California Independent
System Operator Corporation

July 23, 2008

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Amendments to MRTU Tariff Provisions, Docket No. ER08-1113-000.

Dear Secretary Bose:

Enclosed for filing in the above-referenced docket is the California Independent System Operator Corporation's Motion for Leave to File Answer and Answer to Motions to Intervene, Comments, and Protests.

Thank you for your assistance in this matter.

Respectfully submitted,

/s/ Anna McKenna
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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	**)** **)**	**Docket No. ER08-1113-000**

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

I. INTRODUCTION

On June 17, 2008, the California Independent System Operator Corporation ("CAISO")[1] submitted a filing pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, and Part 35 of the Federal Energy Regulatory Commission's ("FERC" or "Commission") regulations, 18 C.F.R. § 35 *et seq*., ("June 17 Filing"). The filing involved proposed revisions to the Market Redesign and Technology Upgrade ("MRTU") Tariff. The revisions concerned certain improvements to enhance the management of congestion on the CAISO Controlled Grid by appropriately pricing and modeling interchange transactions, *i.e.*, imports and exports between the CAISO Controlled Grid. Specifically, the filing involved the pricing and modeling of interchange transactions between the CAISO Controlled Grid and the Sacramento Municipal Utility District ("SMUD") Balancing Authority Area ("BAA") and the Turlock Irrigation District ("TID") BAA on an integrated basis. The June 17 Filing would establish the SMUD and TID BAAs as an Integrated Balancing Authority Area ("IBAA" or "SMUD-TID IBAA") to be implemented in conjunction with MRTU start-up and, therefore, incorporated into pre-production testing prior to start-up.[2]

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[1] Capitalized terms not otherwise defined herein have the meaning set forth in the Master Definition Supplement, Appendix A to the CAISO Tariff.

[2] The IBAA includes the transmission facilities within the SMUD and TID BAAs. The SMUD BAA includes (in addition to SMUD's own transmission system) the transmission facilities of: (a) the Western Area

The IBAA proposal has two main goals. The first goal is to protect CAISO ratepayers from unjust and unreasonable prices that may result in the absence of the CAISO having accurate information that allows the CAISO to verify the location of external resources within the SMUD-TID IBAA that are dispatched to implement interchange transactions between the SMUD-TID IBAA and the CAISO. The second goal is to appropriately model and price interchange transactions, *i.e.*, imports and exports, between the CAISO Controlled Grid and the highly-integrated SMUD-TID IBAA in a manner consistent with the use of locational marginal prices ("LMPs") under MRTU.[3] In addition, the IBAA proposal also includes provisions to ensure consistency between the settlement of Congestion Revenue Rights ("CRRs") and the settlement of interchange transactions between the CAISO and the SMUD-TID IBAA.

Pursuant to the Commission's June 19, 2008 notice of filing, motions to intervene, comments and protests were due to be filed on July 8, 2008. On July 8, 2008, certain parties filed motions to intervene with no substantive comments[4] and other parties filed comments and/or protests in addition to motions to intervene.[5] PG&E, SDG&E, SCE, CPUC, and Powerex support the CAISO's proposal.

Power Administration – Sierra Nevada Region ("Western" or "WAPA"); (b) the Modesto Irrigation District ("MID"); (c) the City of Redding ("Redding"); and (d) the City of Roseville ("Roseville"). The TID BAA contains TID's transmission facilities.

[3] The IBAA proposal enhances the accuracy of the CAISO's congestion management process by including a representation of the transmission facilities of the SMUD-TID IBAA (as well as modeling the external resources supporting scheduled interchange transactions within the SMUD-TID IBAAs) in the Full Network Model.

[4] The following entities filed only a motion to intervene: Alliance for Retail Energy Markets ("AReM"); American Public Power Association ("APPA"); Roseville; Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, CA ("Six Cities"); City of Burbank, CA ("Burbank"); Nevada Power Co. and Sierra Pacific Power Co. ("NPC-SPPC"); Xcel Energy Services ("Xcel"); Salt River Project ("SRP"); Western Power Trading Forum ("WPTF") and PacifiCorp.

[5] The following entities submitted comments and/or protests in addition to motions to intervene: California Department of Water Resources State Water Project ("SWP"); California Municipal Utilities Association ("CMUA"); California Public Utilities Commission ("CPUC"); City of Los Angeles Department of Water and Power ("LADWP"); City and County of San Francisco ("CCSF"); United States Department of Energy ("DOE"); Imperial Irrigation District ("IID"); Metropolitan Water District of Southern California ("MWD"); MID; Redding;

II. MOTION TO FILE ANSWER

Pursuant to Rule 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213 (2007), the CAISO hereby requests leave to file this answer to the comments, protests and motions to intervene submitted in the above-referenced proceeding. The CAISO requests waiver of Rule 213(a)(2) (18 C.F.R. § 385.213(a)(2)) to permit it to answer the protests. 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.[6]

III. SUMMARY

As the Commission prepares to act on the IBAA Filing, the CAISO believes it is important to consider a few overarching reasons why the proposal should be approved with only those clarifications and revisions the CAISO commits to make in these Reply Comments.

(1) The statutory standard to consider the proposal. The CAISO is the public utility that is responsible for implementing the new markets and administering the MRTU Tariff. The Federal Power Act ("FPA") recognizes that a public utility should have the right and the obligation to establish, in the first instance, the rates, terms and conditions of the services it will provide. Under Section 205 of the FPA, the CAISO is entitled to propose changes to the rates, terms, and conditions under which it provides service and is authorized to place the filed rates,

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City of Santa Clara, CA, doing business as Silicon Valley Power ("SVP"); Pacific Gas and Electric Co. ("PG&E"); Powerex Corp. ("Powerex"); SMUD; Southern California Edison Company ("SCE"); Transmission Agency of Northern California ("TANC"); the Northern California Power Agency ("NCPA"); TID; Western; and WestConnect. San Diego Gas & Electric Company ("SDG&E") filed comments on July 10, 2008 and SVP submitted an "amended" protest on July 16, 2008.

[6] *See, e.g.*, *Entergy Services, Inc.*, 116 FERC ¶ 61,286 at P 6 (2006); *Midwest Independent Transmission System Operator, Inc.*, 116 FERC ¶ 61,124 at P 11 (2006); *High Island Offshore System, L.L.C.*, 113 FERC ¶ 61,202 at P 8 (2005); *Entergy Services, Inc.*, 101 FERC ¶ 61,289, at 62,163 (2002); *Duke Energy Corp.*, 100 FERC ¶ 61,251, at 61,886 (2002); *Delmarva Power & Light Co.*, 93 FERC ¶ 61,098, at 61,259 (2000).

terms, and conditions into effect unless the Commission finds that the CAISO has failed to demonstrate that the changes are just and reasonable.[7] Several parties suggest that the Commission should require the CAISO to adopt an alternative IBAA design. Such parties fail to recognize that these proposed modifications and alternatives should not even be considered unless the Commission determines that CAISO's IBAA proposal fails to satisfy, in whole or in part, the statutory standard established by Section 205. In order to satisfy this standard, the CAISO is not required to show that the rates, terms and conditions of the MRTU Tariff are perfect or superior to alternatives proffered by some parties. Rather, the rates, terms and conditions filed by the CAISO simply need to be just and reasonable.[8]

Thus, the modifications and alternative terms and conditions proffered by some commenting parties are not to be considered on the same basis as the terms and conditions filed by the public utility. The Commission should only consider alternatives or modifications if the Commission determines that the modified rates, terms and conditions proposed by the CAISO are not just and reasonable, or are unduly discriminatory or preferential.[9]

(2) This filing is about the CAISO's Markets and the provision of reliable service on the CAISO Controlled Grid. It is important to recognize that the scope and purpose of this filing

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[7] Thus, TANC's statement that the CAISO has not demonstrated a "compelling need for the IBAA proposal to be implemented simultaneous with the start of the MRTU program," (TANC at P 138) applies an incorrect test. The CAISO does not have to demonstrate a "compelling need," but only that its proposed action is just and reasonable.

[8] *See New England Power Co.*, 52 FERC ¶ 61,090 at 61,336 (1990), *reh'g denied*, 54 FERC ¶ 61,055 (1991), *aff'd Town of Norwood v. FERC*, 962 F.2d 20 (D.C. Cir. 1992); *citing City of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir.), *cert. denied*, 469 U.S. 917 (1984) (utility need only establish that its proposed rate design is reasonable, not that it is superior to alternatives); *OXY USA, Inc. v. FERC*, 64 F.3d 679, 692 (D.C. Cir. 1995) ("[T]he Commission may approve the methodology proposed in the settlement agreement if it is 'just and reasonable'; it need not be the only reasonable methodology or even the most accurate.").

[9] The Commission's authority to prescribe terms and conditions for a public utility arises from Section 206 of the FPA, and under Section 206 the Commission can only exercise that authority following a finding that the proposed terms and conditions of service are unjust, unreasonable, or unduly discriminatory. 16 U.S.C. § 824e; *Sierra Pacific Power Co. v. FPC*, 350 U.S. 348 (1956).

is the rates, terms and conditions associated with sales into and purchases from the *CAISO's Markets*. If the CAISO were an investor-owned public utility subject to the Commission's oversight, no one would question its ability to set the terms and conditions under which it would purchase additional supply or make off-system sales subject to the Commission's policies and oversight. Thus, NCPA's request,

> that the Commission should consider charging reliability councils under NERC to promulgate appropriate standards for what kind of information Balancing Authorities should provide to each other to ensure accurate modeling. In that regard, FERC should consider that: (1) the requirements should be explicit and relatively standardized; (2) the required information must be reciprocal, i.e., the CAISO must be willing to provide information as well; and (3) there must be appropriate provision for information security.[10]

is misplaced and goes beyond the role envisioned for NERC and Regional Entities – and the authority granted to them – under the Energy Policy Act of 2005 ("EPAct of 2005") and Order No. 672.[11] NERC and the WECC have already promulgated Reliability Standards requiring the interconnected operation of facilities in a manner that does not impair reliability. In contrast, the situation at issue in this proceeding involves the need for the provision of transactional and scheduling information that affect the *prices* of sales into and purchases out of the CAISO Markets. NERC's role under EPAct 2005 is to develop and enforce "reliability standards that provide an adequate level of reliability of the bulk power system."[12] It is not NERC's role to promulgate standards pertaining to the establishment of just and reasonable prices for market transactions, and it is also not NERC's role to determine how the CAISO should validate the

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[10] NCPA Protest at 4-6.

[11] Energy Policy Act of 2005, Pub. L. No. 109-58, 119 Stat. 594 (2005) (codified at 16 U.S.C. § 824); *Rules Concerning Certification of the Electric Reliability Organization and Procedures for the Establishment, Approval and Enforcement of Electric Reliability Standards*, Order No. 672, 114 FERC ¶ 61,104 (2006), *order on reh'g*, Order No. 672-A, 114 FERC ¶ 61,328 (2006); *appeal docketed sub nom. New York Independent System Operator v. FERC*, No. 06-1185 (D.C. Cir. 2006).

