merit.

Nevertheless, in the Reference Bus Amendment filing, the ISO did provide data to demonstrate that, at the Load Aggregation Point ("LAP") level, the price impacts of using a distributed generation reference bus versus a distributed load reference bus would likely be minimal, particularly when considered in the context of the volume of transactions clearing in the ISO markets each day. WAPA and SMUD claim that this demonstration is not sufficient because it does not account for specific impacts on individual market participants, particularly those who transact at limited nodes. The ISO disagrees. For purposes of estimating the cost impact on load of using a distributed generation rather than distributed load reference bus, the analysis already conducted by the ISO of the effects on LAP prices is both appropriate and sufficient because LAP prices are the load-weighted aggregates of nodal LMPs over large geographic areas. Moreover, the demonstration requested by WAPA and SMUD would be of limited utility because the question of whether individual market participants who transact at only a few nodes would do better or worse, financially speaking, if a generation versus load reference bus is used to calculate LMPs, is contingent upon the specific system conditions occurring at the time. Under different conditions, the same market participant may realize a different outcome. Also, conducting a more granular analysis as WAPA and SMUD suggest would be very burdensome. Given the limited usefulness of such an analysis, the ISO submits that such an analysis is not necessary to demonstrate the justness and reasonableness of the Reference Bus Amendment.

Finally, the ISO reiterates that it does not expect that it will need to use a distributed generation reference bus frequently.⁴ As Mr. Rothleder explained, with recent software improvements, the ISO has no reason to think the distributed load reference bus approach will fail to clear the IFM.⁵ The authority to calculate LMPs in the IFM using a distributed generation reference bus is merely a prudent backstop measure to ensure that the ISO has the requisite authority to clear the IFM should it fail to do so under the distributed load reference bus approach, rather than being in the position of having no viable market solution.

B. The ISO's Use of a Distributed Generation Reference Bus in the First Several Weeks of MRTU Operations Is Beyond the Scope of this Proceeding

WAPA and SMUD state that the ISO has acknowledged that it violated its tariff by running the IFM using a distributed generation reference bus during the first several weeks of operations under the new market design. These parties urge the Commission to investigate this matter and, if it determines that there was an adverse impact on market participants, order refunds.⁶ These arguments are beyond the scope of this filing, which concerns only the prospective authority of the ISO to use a distributed generation reference bus to clear the IFM. It is ultimately up to enforcement staff and the Commission itself, based on information provided regarding this matter, to determine if a further investigation is needed, pursuant to Section 206 of the Federal Power Act. Likewise, a market participant who believes they have been aggrieved can file a

⁴ The ISO has not used a distributed generation bus since May 17 and has not faced a situation since then in which it would have needed to use it.

⁵ Reference Bus Amendment, Exhibit ISO-1 at 12.

⁶ WAPA at 6-8; SMUD at 3.

complaint pursuant to Section 206. The Section 205 proceeding involving a prospective tariff change is not the proper forum to consider these issues.

If the Commission decides, however, to address this issue in its order on the proposed Reference Bus Amendment, the ISO urges the Commission to take into account the fact that for the Trade Dates where the distributed generation reference bus was used, the resulting prices and schedules were consistent with each other. Although it would be conceivable for the ISO to revise the prices based on an alternative reference bus designation, the actual energy deliveries made based on the original market schedules are now a matter of historical fact and cannot be revised. As a result, any revised prices would almost certainly be inconsistent with resource schedules and would likely result in additional uplift costs to market participants. Thus, even if it was determined that there are benefits to the market associated with recalculating the prices for these Trade Dates, any such benefits would be reduced by additional uplift charges.

C. SCE's Request That the Commission Require the ISO to Publish LDFs is Beyond the Scope of this Proceeding

SCE states that it supports the Reference Bus Amendment, but requests that the Commission require the ISO to publish the Load Distribution Factors ("LDFs") that the ISO uses to determine the distributed load reference bus, which SCE maintains is necessary in order to allow market participants to validate the LMP prices published by the ISO. The ISO has not proposed, in the Reference Bus Amendment, to modify any aspect of how it uses LDFs to calculate the reference bus. Therefore, this concern is beyond the scope of this proceeding, and would be more appropriately raised in another

forum. The ISO has concerns that posting actual LDFs may harm market participants due to the market-sensitive nature of this data. Specifically, posting this information could reveal individual participants' loading levels on an hourly basis (*i.e.*, multiplying the LDF for any particular node by the total cleared demand yields the scheduled load for that node). Even if this issue could be overcome, there are practical challenges involved in this request as it would require the ISO to modify OASIS in order to publish what is a large volume of data on a daily and hourly basis for use in real-time. The ISO is not opposed to discussing this issue further with SCE and other interested market participants, but it would be inappropriate for the Commission to order the ISO to release LDF data in connection with the instant amendment.

III. CONCLUSION

Wherefore, for all the reasons stated above, the CAISO respectfully requests that the Commission accept the Reference Bus Amendment as filed.

Respectfully submitted,

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Dated: July 13, 2009

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 lists 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 13th day of July, 2009 at Washington, D.C.

/s/ Michael Kunselman

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