[12] 18 C.F.R. §§ 215(c) and (h)(i).

appropriateness of settlement of schedules using data made available to it. Clearly, under centralized market-based dispatch, setting prices in a manner that reflects the true cost of using the system is paramount in the Balancing Authority's ability to serve load reliably. However, FERC retains complete oversight over pricing matters and there is no role for the WECC or NERC to opine on what rates, terms and conditions of service are just and reasonable for ratepayers on the CAISO system.[13]

Further, TANC states, "[t]he IBAA proposal is unnecessary for the [CA]ISO to implement MRTU … consistent with WECC and NERC requirements."[14] The CAISO agrees – this case is not about whether or not the CAISO can or will meet NERC and WECC requirements. The CAISO has not proposed to change any of the previously-approved scheduling practices under MRTU and conforms to and does not propose to change any established WECC or NERC scheduling or e-tagging procedure or requirement. The IBAA entities consistently state that proposals such as the CAISO's must be bilaterally negotiated agreements between Balancing Authority Areas. Such assumptions are simply wrong. The CAISO's proposal is about establishing prices in the CAISO Markets and not how neighboring Balancing Authorities operate.

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[13] Pursuant to section 215 of the FPA as added by EPAct 2005, the Commission "may approve, by rule or order, a proposed reliability standard or modification to a reliability standard if it determines that the standard is just, reasonable, not unduly discriminatory or preferential, and in the public interest. The Commission shall give due weight to the technical expertise of the Electric Reliability Organization with respect to the content of a proposed standard or modification to a reliability standard and to the technical expertise of a regional entity organized on an Interconnection-wide basis with respect to a reliability standard to be applicable within that Interconnection, but shall not defer with respect to the effect of a standard on competition." 16 U.S.C. § 824o(d)(2); Order No. 672, 114 FERC ¶ 61,104 at P 40 (2006). *See also N. Am. Elec. Reliability Council*, 120 FERC ¶ 61,260 at PP 13-20 (2007) (clarifying that agreement revisions relating to non-reliability activities, such as an RTO's tariff administration or budget, including allowances relating the RTO's responsibilities to administer regional transmission services and a real-time market, should be filed with FERC pursuant to sections 205 or 206 of the FPA; noting that NERC would not approve such revisions if they do not relate to the Regional Entity functions, but NERC should be served with any such filings so that it has the opportunity to confirm that the revisions have no ramification to the Regional Entity function).

[14] TANC at P 209.

Insisting that NERC and WECC are the proper guardians of the issues the IBAA is trying to address is completely misplaced. The CAISO already has bilateral Interconnected Control Area Operating Agreements ("ICAOA") with the IBAA entities to carry out the NERC requirements for neighboring Balancing Authorities. The CAISO is not proposing to change the terms and conditions of those agreements in the instant filing and those agreements do not and should not establish prices in the CAISO markets. To suggest that the modeling and pricing issues should be addressed through the NERC process either reflects a misunderstanding of the distinct roles of NERC and FERC or is an unfortunate attempt to either delay implementation of MRTU or preserve an undue pricing preference. Without a doubt, only the Commission should be the arbiter of what rates, terms and conditions are just and reasonable under the CAISO Tariff.

The option to enter into a Market Efficiency Enhancement Agreement ("MEEA") has been tailored in a fashion that meets the IBAA entities' request for more beneficial pricing, but does not result in the CAISO doing so to the detriment of other Market Participants. The MEEA option is an integral part of the IBAA proposal because the MEEA would also increase the accuracy of LMPs that affect the whole market. Under the MEEA, there is – as there should be - a balance of benefits and burdens. The IBAA entity receives the locational pricing it requests, but only if it provides the requisite data to enable the CAISO to meet its market administration needs to verify the location of the supply.

Indeed, the instant filing is about whether or not the CAISO will be permitted to operate a market that produces just and reasonable rates based on efficient and actual use of its grid facilities and market rules that promote fair practices. The information needs to meet Balancing Authority's function under NERC requirements as compared to the information needs to meet the CAISO's responsibility to operate a market reliably are not the same. The CAISO is the

entity implementing a LMP based market with the need to manage congestion and generate prices *on its system* using its Full Network Model. SMUD, TID and many of the others who have protested the filing are participants in the CAISO's Market. However, external entities scheduling interchange transactions with the CAISO are not the same as internal entities where the CAISO knows the location of the resources that are dispatched. Therefore, like the Eastern RTOs, the CAISO needs the Commission to approve the IBAA proposal with its default pricing rules in order to protect consumers.

The CAISO submits that it is not unreasonable to require these parties – in order to be treated comparably with the other participants in that same market – *i.e.*, to have individual, non-default pricing points, and ensure that other Market Participants in the same market are not inappropriately harmed or treated unfairly – to provide sufficient data regarding their transactions similar to the data that is provided by other Market Participants that are located within the CAISO's BAA. A Market Participant selling into the CAISO's market via an interchange transaction should not be held to a lower standard than a Generating Unit located within the CAISO BAA which is selling into the CAISO's market. To do otherwise would be to grant SMUD and TID an undue preference and enable their resources to receive more favorable pricing for their transactions than is justified based on the actual "facts" of their transactions which were not provided to the CAISO.[15]

While scheduled interchange is deemed delivered and backed by all of the resources in the exporting (selling) BAA, that fact is irrelevant for purposes on determining appropriate prices

[15] While the CAISO agrees with Western that it is important to work with neighboring Balancing Authority Areas to accommodate the existing commercial practices (Western at 11); the CAISO does not agree that each and every issue is subject to a mutually agreeable bilateral resolution. *Id.* There may be issues fundamental to the CAISO market and market design in which the CAISO is the administrator and WESTERN, even as a federal entity, is a participant, that require the CAISO to exercise its independent judgment and responsibility.

in an LMP regime. Location matters for purposes of setting prices in an LMP market. In an LMP market, there is a significant difference between merely ensuring the delivery of *net* scheduled interchange that can be net using the resources activity at all intertie points versus ensuring and validating delivery to the CAISO *at a specific location* (in this instance a specific intertie scheduling point).

The CAISO would not propose – and the Commission cannot countenance – that one set of market participants (*i.e.*, importers) be able to distribute their scheduled imports in a manner that takes advantage of locational price differences in the CAISO markets without demonstrating that they are actually delivering power to the CAISO at those specific locations. Such a result would be especially egregious if the prices at those locations are knowingly "fictitious" because the CAISO was forced to model those transactions as if the resources are located at the intertie scheduling points, *i.e.*, model the scheduled imports as radial injections (as proposed by the IBAA entities), even though they are not and the CAISO has provided evidence that to do so would egregiously harm the rest of the CAISO Market. Absent information that identifies the actual marginal resource supporting a scheduled interchange transaction – be it from the IBAA entities themselves or any other market participant scheduling an interchange transaction from within the IBAA – the CAISO, consistent with the Commission-approved LMP methodology, must be able to make a reasonable assumption regarding the location of the resources supporting the scheduled interchange transaction.

The entities that control the information the CAISO needs to correctly reflect these transactions should not be permitted to benefit (in the form of more favorable prices) by withholding such information from the CAISO. The CAISO's proposed approach is consistent

with the practices of other RTOs that use LMP-based markets, and protestors have failed to demonstrate that the CAISO's proposed methodology is unjust and unreasonable.

(3) The Commission and the CAISO have the obligation to take actions necessary to ensure that rates under the CAISO Tariff are just and reasonable. Contrary to assertions by protestors, this is not a situation where either the Commission or the CAISO has the ability to sit back and wait for problems to materialize. These "problems" can result in millions of dollars of inappropriate costs being foisted on consumers because action was not taken in advance to address an anticipated problem and prevent it from happening in the first place. That would be a wholly irresponsible approach. The CAISO absolutely disagrees with SMUD that "[i]nitiatives to address market behavior concerns, however, should be reserved to address real, not theoretical problems."[16] SMUD's argument is comparable to saying that a homeowner should not install a security system until after their home has been broken into or that a patient should wait to be vaccinated until after they have contracted the disease. It is wholly improper and inconsistent with the FPA to wait for known potential market design flaws to be exploited with the result of consumers bearing unjust and unreasonable prices prior to taking necessary corrective action. The Commission's duty is to protect consumers.[17] SMUD's argument is inconsistent with the Commission's statutory mandate.

Contrary to the claims of several of the protests, the CAISO is addressing a real problem not a theoretical concern. The fact is that the CAISO's Department of Market Monitoring,[18]

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[16] SMUD at 36.

[17] Utility customers are a "prime constituency" of the Commission. *See Maryland People's Counsel v. FERC*, 761 F.2d 780, 781 (D.C. Cir. 1985) (citing *Hope* at 620). It is fundamental that the Commission's charge is to protect consumers as well as maintaining the financial integrity of public utilities.

[18] *See* Exhibit ISO-2, Testimony of Dr. Hildebrandt.

Market Surveillance Committee,[19] and outside expert consultant,[20] unanimously agreed that corrective action can and must be taken to ensure reasonable prices in the CAISO markets *upon implementation of MRTU*.[21] It is also not surprising that the entities that stand to bear the burden associated with any of the pricing issues identified also support the CAISO's proposed adoption of the IBAA at this time. Further, all of the Eastern ISO's that implemented LMP pricing have faced this problem and had to take action to remedy it. The CAISO has learned from their experience. In light of the actual experience of the eastern ISO's in dealing with this exact problem, it would be imprudent for the CAISO to "bury its head in the sand" and pretend that this is nothing more than a "theoretical" concern. In engaging in reasoned decision making,[22] the Commission must make "a conscientious effort to take into account what is known as to past experience and what is reasonably predictable about the future"[23] The FPA makes unlawful "all rates which are not just and reasonable, and does not say a little unlawfulness is permitted."[24]

TANC is incorrect that Market Participants are being "punished for deficiencies in the ISO's modeling."[25] Nor is the CAISO seeking "plain and simple retribution against a neighboring autonomously operating balancing authority that is designed to extract one-sided pricing and inappropriate operational and data exchange concessions" as hyperbolized by

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19 *See* Attachment I to the June 17 Filing.

20 *See* Exhbit ISO-3, Testimony of Dr. Harvey.

21 This is not a "private vendetta against the northern municipal utilities" as TANC unfairly alleges. TANC at P137. To the contrary, the CAISO is responding as it should to the reasonable guidance and expertise of those charged with overseeing its markets and market design.

22 *Consumers Council v. FERC*, 783 F.2d 206, 227 (D.C. Cir. 1986).

23 *American Public Gas Assoc. v. FPC*, 567 F.2d 1016, 1037 (D.C. Cir. 1977).

24 *FPC vs. Texaco, Inc.*, 417 U.S. 380, 399 (1974).

25 TANC at P 216.

TANC.[26] To the contrary, the CAISO believes it is responsible, under the Commission's oversight, for ensuring that its Full Network Model and market design produce just and reasonable prices, and that its pricing approach produces outcomes that reflect the actual nature of the transactions being undertaken, the actual locations of the energy being provided and the actual expectations of the system operators regarding the benefits that the supply will provide to meet system Demand and provide congestion relief.

(4) The Proposal Is Not Discriminatory

Several protestors claim that the CAISO has singled out the SMUD/WAPA and TID Balancing Authorities for disparate treatment as compared to other Balancing Authorities. These entities note that undue discrimination is defined as the application of substantially different treatment to "similarly situated" entities without legitimate reason and then claim the CAISO is guilty of unduly discriminatory conduct because the IBAA proposal is only applied to the SMUD and TID BAAs. There is a common error in these comments – they erroneously assume at the outset that all BAAs are the same or similarly situated and, therefore, must be treated in a similar fashion. However, the evidence and analysis provided by the CAISO makes clear that all BAAs are not similarly situated in terms of their physical attributes, their location, and the effect their operation has on the CAISO Controlled Grid.

For example, up until five years ago for SMUD and three years ago for TID these areas were part of the CAISO BAA (specifically part of PG&E's former control area in northern California) and were fully integrated with CAISO grid operations and the remaining transmission facilities under the CAISO's Operational Control. There is no dispute about this fact and it is not

[26] TANC at 4.

a subjective conclusion by the CAISO. More importantly, there are no other BAAs with which the CAISO is interconnected that have this attribute.

Other criteria that are objective facts and not subjective conclusions have to with the number of interconnections with the IBAA and the physical location of the IBAA within the CAISO BAA. The combined SMUD BAA and TID BAA have twelve interties (10 for SMUD and 2-TID) with the CAISO BAA and the SMUD and TID BAAs are surrounded by the CAISO BAA. As described by Mr. Rothleder and Dr. Price, the proposed IBAA parallels a major portion of the CAISO Controlled Grid for over 300 miles, with interconnections at several locations along the entire distance. There is no other BAA that is embedded within the CAISO's BAA with these attributes. In addition, there is no better refutation of protestors claim or proof that all BAAs are not similarly situated than to look at the Interconnected Control Area Operating Agreements entered into by the CAISO. The CAISO has entered into with numerous ICAOAs with some (but not all) of the Control Areas (i.e., BAAs) interconnected with the CAISO. All of these ICAOAs have been different and all of them have been accepted by the Commission. The fact that different BAAs required different (and often significant) deviations from the *pro forma* ICAOA shows unequivocally that each BAA is unique. In fact, the SMUD and TID ICAOAs have many more "special" deviations from the *pro forma* ICAOA that than any other ICAOA.

In summary, the claims of undue discrimination by these protestors incorrectly apply the test for undue discrimination by assuming the conclusion at the outset of their analyses that all BAAs are similarly situated. The CAISO's evidence and analysis in the June 17 Filing (as well the CAISO experience with ICAOAs it has executed) demonstrates that the SMUD and TID

BAA are not similarly situated in terms of their physical attributes, their location, and the effect their operation has on the CAISO Controlled Grid.

(5) The proposal does not violate exiting contracts

The CAISO's IBAA proposal does not violate any existing approved agreement. Nor does the IBAA proposal amount to a failure of the CAISO to honor either Existing Transmission Contracts ("ETCs") or Transmission Ownership Rights ("TORs").

The IBAA proposal does not violate the terms of the Amended Owners Coordinated Operation Agreement ("Amended OCOA"). While there are several reasons why the claims of TANC and others are in error, the overarching error is simply that the provision of Section 8.4 of the Amended OCOA on which TANC (and others) rely only applies to a Party's use of its own transmission facilities. Specifically, the provision in Section 8.4 regarding not charging a rate for power that flows over the System is not applicable when a Party to the OCOA seeks to use the transmission facilities of another Party. This fact is clearly set forth in Section 5 of the Amended OCOA and in Section 8.4 itself.

If the rates charged and services do not involve: (i) transmission service over a Party's own facilities *and* (ii) an attempt to charge a rate for the parallel flow affects of a Party's use of its own facilities, there is no violation of the OCOA. There is no conflict between Section 8.4 of the Amended OCOA and the IBAA proposal; the CAISO simply does not apply any rate or levy any charge rate for the parallel flow affects when a COTP participant or a third party transmission customer schedules transmission service over the COTP. There is no dispute regarding this point in the record developed in this proceeding thus far. When a transmission customer schedules service over the COTP, the entire transaction occurs outside of the CAISO's sphere of authority; it involves transmission service over facilities that are not part of the CAISO

Controlled Grid; it occurs under a transmission tariff (TANC's) over which the CAISO has no control; and the CAISO has no role whatsoever in the financial settlement of COTP transmission service schedules that are arranged under TANC's transmission tariff.

TANC attempts to expand the scope of Section 8.4 to apply when TANC (or another COTP participant) uses another Party's facilities (in this instance, when TANC or another COTP participant uses the CAISO Controlled Grid). TANC clearly asserts that the provision in section 8.4 extends to *scheduled flows* on the facilities of *other Parties*. However, the provision relied on by TANC (and others) simply does not reach or extend to such activity. Indeed, TANC's interpretation is prohibited by Section 8.4 itself. The very section of the Amended OCOA relied on by TANC addresses TANC's argument and emphasizes that "*no Party shall have a right under this Agreement* [*i.e.*, the Amended OCOA, including the provision relied on by TANC] *to have any of its power delivered on or otherwise have the use of transmission facilities owned by another Party*.[27]

In its protest, TANC clearly recognizes the need to cast its arguments in terms of "COTP schedules" to demonstrate a valid violation of Section 8.4 of the Amended OCOA. Of course, a "COTP schedule" is a schedule that represents a customer's use of the COTP, not the CAISO Controlled Grid. Contrary to TANC's arguments, the IBAA proposal applies no rate, imparts no "toll fee" or levies any congestion (or other) charges on "COTP schedules" *i.e.*, a transmission customer's use of the COTP. All of the effects described by TANC apply to an entity's unilateral decision to use, or schedule the use of, the CAISO Controlled Grid (*i.e.*, "CAISO Controlled schedules").

[27] Section 8.4 of the Amended OCOA (fourth sentence; emphasis added).

The CAISO also does not violate the California-Oregon Intertie Path Operating Agreement ("COI POA"). The CAISO is a party to the COI POA and is the Path Operator. Section 8.3 of the COI POA sets forth twenty-one (21) duties of the Path Operator, none of which conflict with the MRTU Tariff as amended by the IBAA proposal. TANC cites to only one of the twenty-one duties – Section 8.3.19 – which provides that the CAISO shall enter to agreements that have two attributes. However, TANC fails to provide the agreement itself so that it can be reviewed as part of the record, fails to mention that there are two attributes that Section 8.3.19 says such agreements must contain, quotes only the latter attribute in the section, and asserts that the IBAA proposal contradicts that attribute. TANC's description of the requirements of section 8.3.19 is cursory and incomplete. As noted in the June 17 Filing, the CAISO has not found it necessary to, and does not believe it has, entered into an agreement with a COI Control Area Operator that has both attributes described in § 8.3.19 of the COI POA.

The IBAA proposal also does not fail to honor the terms of Amendment No. 4 to the Interconnected Control Area Operating Agreement ("ICAOA") between the CAISO and SMUD as alleged by TANC. The CAISO has noted several times that market participants will still be able to schedule at the same Intertie Scheduling Points that exist today under MRTU and this includes the Tracy 500-kV Intertie Scheduling Point for COTP schedules as set forth in the ICAOA.

Finally, contrary to the claims of CCSF, the IBAA proposal does not mean that the CAISO will fail to honor the First Amended and Restated Operating Agreement ("OA") executed by the CAISO and CCSF. *See* Section III.E.4 of this Answer, *infra*. The CAISO notes that the OA is currently pending approval by the Commission as an uncontested settlement in Docket No. ER06-227-000.

(6) The filing is complete. While this issue is discussed in greater detail in Section IV.I below, the CAISO's IBAA proposal is timely and complete. Arguments to the contrary are without merit. As discussed in the filing letter, the IBAA proposal impacts Congestion Revenue Rights ("CRRs"), which the Commission has recognized must be in place even prior to commencement of MRTU. The CAISO has provided extensive testimony supporting the need for the filing, the choice of IBAAs, the location of pricing points, and the specific aspects of the SMUD and TID BAAs that make it unreasonable not to address their individual system configurations.

(7) There is far too much mistrust and exaggerated complaints of unilateral CAISO action in the pleadings. The CAISO is a public utility subject to the jurisdiction of the Commission. Virtually every facet of the CAISO's operations must be in accordance with its Commission approved tariff which cannot be modified absent a filing under section 205. Moreover, any actions by the CAISO inconsistent with that tariff are subject to complaint under section 206. Accordingly, many of the protests regarding the CAISO's *unilateral* ability to change the scope of existing IBAAs or add additional IBAAs are without foundation. The CAISO, in response to stakeholder comments, proposed that the IBAA change process would be subject to Commission review. Similarly, any MEEAs would need to be filed and approved by the Commission. Under these circumstances, there is no basis for the level of mistrust that is evident in the protests. The CAISO itself does not have a financial stake in the outcome of any negotiation. The CAISO's sole goal is to have a mechanism in place that will ensure that consumers are not subject to inappropriate prices. In any event, the level of transparency and outside review of the CAISO's actions will ensure that the IBAA proposal, the use of MEEAs,

and implementation of MRTU in general will take place in an environment of the strictest scrutiny.

(8) The CAISO needs to have a default methodology. While the CAISO has welcomes the possibility of a mutually acceptable resolution between the CAISO and one or more of the protesting parties that is consistent with the alternative pricing elements of its proposal, the fact remains that the CAISO and these entities have been discussing these issues for a long time. The CAISO needs to have a default methodology in place in order to protect consumers prior to the start of MRTU. The modeling and pricing of interchange transactions at each of the 12 Intertie Scheduling Points within the IBAA on a radial basis would result in severe harm for consumers, increase the cost and effort of maintaining reliability, and delay the implementation of MRTU.

SMUD and many of the other "Impacted Parties" have made no secret of their opposition to the CAISO's MRTU market design. As the Commission has recognized, being on the outside can allow parties to take advantage of the benefits of the RTO/ISO, without bearing all of the costs and responsibilities.[28] In this situation, the commencement of the new market design that the Commission has already found to be just and reasonable should not be delayed due to the objections of entities that have opposed every aspect of its development and start-up. Moreover, external parties cannot seek participation on terms that would provide them with an undue preference. In particular, these parties should not be permitted to reap the benefits of inaccurate pricing that is perpetuated by their withholding actual transactional information from the CAISO

[28] In Order No. 2000, the Commission expressed its concern that non-PTOs may receive the benefits of an RTO in its region without accepting any of the burdens of participation in the RTO. *Regional Transmission Organizations*, Order No. 2000**,** FERC Stats. & Regs. ¶ 31,089, at 31,180 (1999), *order on reh'g*, Order No. 2000-A, FERC Stats. & Regs. ¶ 31,092 (2000), *aff'd sub nom. Pub. Util. Dist. No. 1 of Snohomish County, Washington v. FERC*, 272 F.3d 607 (D.C. Cir. 2001).

which precludes the CAISO from accurately calculating prices for interchange transactions that reflect the actual nature of such transactions.

The CAISO will continue to work with any party interested in developing an appropriate alternative pricing arrangement under the MEEA structure. Such negotiations can be done on a bilateral basis or under the auspices of the Commission's ADR experts. Any MEEA agreement would then be vetted before the CAISO;s stakeholders, including the CPUC, before being subject to a subsequent Section 205 filing.

(9) The need for a hearing**.** Failing successful Settlement/Technical Conference negotiations, several parties request an evidentiary hearing.[29] As courts have repeatedly upheld, the Commission is only required to provide a trial-type hearing if material facts are in dispute and cannot be resolved on the basis of the written submissions in the record.[30] There is no need for a hearing in this matter, the Commission has a substantial record upon which to base its determination.

In deciding whether to set issues for hearing, the Commission must first decide whether the issues raised by commenters are policy questions or factual questions. For the most part, the issues parties seek to set for hearing are policy questions, even where some parties have attempted to characterize them as factual questions.

Furthermore, the extensive filings submitted by the CAISO and other parties in this proceeding provide the Commission with a sufficient record to the extent the Commission concludes there are any material issues of fact in dispute. Not only did parties submit

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[29] TANC at P 15 and P 182; TID at 2, 37.

[30] 114 FERC ¶ 61,070 at P 31 and n.71, *citing Lomak Petroleum, Inc. v. FERC*, 206 F.3d 1193, 1199 (D.C. Cir. 2000) (*citing Conoco Inc. v. FERC*, 90 F.3d 536, 543 n.15 (*quoting Environmental Action v. FERC*, 996 F.2d 401, 413 (D.C. Cir. 1993)); *see also Central Maine v. FERC*, 252 F.3d 34 (1st Cir. 2001).

approximately 1100 pages of initial comments on the IBAA Tariff Filing, the CAISO itself filed over 400 pages of explanation, testimony and additional supporting documentation in support of its proposal. Parties were free to submit testimony of their own in response to any factual question that they believed needed to be resolved. Indeed, TANC, SMUD, and WAPA submitted their own affidavits and explanations. In light of this well-developed record, the Commission should have all the information it needs to act on the IBAA Tariff without an evidentiary hearing. To the extent the Commission elects to set any issues related to the IBAA proposal for hearing, the CAISO urges the Commission to narrow the scope of any hearings to the minimum possible set of questions and determine that remaining provisions of the IBAA proposal are just and reasonable to avoid the risk of parties attempting to litigate every parochial issue related to the IBAA.

In the September 2006 MRTU Order, the Commission stated that:

> [w]e … find it unnecessary to set the tariff for hearing. Parties have provided thousands of pages of testimony and exhibits in this proceeding, both supporting and opposing specific aspects of the tariff filing. While the sheer number of pages of filings and testimony alone does not resolve factual disputes, we have found the record sufficient to make determinations, and to direct compliance filings, where necessary, to modify the tariff.[31]

In the April 2007 MRTU Rehearing Order, the Commission reiterated:

> Given the substantial record already established on which to base its decision, the Commission finds that requiring evidentiary hearings is unnecessary. Furthermore, evidentiary hearings would serve only to further delay implementation of the market improvements included in MRTU.[32]

The CAISO respectfully requests that the Commission reach the same determination in this matter and decide the issues based on the full record that has been presented. This will allow

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[31] *See* September 2006 Order, 116 FERC ¶ 61,274 at P 25 (citation omitted).

[32] April 2007 Order, 119 FERC ¶ 61,076 at P 15.

the CAISO and Market Participants to complete the MRTU market design and proceed with final simulations and testing necessary to commence market operations.

III. ANSWER

A. It Is Necessary and Appropriate for the CAISO To Make the IBAA Filing at This Time

1. Statements that the IBAA Proposal Is Premature Are Unfounded

A number of parties challenge the CAISO's timing and need for the IBAA proposal. For example, SMUD asserts that there is no particular reason why the IBAA proposal for SMUD would need to be in place in order to implement MRTU.[33] For WAPA, the existing tariff "already describes" how the CAISO will both model and price existing BAAs[34] and claims that the CAISO is "changing existing commercial practices."[35] According to TANC, the IBAA proposal is "not essential" for the MRTU "go live" date[36] and the CAISO,

> possesses sufficient data to run and optimize its markets and to manage true congestion….without obtaining data and information that no other RTO or ISO operating under LMP requires. Any contention that the IBAA proposal is needed for reliability reasons is refuted by the experience of other RTOs/ISO and the data that the ISO currently receives for operational purposes.[37]

While the CAISO agrees with CMUA, that the impact on MRTU start-up cannot render just and reasonable a proposal that is flawed and legally infirm,[38] the June 17 IBAA filing

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[33] SMUD at 18.

[34] WAPA at 15. Although WAPA then goes on to suggest that the "CAISO can continue to work collaboratively with neighboring BAs to develop a nondiscriminatory modeling and pricing approach that will reduce the chance of unintended consequences." *Id.* In section III.C, the CAISO reiterates why the IBAA approach is non-discriminatory. However, WAPA is being disingenuous on one hand suggesting that the current tariff is completely sufficient and on the other hand indicating an additional modeling and pricing approach is necessary.

[35] WAPA at 16 – 19.

[36] TANC at P 138.

[37] TANC at P 211.

[38] CMUA at 5.

provides a fully justified amendment to the MRTU Tariff that will improve price signals, enhance the accuracy of the CAISO's Full Network Model, and facilitate forward congestion management. The need for the submission of the IBAA proposal at this time is amply supported by the Panel Testimony of Mr. Rothleder and Dr. Price and the individual testimonies of Dr. Scott Harvey and Dr. Eric Hildebrandt. In particular, Dr. Harvey and Dr. Eric Hildebrandt each discuss how including the IBAA proposal, when the MRTU commences, will eliminate inappropriate price signals, as well as enhancing the accuracy and efficiency of the CAISO's congestion management solutions.[39] Thus, while as a practical matter the MRTU could commence without the IBAA proposal in place, the negative impacts on the market would be significant and difficult to correct. Indeed, significant financial harm could befall CAISO ratepayers before any corrections could be made.[40] Under these circumstances, it is eminently prudent and reasonable to address and prevent these identifiable problems in advance of MRTU implementation.

The Commission has noted the importance of correcting improper market incentives prior to the commencement of MRTU. In a recent order the Commission stated,

> Our review of the CAISO's proposed "bright line" test for assessing charges for underscheduling demand in the day-ahead market finds that it generally addresses the Commission's concern regarding LSEs' potential economic incentives to underschedule in the day-ahead market. As the Commission stated on rehearing of its September 2006 MRTU Order, "these interim measures are not intended to

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[39] *Id.*; *see also*, Exhibit No. ISO-2 at 16-17, Exhibit No. ISO-3 at 15-18.

[40] As noted in *AES Redondo Beach, LLC, et. al*, 85 FERC ¶ 61,123 at 61,453 (1998), during the initial market design and after the Commission determined that Replacement Reserves should not be considered an ancillary service, the California Market, "witnessed dramatic price spikes in the price for Replacement Reserve capacity. Specifically, during the first two weeks of July 1998, the ISO experienced prices for Replacement Reserves as high as $5,000 for some hours and as high as $9,999 in several other hours." While price caps were imposed to reduce the magnitude of the problem, millions of dollars in unjust and unreasonable costs during this period were incurred.

> prevent LSEs from taking steps to reduce the costs of serving their load. Instead, these interim measures should be designed to prevent uneconomic behavior."[41]

Further, TANC itself has previously argued in its protest to the MRTU that there were "flaws" which needed "to be addressed before the Commission allows the MRTU Tariff to become effective."[42] For TANC to now argue that the Commission should wait for a problem to exist before seeking a remedy is in contravention to TANC's prior statements. Contrary to TANC's assertions, there is nothing "unprecedented" about the CAISO's filing.[43] As explained by Dr. Harvey in his testimony, the CAISO's proposal is consistent with the actions of the Eastern ISOs.

The MRTU implementation issues raised by TANC and certain other parties are irrelevant to the just and reasonableness of the CAISO's IBAA proposal. The fact is the CAISO needs a final Commission determination on the IBAA proposal so that the CAISO can finalize the implementation details and Market Participants can fully test the new modeling and pricing features prior to MRTU implementation. Regardless of when MRTU is implemented, the CAISO requires final Commission approval of the proposal in order to finalize, test, and implement the proposal in accordance with the very criteria TANC and other Market Participants cite to and have requested the CAISO follow. For example, WAPA states that the CAISO's IBAA proposal is not ready to be deployed and that the CAISO has not created an adequately controlled and test environment during its market simulation activities to allow market participants to test, analyze, evaluate, and confirm that their systems and rights are accurately

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[41] *California Independent System Operator Corporation*, 124 FERC ¶ 61,043 (2008) at P 21, citing April 2007 MRTU Rehearing Order, 119 FERC ¶ 61,076 at P 119.

[42] Docket No. ER06-615-000, Motion to Intervene, Motion to Defer Acceptance of Filing, Protest and Alternative Request for Suspension of the Transmission Agency of Northern California, at 8 (Apr. 10, 2006).

[43] TANC at P 209.

modeled and verified because "the current market simulation testing environment does not even include the CAISO's IBAA proposal."[44] This is precisely the point. Unless the CAISO is permitted to make the necessary market enhancements at this time, there will always be complaints that the IBAA has not been approved, by the Commission, incorporated into the market design, and properly tested to be used to ensure rational market outcomes and reasonable prices.

IID states that if FERC accepts the CAISO's IBAA proposal, it should not be implemented until the CAISO provides notice to the Commission and Market Participants and demonstrates there is actual evidence of market manipulation.[45] This position is without foundation. First, there is no reason to wait for actual harm to occur to apply the preventative measure. Second, IID overlooks the fact that the proposal better matches the CAISO's modeling with expected actual usage of the CAISO Controlled Grid that the methodologies currently reflected in the CAISO Tariff. Third, under the Federal Power Act, the CAISO has the right to propose improvements to its tariff that are just and reasonable and the Commission does not have unlimited suspension authority.

2. The CAISO Has Provided Sufficient Evidence of Potential Harm If the IBAA Proposal Were Not Implemented

Parties state that the CAISO has not provided sufficient evidence that improper price incentives or gaming will result if the IBAA proposal is not adopted.[46] WAPA claims that it only has only a limited amount of COTP transmission capacity available and therefore there are

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44 WAPA at 13-14.

45 IID at 54.

46 TANC at P 212; IID at 30-32.

only a limited number of entities that could take advantage of the price differential.[47] WAPA also represents that as a federal agency it "does not engage in inappropriate scheduling to game the energy markets"[48]

The CAISO's intention in its filing was not to make specific accusations against any party, but as WAPA, TANC, and others have stated, transmission capacity is available under open access transmission tariffs. Thus, WAPA's federal restrictions may not apply to all potential customers who may utilize WAPA's transmission or just schedule in the CAISO system and engage in opportunistic behavior.

The CAISO appreciates WAPA's offer to work with the CAISO and others to develop a market monitoring committee to identify and report suspected gaming activities which the Commission has stated to be improper.[49] However, monitoring alone may not prevent damage from being done. The fact remains that the improper incentives have already been identified and should be addressed. One should not be forced to wait for known or reasonably anticipated problems to occur before instituting corrective action. Proper market incentives should be built into the design from the beginning. This is not to say that the market will be perfect and that adjustments are not necessary. But, rather the identifiable issues should be addressed for the start of MRTU.

3. Claims that the IBAA Does Not Improve Reliability & Does Not Improve Modeling Accuracy

SMUD states that the CAISO's assertion of a reliability concern is a "makeweight" unsupported by the filing itself and contradicted by the safeguards that have long been in place to

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47 WAPA at 30-31

48 WAPA at 34.

49 WAPA at 35.

ensure reliability of operations between neighboring balancing area authorities.[50] For WAPA, single hub pricing is a step backwards in terms of moving from zonal to nodal markets as it fails to properly assign LMPs at interchange/scheduling points that reflect either the actual value of energy or congestion.[51] The CAISO strongly disagrees with these characterizations which unfairly demean the studies and analysis performed to date and the reasoned decisions of the DMA, MSC, and outside market experts. The CAISO has explained in its filing letter and expert testimony that it does not have sufficient information regarding the source and location of the external resource used to implement interchange transactions. Without sufficient and verifiable information, the CAISO can and must make reasonable assumptions based on anticipated rational economic behavior. If Western is concerned about impacts of the single proxy bus mechanism, then an MEEA may be more appropriate for WAPA's consideration.

B. The IBAA Proposal Will Not Cause the Dire Consequences Hyperbolized By Certain Parties

Certain parties allege a variety of harms that would be associated with adoption of the IBAA proposal. These include: (1) violation of the WECC Unscheduled Flow Mitigation Procedures; (2) "balkanization" of the California Oregon Intertie; (3) devaluing the COTP; (4) reduction of imports into the CAISO; (5) discouragement of transmission investment outside the CAISO; (6) improper imposition of loses on COTP transactions; (7) a failure to achieve the CAISO's stated objectives and (8) delay implementation of MRTU. As described below, these allegations do not withstand scrutiny and should be rejected.

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50 SMUD at 34.

51 WAPA at 33.

1. The CAISO Will Adhere to the WECC Procedure to Mitigate Loop Flows.

Citing an affidavit from Mr. Rahman attached to WAPA's protest, TANC alleges that the IBAA proposal is "a departure from the WECC Unscheduled Flow Mitigation procedure and may have unintended consequences elsewhere in the Western Interconnection without proper analysis."[52] However, examination of the affidavit finds only the unsupported quoted statements and nothing else.[53] There is no description of how the proposal violates the procedure. Similarly, on behalf of WAPA, Mr. Garris states that the CAISO proposal is "inconsistent" with the currently required WECC mitigation processes and places an additional burden on neighboring BAA.[54]

In the MRTU Order on Rehearing, the Commission has found such unsupported allegations should be rejected.[55] In that same order, the Commission noted the CAISO's commitment to "follow all WECC standards and operating procedures, including the Unscheduled Flow Mitigation Plan."[56] The CAISO has not backtracked from this commitment. Nor can it do so. Under Section 7.2 of the MRTU Tariff.

> The CAISO shall exercise Operational Control over the CAISO Controlled Grid in compliance with all Applicable Reliability Criteria. The Applicable Reliability Criteria are the standards established by NERC, WECC and Local Reliability Criteria and include the requirements of the Nuclear Regulatory Commission (NRC) all as modified from time to time.

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52 TANC at P 144.

53 WPA-1 (Rahman) at P 15.

54 Garris at P 21.

55 119 FERC ¶ 61,076 at P 39 ("Witness Alaywan does not elaborate on the details or the discussion of this argument or in what context it was made. Thus, we lack sufficient detail and context in which to evaluate the validity of the conclusion. As a result, we deny SMUD's request for rehearing on this issue").

56 *Id.* at P. 186

More specifically, on May 16, 2008, the Commission issued an order pertaining to the CAISO's compliance filing on the non-transmission planning requirements of Order No. 890.[57] In the May 16 Order, the Commission noted that the CAISO did not file any procedures addressing Attachment J requirements – Procedures for Addressing Parallel Flows. Accordingly, the Commission directed the CAISO to file a completed Attachment J containing the following provision:

> The North American Electric Reliability Corporation's ("NERC") Qualified Path Unscheduled Flow Relief for the Western Electricity Coordinating Council (WECC) Reliability Standard WECC-IRO-STD-006-0 filed by NERC in Docket No. RR07-11-000 on March 26, 2007, and approved by the Commission on June 8, 2007, and any amendments thereto, are hereby incorporated and made part of this Tariff. See www.nerc.com for the current version of the NERC's Qualified Path Unscheduled Flow Relief Procedures for WECC.

In compliance with the Commission's directive, the CAISO made a compliance filing on June 16, 2008, in Docket No. ER08-12 to include the required provision as Appendix FF to the current CAISO Tariff and Appendix M to the MRTU Tariff. Significantly, TANC intervened in that docket, yet makes no mention of the new Appendix M.

Moreover, the protests by TANC and WAPA demonstrate a fundamental misunderstanding of the CAISO's IBAA proposal, the Unscheduled Flow Relief procedures or both. The WECC procedure is a non-market based real time procedure. In contrast, the IBAA is designed to ensure better market outcomes in the Day-Ahead timeframe. The CAISO proposal does not impact or effect the operation of the WECC procedure and, by better managing congestion in the forward market, may actually alleviate the need to implement the administrative, real-time WECC procedure, thus further enhancing reliability and avoiding administratively administered transmission curtailments.

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[57] *California Independent System Operator Corporation*, 123 FERC ¶ 61,180 (2008) ("May 16 Order").

Accordingly, TANC and WAPA's the unsupported allegations are unfounded and should be afforded no weight. The CAISO must comply with the WECC Unscheduled Flow Procedure and nothing in the IBAA proposal contravenes this requirement.

2. The IBAA Will Not Balkanize the California-Oregon Intertie

According to TANC, the IBAA proposal "threatens to balkanize the operation of facilities comprising a key intertie."[58] Such hyperbola is an unfortunate characteristic of TANC's pleading and should be rejected.

In fact, "Balkanize" is obviously a favorite phrase of TANC's. In the MRTU docket, TANC alleged the CRR proposal "balkanize regions rather than promote seamless tariffs and regulations."[59] The Commission rejected the protest concluding that "that these differences are not unduly discriminatory, but rather reflect the fact that external load is situated differently from internal load with respect to its ongoing reliance on the CAISO grid."[60]

In this case, the uncontroverted testimony of the Panel is that "prices at the Captain Jack Resource and the Malin substation will typically be the same when the scheduling limit at Malin is not binding."[61] This is because Captain Jack and Malin are separated by a 500 kV low-impedance transmission line that is not usually congested – accordingly, the LMPs at each location should be the same or very similar.[62] The CAISO is not separating use of the COI facilities – to the contrary, the LMPs would under most situations value the use of the

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58 TANC at P 1.

59 April 2007 rehearing order at P 355.

60 April 2007 rehearing order at P. 370.

61 Panel testimony at 59.

62 *Id*.

transmission equally. The IBAA proposal maintains the coordinated use of the COI and, as explained in more detail below, does not favor the use of a particular line.

With similar exaggeration, TANC asserts the IBAA proposal would "upset the entire paradigm" for inter-balancing authority relationships.[63] The claim does not withstand scrutiny. The IBAA proposal is consistent with all WECC and NERC reliability requirements, does not modify any previously-approved scheduling points or practices. To the contrary, as the proposal seeks to better align forward congestion management and pricing with actual real-time experience, the proposal will enhance inter-Balancing Authority Area reliability.[64]

3. The CAISO's Proposal Will Not "Devalue COTP," or Promote Phantom Congestion

Several protests allege that the IBAA proposal will "devalue" the COTP transmission capacity. For example, DOE states that "[t]he proposed change in settlement point from Tracy to Captain Jack would diminish the value of the CRRs that DOE presently holds, and thus deprive DOE of a valuable, ongoing hedge against congestion costs."[65] MID claims that the IBAA proposal creates incentives to import to the CAISO over CAISO-controlled facilities, rather than the COTP or COI[66] and that the IBAA proposal will lead to "phantom congestion" on CAISO-controlled facilities, because the pricing incentives will leave capacity unused on the COTP.[67]

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63 TANC at P 1 (citing to Griess Testimony at PP21-28).

64 In the words of Dr. Harvey, more accurate predictions of the impact of imports on internal CAISO transmission constraints will reduce the potential for situations to arise in real-time in which transmission system flows are so different from those modeled in the day-ahead or hour-ahead commitment process that the CAISO either will not be able to solve the constraints with the units that are on-line, or the constraints will only be solved in real-time by curtailing scheduled interchange transactions. Exhibit ISO-3, Testimony of Dr. Harvey at 15.

65 DOE at 12.

66 MID at 11-12, 14.

67 MID at 12-13. "By placing the proxy hub at Captain Jack, the CAISO has ignored the value of the 340 miles of COTP from the California-Oregon border to central California, undermining MID's investment in the asset.

WAPA has a concern that the CAISO's proposal devalues its transmission system and is inconsistent with WAPA's OATT.[68] TANC contends that the CAISO's proposal will reduce imports on the COTP into the ISO markets and "[b]y eliminating or severely curtailing a primary market for COTP transactions the ISO clearly and intentionally devalues the COTP."[69] SVP argues that by intentionally ignoring the schedules on the COTP that do not sink in the CAISO BAA, the CAISO is intentionally underestimating the flows and resulting congestion and losses on the PACI, thereby overestimating the available capacity on the PACI, which in turn artificially depresses the price for generation within the CAISO control area in the Day Ahead market and artificially increases the value at Malin relative to internal generation.[70] These allegations, unsupported by data or reasoned analysis, are without foundation.

First, TANC and its customers can use the COTP to serve load on their systems without charge from the CAISO. TANC participants' investment in the COTP (sunk/embedded cost) is in no way affected by the CAISO proposal.

Second, as explained above, prices at Captain Jack (COTP) and Malin (PACI) will likely be the same most of the time. Prices will be lower at Captain Jack when the scheduling limit is

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This also devalues MID's investment in local generation "by making sales from those units subject to a lower price, with no relation to its actual location." MID at 24.

[68] WAPA at 26. WAPA states that under certain agreements, WAPA and the other COI owners have generally agreed to allocate the capacity of the COI, that the CAISO's new pricing proposal may have a chilling impact on the COTP transactions in WAPA's Sub-BA., and that the CAISO likely will impact Western's OATT transactions for its COTP and may devalue the COTP. WAPA at 27.

[69] TANC at P 118-119. TANC states that the IBAA proposal will unnecessarily and artificially increase congestion on the California-Oregon Intertie, and likely on the interconnected 230 kV transmission system. By assigning COTP imports into the ISO markets an unjust and unreasonable price based upon a fictitious and contrived LMP assignment, the ISO will force transmission users to shun the COTP and oversubscribe the PACI, needlessly resulting in congestion and raising energy prices in California. By assigning the worst price point for imports that use the COTP as compared with imports that use the ISO's own facilities, transmission customers will react to the price signal by scheduling on the PACI instead. This will increase the frequency and cost of congestion on the PACI to California. TANC at P 136.

[70] SVP at 12.

binding at Malin, the CAISO portion of the COTP, or at any other intertie scheduling point between the IBAAs and CAISO. The uncontroverted fact is that COTP will remain valuable as a means to serve load within the IBAA and as a means to make off system sales and purchase from the CAISO markets. With regard to the latter, the COTP can and should be valuable based on a more accurate treatment of a locational price that reflects the true location of the supply being scheduled not the unduly preferential one proffered by certain parties. More importantly, the CAISO does not and cannot play favorites nor does it have an incentive to do so. Prices in the CAISO markets and for use of the CAISO-controlled transmission system are, under MRTU, established pursuant to a Commission-approved LMP-based pricing methodology. TANC's arguments are in essence a collateral attack on the Commission's previous MRTU orders. Third, regarding the use of the CAISO controlled grid, TANC participants can either utilize existing ETCs or pay appropriate CAISO charges, with an ability to secure CRRs mapped back to the Captain Jack substation to the load take out point. Fourth, it is important to remember that the TANC participants did not build the COTP to sell into the CAISO market, and the TANC participants are not entitled to any fixed amount of off-system revenues nor, absent an ETC that states otherwise, a fixed rate for transmission over the CAISO system. TANC participants certainly have no expectation that they should be entitled to earn revenues for sales into the CAISO based on erroneous modeling of their transactions or "fictitious" LMPs that do not reflect the actual physical nature of their transactions.

In summary, the complaints that the IBAA proposal some how "devalues" the COTP transmission line are unfounded. The CAISO's filing fully respects the COTP's ownership and capacity rights and does not diminish, in any way the parties ability to utilize the previously approved scheduling and cost hedging methodologies based on CRRs as previously-approved by

the Commission. No party disputed the CAISO's testimony that prices at Captain Jack and Malin will generally be identical. Thus, there is no basis to conclude that the IBAA proposal would systematically value the use of one transmission line over the other.

4. The Proposal Will Not Result In Substantial Loss of Imports to CAISO

Several parties contend that the IBAA proposal could lead to a decrease in imports into the CAISO, thereby resulting in increased prices and decreased reliability.[71] At the outset the CAISO notes that these complaints are being raised by WAPA, TID, TANC, SMUD and IID not by PG&E, SCE, SDG&E or even any of the municipal entities that have joined the CAISO as Participating Transmission Owners. Nor have other potential importers – marketers or merchant generators- sought the need to complain about the CAISO's pricing and a potential impact on imports. Finally, the entity with a direct responsibility for consumer protection – the CPUC has not raised this concern.

It is the resource adequacy program, as developed by the CPUC and other Local Regulatory Authorities that is primarily responsible for ensuring the adequacy of supply in the CAISO BAA by requiring that resources will be available to the CAISO for dispatch when and where needed. The IBAA proposal does not modify these requirements or in any way change or limit the ability of LSEs in the CAISO BAA to utilize imports as part of their resource adequacy portfolio. None of the protesting parties are alleging that they will fail to meet their capacity

[71] WAPA at 24; TID at 9; TANC at P 127; SMUD at 30; IID at 9, 25. IID argues the CAISO's proposal could undermine one of MRTU's fundamental purposes - improving supply adequacy. IID argues the CAISO's proposal could undercut the Commission's policy goal of promoting the development of renewable energy and compliance with the State of California's renewable energy portfolio standard. IID at 8. If CAISO pays lower prices for imports to the CAISO for renewable resources in neighboring Balancing Authority Areas, those resources either will not be developed or the renewable energy that is developed will be sold to customers in locations outside the CAISO. IID at 8, 29.

obligations under state law. There is no basis for concluding that the LSEs within the CAISO BAA will fail to meet their responsibilities.

In addition, as the CAISO has noted in several of these sections alleging harm, the LMPs at Captain Jack and Malin should generally be the same and thus, accurately reflecting the value of energy delivered to the CAISO from the Northwest. In other words, the allegations that the IBAA proposal will lead to a decrease in imports are unfounded and should be rejected.[72]

5. The IBAA Proposal Does Not Harm Transmission Expansion

CMUA argues that the IBAA proposal "undermines the foundation upon which significant additional transmission investment will be made."[73] TANC alleges that the CAISO is "undermining [TANC's] ability to complete its $1.2 billion transmission program because of the uncertainty the proposal creates as to whether the facilities will provide the benefits intended affect [74] TANC states that its General Manager, James W. Beck, describes the "uncertainty" engendered by the IBAA proposal as a serious concern for TANC and other non-ISO

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[72] On behalf of SMUD, Mr. Sorey provides and example of how the IBAA proposal discourages imports. SMUD Exhibit 2 at 8. He postulates the following: an LMP at Captain Jack of $60, a cost of SMUD Generation of $70 and an LMP at the Rancho Seco Intertie (or Hub)of $80. Under his scenario, SMUD would have an incentive to buy power at $60 and sell its power to the CAISO at $80. He argues that by preventing the $80 price the IBAA proposal discourages the sale. However, one has only to modify the hypothetical slightly to get an antithetical result and demonstrate the need for the CAISO's proposal. If the cost of SMUD's generation was $85 and not $70, there would still be the incentive to buy power at $60 to cover SMUD's own load. However, there would also be every incentive to buy power at $60 at the Captain Jack LMP and resell that same power for $80 at the Rancho Seco Intertie LMP at $80., without generating a single megawatt of $85 power from the facility in SMUD's control area. Thus, Mr. Sorey's example points to the need for the CAISO's proposal and the possibility for an MEEA to provide an increased price, if and only if, the SMUD unit is actually supplying the power. The CAISO notes that at a recent meeting of the WECC Seams Issue Subcommittee, Calpine pointed out that they have a generator that is physically located within the SMUD IBAA, but which is pseudo-tied into the CAISO. This generator is able to have its own pricing node because of this pseudo-tie model, and the provision of actual meter data. CAISO stated that pseudo-tied and dynamically scheduled resources can have this type of modeling. Draft notes of the WECC meeting can be found at http://www.wecc.biz/documents/meetings/MIC/SIS//2008/July/SIS_July_MinutesDRAFT_posting.doc.

[73] CMUA at 7.

[74] TANC at P 115.

transmission owners that seek to build transmission.[75] For WAPA, the IBAA proposal could create disincentives for transmission upgrades on WAPA's system.[76] The complaints are without merit.

In his affidavit, Mr. Beck is quite candid as to the reasons for its transmission expansion projects – "TANC's needs are driven in large part by its Members' needs and desires to satisfy the renewable portfolio standards and green house gas initiatives of California."[77] The projects being undertaken by TANC are for the benefit of the TANC member's own systems –to meet their reliability needs and requirements under state law to procure a portion of their generation supply from renewable resources. While the CAISO supports these efforts and the regional planning process, it is a wholly unsupported allegation that any of these efforts will be impeded by the IBAA proposal.

As noted in the discussion above refuting the concerns with regard to the "devaluing" of COTP, the allegations of economic harm are unsupported. The COTP will continue to function as an important link between the CAISO and the Northwest. Energy transactions between the two regions will be important and the relevant — and accurate — LMPs will appropriately value the use of the Energy and transmission capacity. The parties protesting this issue can point to no concrete action or cancellation that is related to the CAISO's proposal. To the contrary, they readily admit that their own transmission expansion plans are directly related to their own reliability needs, not for sales into CAISO markets which are merely ancillary to their primary reason for utilizing the COTP.

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75 TANC at P 186.

76 WAPA at 27.

77 Exhibit No. TNC-1 at P 22.

6. The IBAA Proposal Does Not Inappropriately Charge for Losses

Several parties continue to argue that the IBAA proposal will charge for losses on non CAISO Controlled Grid Facilities.[78] MID states that by creating an LMP at Captain Jack, the CAISO is essentially requiring payment for losses on facilities not subject to CAISO control and that this conflicts with the Commission's order on Amendment No. 2, which prohibits the CAISO from assessing charges on facilities outside its control.[79] SVP argues CAISO's proposal would overcollect for PACI congestion and losses because it would apply the Malin and Captain Jack prices to the total of the Malin and Captain Jack schedules, but CAISO will only incur congestion and losses in the amount of the Malin schedules.[80]

As noted in the Panel Testimony, while transmission losses within the IBAA will be accounted for in the power flow calculations, the marginal impact of these losses will be removed from the calculations for setting the LMPs used to price service on the CAISO Controlled Grid.[81] Thus, the CAISO explained,

> Regarding the allegation that the CAISO will charge for losses on unscheduled or parallel flows under MRTU, this also is not correct. The CAISO will charge for losses on *scheduled* flows on the CAISO Controlled Grid in the Day-Ahead Market and the Real Time Market under MRTU, it will not charge for *unscheduled* flows. There is, of course, a cost associated with the losses on parallel flows, *i.e.*, flows from *scheduled* transactions on *other transmission systems* that flow over the CAISO Controlled Grid. In order to maintain power balance and scheduled net interchange in real time, a BAA (including the CAISO) will generate more to make up for such losses. As a result, there is a real cost for

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78 NCPA at 11. TID at 9 (The CAISO's proposed calculation of congestion and marginal losses at Captain Jack violates the principles of cost causation. Rather, it should be based on facilities that have the greatest impact on congestion and losses. TID at 24-26). SVP asserts the IBAA proposal unjustly exposes COTP Participants to duplicative losses charges, as those participants should not have to pay for losses and congestion costs associated with unscheduled flows on the PACI from COTP injections. SVP at 29-30.

79 MID at 27-28.

80 SVP at 28. SVP states that if CAISO recovers congestion and losses from Tracy schedules to compensate for parallel flows on the PACI, the CAISO will over-recover because those costs will already be recovered from Malin schedules. SVP at 29.

81 *See* Exhibit ISO-1, Panel Testimony of Mark Rothleder and Dr. Price, at 67-68.

> additional generation to make up for such losses. However, in terms of the allegation of the IBAA Entities, the important point is that CAISO does not charge or collect money for losses from *schedules* that are not using the CAISO Controlled Grid even though there is a cost for losses incurred by the CAISO (due to the parallel flows associated with such schedules using non-CAISO Controlled Grid facilities). Currently each BA addresses this issue in its respective BAA.[82]

The fact is that the CAISO is not charging for losses for transmission schedules that are not using the CAISO Controlled Grid. While transmission losses within the IBAA will be accounted for in the power flow calculations, the CAISO has committed to remove the marginal impact of these losses will be removed from the calculations for setting the LMPs used to price service on the CAISO Controlled Grid. Thus, there is no double-counting for losses and the CAISO LMPs are just and reasonable.[83]

7. Complaints that the IBAA Proposal Will Not Achieve Objectives Are Unfounded

TANC argues that the CAISO's proposed IBAA methodology will not achieve its objectives.[84] WAPA, without "purporting to understand or analyze any of those rules," nevertheless states the CAISO may be creating a "new door for gaming."[85] The primary concern is that the single-hub approach "does not fully achieve the CAISO's goal of modeling based on

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82 Filing letter at 50.

83 In the September 2006 MRTU Order, the Commission stated that :

> We find reasonable the CAISO's proposal to assess marginal losses to Scheduling Coordinators of ETC contract in the same manner as the CAISO proposes to assess marginal losses to other load with the CAISO's transmission grid. Assessing all customers, included ETC rights holders, marginal losses associated with their transactions is consistent with cost causation principles. This also helps assure least-cost dispatch and the establishment of optimal nodal prices.

84 TANC at P 144.

85 WAPA n.46.

complete and accurate information."[86] These unsupported statements should be rejected. The testimony or Dr. Hildebrandt, Dr. Harvey and the paper of the MSC all examine and explain the *known* improper pricing incentive that will exist absent the Commission approval of the IBBA proposal.

As to the issue of improved modeling, the CAISO agrees that the single hub approach does not *fully* achieve its modeling objectives. However, as explained in the Filing Letter,

> The IBAA proposal is a just and reasonable means of meeting the CAISO objectives (*i.e.*, protecting CAISO ratepayers from unjust and unreasonable prices and improving the representation of the IBAA in the Full Network Model) given the refusal of the IBAA Entities to provide data that would allow the CAISO to verify the location of external resources within the SMUD-TID IBAA that are dispatched to implement interchange transactions.[87]

The CAISO has made no secret of its long run desire to exchange detailed scheduling, generation, and load information with other BAAs.[88] As stated by Dr. Harvey,

> [w]hile the CAISO pricing proposal for the SMUD-TID IBAA does not reflect the intended end state, *it is an improvement over the current scheduling and pricing mechanism, is better than the alternative proposed by the IBAA parties, and is a step forward toward the intended end state that ought to be taken. Until the end state system is implemented, the CAISO must operate the transmission system based on the best information available to it, and the current CAISO proposal will enable it to do so*.[89]

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86 Powerex at 8; WAPA at 21.

87 Filing Letter at 7.

88 *See* Exhibit No. ISO-1 at 81 ("Ultimately, the CAISO desires to model each of its interconnections with other Balancing Authority Areas pursuant to a closed loop methodology or highly integrated manner. However, maintaining accuracy in the CAISO's calculations of flows within the CAISO BAA when using a region wide closed loop model will require that the external Balancing Authority Areas share with the CAISO detailed information about the dispatch of resources (generation and loads) internal to each Balancing Authority Area with the CAISO. Currently, however, this is a topic of regional coordination that is not well developed at this time, and there has been and will likely initially be a great deal of reluctance to support the level of data exchange that is needed to implement a closed loop model in the West. While the ultimate goal of closed loop modeling is not achievable in the near term, this should not deter the CAISO from making improvements where sufficient data is available").

89 Exhibit ISO-3, Testimony of Dr. Harvey at 24-25 (emphasis added).

Thus TANC's claims that the CAISO itself noted that deficiencies and inaccuracies in its IBAA single hub pricing and modeling methodology[90] misses the mark. The IBAA proposal does not represent a failure to achieve the CAISO's objective of the more accurate modeling. It is an improvement as to what would exist in the absence of the instant filing. Moreover, the CAISO is ready and willing to negotiate MEEAs with parties that will provide greater transparency and more accurate reflection of the transactions actually being undertaken. However, absent negotiated MEEAs, the IBAA is a just and reasonable approach to addressing the problems at hand, and offers more protections than the "do nothing" approach favored by these parties.

8. The Proposal Will Not Delay Timely Implementation of MRTU

TANC asserts that the IBAA proposal will exacerbate rather than aid in timely MRTU implementation because implementing the IBAA proposal into the existing MRTU readiness effort will take away time from achieving robust testing and increase risk significantly to all market participants in MRTU whether or not they are impacted by the proposal.[91] TANCs assertion is without merit for it presumes that the MRTU market should proceed without the pricing and modeling improvements that result from the IBAA. Given the need to have a market design that does not create improper pricing incentives before actually commencing market

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[90] "The CAISO recognizes that both the Multiple or Sub-Hub and Single- Hub based IBAA modeling approaches have limitations with respect to modeling accuracy. . . . To address these deficiencies, the CAISO proposes to implement future enhancements to the IBAA methodology. Based on the frequency and severity of the inaccuracies resulting from the implementation of CAISO's initial IBAA methodology (Single Hub), the CAISO may elect to implement these enhancements as soon as several months after MRTU start up." Citing to April 18 Proposal at 8. TANC says the CAISO's last minute switch from a multi-hub to a single-hub methodology also calls into question the appropriateness of creating a moving target and the need to rush to a June 17 Filing, rather than waiting to fully vet the Alternative Proposal presented by the Impacted Entities. TANC at P 147.

[91] Citing to WPA-3 at (Anderson Testimony) at P 7. TANC at P 148.

operations, it is necessary, to have the IBAA program approved, tested and in place before the MRTU go live date.

C. Claims of Undue Discrimination Are Unfounded

TANC, MID, SMUD, TID, and WAPA claim that the CAISO has singled out the SMUD/WAPA and TID Balancing Authorities for disparate treatment as compared to other Balancing Authorities.[92] Each of these entities note that undue discrimination is defined as the application of substantially different treatment to "similarly situated" entities without legitimate reason and then claim the CAISO is guilty of unduly discriminatory conduct because the IBAA proposal is only applied to the SMUD and TID BAAs.[93]

There is a common error in these comments -- they erroneously assume at the outset that all BAAs are the same or similarly situated and therefore must be treated in a similar fashion. For example, TANC states that it has demonstrated that "the [CA]ISO has singled out the SMUD/WAPA and TID Balancing Authorities for disparate treatment *as compared to other Balancing Authorities*" assuming that all other BAAs are similarly situated entities.[94] TANC repeats the assumption later in its protest using the phrase "parallel ISO Controlled facilities." TANC states that:

> [T]he applicable test is whether all market participants that transact at these two Balancing Authority Areas versus those that transact at parallel ISO Controlled facilities are treated similarly. By applying a unilateral and extremely inaccurate and harsh pricing treatment for all transactions from the SMUD/WAPA and TID Balancing Authority Area facilities as compared to that of parallel ISO-Controlled facilities, it is clear that the IBAA proposal is indeed unduly discriminatory and the reasons the ISO has provided to justify this treatment are illegitimate.[95]

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92 TANC at 23 (P 43); MID at 15-18; SMUD at 38; TID at 9, 10-18; WAPA at 36.

93 *See, e.g.*, TANC at 44 (86)

94 TANC at 23 (P 43) (emphasis added).

95 TANC at 58 (P 110) (emphasis added).

TID assumes that all BAAs are similarly situated when it states that:

> the CAISO's proposed disparate treatment of neighboring control areas is discriminatory *on its face* and thereby contravenes Section 205(b) of the FPA.[96]

WAPA's protest is similar:

> By singling out the SMUD/Western BA, the CAISO's filing is discriminatory. The CAISO recognizes the proposal set forth by the CAISO only applies to certain neighboring BAs: the Western/SMUD BA and TID BA. It does not apply to Imperial Irrigation District (IID) BA, Los Angeles BA, Bonneville BA, nor does it apply to Western's Desert Southwest BA. By selectively applying its proposal to a select and limited number of BAs, the proposal is *de facto* discriminatory.[97]

MID's protest is similar:

> The CAISO's proposal unduly discriminates against the SMUD/WAPA/TID BAAs and the entities within them. The CAISO does not propose, at least immediately, to impose this proposal on any other BAA than SMUD/WAPA or TID. Yet, the objectives of the CAISO in its IBAA proposal are purportedly the same as to each neighboring BAA.[98]

As noted above, the flaw in these arguments is that they assume an erroneous conclusion – that all BAAs are similarly situated. In discussing the number of proxy buses that are desirable, Dr. Harvey notes that the modeling and pricing of highly-integrated BAAs is not of equal importance at all locations.[99] Dr. Harvey explains that if the power flowing over the contract paths between the other Balancing Authority Area and the CAISO were to have similar impacts on internal CAISO transmission constraints, or if the impacted constraints have very low shadow prices, then there would be little near-term benefit to improving the modeling of the

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96 TID at 11.

97 Western at 36 (emphasis in original).

98 MID at 15 (P 37) (emphasis added).

99 Exhibit ISO-3, Testimony of Dr. Harvey, at 29.

pricing points with the other BAAs.[100] Moreover, the CAISO's evidence and analysis demonstrates that the SMUD and TID BAA are not similarly situated in terms of their physical attributes, their location, and the effect their operation has on the CAISO Controlled Grid.[101]

The CAISO will not repeat the description of all of the evidence in the June 17 Filing that contradicts the protestor's arguments and supports applying the IBAA proposal to the SMUD and TID BAAs. However, up until five years ago for SMUD and three years ago for TID these areas were part of the CAISO BAA (specifically part of PG&E's former control area in northern California). Thus, their transmission facilities were fully integrated with CAISO grid operations and the remaining transmission facilities under the CAISO's Operational Control.[102] Protestors cannot dispute this fact, and it is not a subjective conclusion by the CAISO. More importantly in terms of protestor's undue discrimination claims, *there is no other BAA* with which the CAISO is interconnected that has this attribute. Stated differently, no other BAAs' facilities and operations are as integrated with, and impact the CAISO's operations as much as, the facilities and operations of SMUD and TID.

In terms of process, these entities were identified in the CAISO's February 9, 2006 MRTU filing as Embedded and Adjacent Control Areas that the CAISO would include in the Full Network Model "used for power flow calculations and congestion management in the CAISO Markets Processes."[103] Stakeholders cannot claim credibly that they were unaware that such modeling treatment would have an affect on pricing or the resulting LMPs. The tariff language filed on February 9, 2006 and as conditionally-approved in the Commission's

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100 *Id.*

101 *See* Exhibit ISO-1, Panel Testimony of Mark Rothleder and Dr. Price, at 28-43.

102 Id. at 28

103 *See* MRTU Tariff § 27.5.3 (as filed on February 9, 2006).

September 2006 Order[104] stated that the CAISO would model "the resistive component for transmission losses on embedded Control Areas and adjacent Control Areas but does not allow such losses to determine LMPs."[105] Mr. Rothleder and Dr. Price indicate that "in examining the physical characteristics and operations of the SMUD and TID BAAs and the impact of their systems on the CAISO BAA, the CAISO concluded early in the MRTU development process, as reflected in Attachment E to the Transmittal Letter, that it was important to focus its efforts to model the SMUD and TID BAAs on an enhanced basis."[106]

Another criterion used by the CAISO that is an objective fact and not a subjective conclusion has to do with the number of interconnections the SMUD and TID BAAs have with the CAISO. The combined SMUD BAA and TID BAA have twelve interties (10 for SMUD and 2-TID) with the CAISO BAA.[107] The BAA with the next greatest number of interconnection points is the LADWP, which only has four interconnections with the CAISO.[108] As described by Mr. Rothleder and Dr. Price the number of interconnections:

> . . . is a simple but important criterion because the number of interties and the distance between them is a clear indication of how closely two BAAs are integrated. Simply put, the greater the number of interconnections, the increased potential for having flows on the other party's system. In addition, flows over interconnection points that are closely grouped together are likely to have a similar impact on the other BA's system. Conversely, flows over interconnection points that are dispersed and far apart are likely to have different impacts. Once again, location matters.[109]

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104 September 2006 Order, 116 FERC ¶ 61,274 (2006).

105 *See* MRTU Tariff § 27.5.3 (as filed on February 9, 2006).

106 Exhibit ISO-1, Panel Testimony of Mark Rothleder and Dr. Price, at 28.

107 Exhibit ISO-1, Panel Testimony of Mark Rothleder and Dr. Price, at 32.

108 *Id.*

109 *Id.* at 30

While none of the protestors claim the number of interconnections is a "subjective" factor, SMUD states that "the number of interconnections between SMUD and CAISO does not *by itself* reveal anything about the significance of the impacts that the interconnected systems will have on one another."[110] Of course, the CAISO did not base its determination to apply its IBAA proposal to the SMUD and TID BAAs on the criteria of the number of interconnections "by itself". Rather, it examined several different criteria and placed those criteria in the MRTU Tariff. Even SMUD's witness Mr. Alaywan caveats his testimony with the recognition that: "I am not saying the number of interconnections is the only factor the CAISO claims to have used to determine relative impact."[111]

Another objective fact supporting the CAISO determination to apply the IBAA proposal to the SMUD and TID BAAs is their physical location within the CAISO's BAA. The location of the SMUD and TID BAAs are surrounded by the CAISO BAA.[112] As described by Mr. Rothleder and Dr. Price the proposed IBAA parallels a major portion of the CAISO Controlled Grid for over 300 miles, with interconnections at several locations along the entire distance.[113] In terms of the protestor's undue discrimination claims, there is no other BAA embedded within the CAISO's BAA that runs in parallel with the CAISO Controlled Grid for 300 miles.

As a final matter, there is no better refutation of protestors claim or proof that all BAAs are not similarly situated than to look at the Interconnected Control Area Operating Agreements entered into by the CAISO. The fact that not all BAA are similarly situated is demonstrated by

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110 SMUD at 41 (citing to the Alaywan testimony at 13-14).

111 SMUD Exhibit No. SMUD-3 (Alaywan testimony), at 14.

112 See the map of the proposed IBAA on page 35 of the Panel Testimony, Exhibit ISO-1, Panel Testimony of Mark Rothleder and Dr. Price at 35.

113 Exhibit ISO-1, Panel Testimony of Mark Rothleder and Dr. Price at 33.

the fact that the Interconnected Control Area Operating Agreements ("ICAOAs")[114] that the CAISO has entered into with numerous interconnected Control Areas, *i.e.*, BAAs, and which the Commission has accepted, are all different. The fact that different BAAs required different (and often significant) deviations from the *pro forma* ICAOA shows unequivocally that each BAA is unique. Indeed, the SMUD and TID ICAOAs have many more "special" deviations from the *pro forma* ICAOA that than any other ICAOA. Thus, these parties' argument that they are similarly situated to other BAAs strains credulity given that they required distinct provisions in their ICAOAs that: (1) recognize the unique circumstances associated with their control areas and their points of interconnection with the CAISO, and (2) deviated significantly from the *pro forma* ICAOA.[115] If all BAAs were similarly situated, these parties would not have needed significant deviations from the *pro forma* ICAOA. The CAISO also notes that not all ICAOAs were entered into at the same time. In fact, some interconnected BAAs have not executed ICAOAs with the CAISO. Thus, even though import and export transactions between the CAISO and all of its interconnected neighbors has occurred since the formation of the CAISO, the CAISO did not enter into ICAOAs with each of these entities at the same time, and still does not have ICAOAs with all neighboring BAAs. The fact that the Commission did not require the CAISO to execute ICAOAs with all interconnected BAAs at the same time further undermines these parties' argument that the CAISO must implement IBAAs for all BAAs at the same time.

In summary, the protestors claiming the IBAA proposal is unduly discriminatory misapply the test for demonstrating undue discrimination and assume the conclusion that all

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[114] ICAOAs govern the coordination of interconnected control areas over their points of interconnection.

[115] *See California Independent System Operator Corporation,* 114 FERC ¶ 61,077 at P 3 (2006) (order on TID ICAOA); *California Independent System Operator Corporation,* 109 FERC ¶ 61,391 (2004) (order on the second amendment to the SMUD ICAOA).

BAAs are similarly situated. Moreover, they make this assumption in the face of substantial evidence provided by the CAISO that the SMUD and TID BAAs are unique in terms of their physical attributes, their location, and the affect their operation has on the CAISO Controlled Grid. The CAISO respectfully requests that the Commission rejected the undue discrimination arguments of protestors.

Before addressing other topics, the CAISO will discuss two other arguments related to the claims of undue discrimination arguments below: (i) arguments regarding the CAISO's determination to consider the SMUD and TID BAA as a single IBAA even though TID only has two interconnections with the CAISO, and (ii) arguments regarding "the availability of information to the CAISO for modeling accuracy".[116]

1. The CAISO's Determination to Consider the TID BAA as Part of the Single IBAA is Reasonable

TID notes that it has only two interties with the CAISO and claims that the extent to which SMUD is interconnected with the CAISO is irrelevant to TID.[117] TID states that the CAISO has no authority to unilaterally group TID and SMUD into one BAA and that the CAISO does not group other neighboring control areas together even though they also are interconnected with one another like TID and SMUD are interconnected.[118] The CAISO respectfully requests the Commission reject TID's claim that the grouping of the TID BAA with the SMUD BAA is unreasonable.

As noted above, there are certain attributes of the TID BAA that no other BAA interconnected with the CAISO (*i.e.*, other than SMUD) has and that are not in dispute. Up until

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116 *See* Proposed MRTU Tariff § 27.5.3.3 (factor number 6), Attachment C to the Transmittal Letter to the June 17 Filing.

117 TID at 13

118 *Id.*

three years ago the TID BAA was part of the CAISO BAA (specifically part of PG&E's former control area in northern California).[119] Two other indisputable facts regarding the TID BAA include its physical location – it is embedded within the CAISO's BAA – and that the TID transmission system runs in parallel with CAISO transmission system. As explained by Mr. Rothleder and Dr. Price, the TID BAA and the SMUD BAA are both embedded within the CAISO BAA, are adjacent to one another and have an interconnection with each other. This combination of facts means that the source of an interchange scheduled from TID BAA could come from within the SMUD BAA or even the Pacific Northwest.[120]

Furthermore, the CAISO analysis regarding the number of hours in which there were power flow reversals (*i.e.*, a flow reversal from comparing the scheduled flow and the actual flow observed in real time) indicates that it is reasonable to consider the TID BAA and SMUD BAAs as a single IBAA. The CAISO analyzed the magnitude and frequency of flow reversals and unscheduled flows between the CAISO BAA and the SMUD and TID BAAs.[121] Mr. Rothleder and Dr. Price explained the diagrams in Attachment A to their testimony stating that:

> The more hours of unscheduled flow at or around zero indicates an intertie with less unscheduled flow. The more spread out a curve is reflects an intertie with more hours of unscheduled flow. A negative unscheduled flow percentage indicates that the scheduled flow is actually greater than the actual flow from the CAISO import perspective. A positive unscheduled flow percentage indicates that the actual flow is greater than the scheduled flow from the CAISO import perspective. Looking at Diagram No. 8 in Attachment A for the SMUD BAA, we see that the frequency bell curves for the various interties are spread out and vary significantly. In addition, Diagram No. 11in Attachment A shows that the TID frequency bell curve is substantially spread out, indicating that there are frequent high unscheduled flows relative to the rating of the interconnection.[122]

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119 Exhibit ISO-1, Panel Testimony of Mark Rothleder and Dr. Price at 28.

120 *Id*. at 33.

121 See Attachment A to Exhibit ISO-1, Panel Testimony of Mark Rothleder and Dr. Price (flow diagrams); *see also* Exhibit ISO-1, Panel Testimony of Mark Rothleder and Dr. Price at 36-37.

122 Exhibit ISO-1, Panel Testimony of Mark Rothleder and Dr. Price at 36.

In the case of one of the TID interconnections (WESTLY_2_LOSBNS) the flows reversed in 45 percent of the hours in the year.[123] For all of the above reasons, the CAISO respectfully requests that the Commission find that the CAISO's determination to treat the SMUD BAA and the TID BAA as a single IBAA is reasonable.

2. The IBAA Factor Regarding Availability of Information to the CAISO

Several commenters chide CAISO for the proposed characteristic of an IBAA regarding "the availability of information to the CAISO for modeling accuracy". [124] However, some of the commenters inappropriately compare two different types of information: (i) the type of information the CAISO has regarding the electric topology of the external transmission systems that were once part of the CAISO's BAA, and (ii) the information regarding the real time dispatch of external resources which the CAISO does not have and therefore means that the does not have the ability to verify either that an externally scheduled resource was the resource actually dispatched or that the resource performed in a manner consistent with its schedule. *See*, e.g., TANC at 46-47 (P 91). The purported inconsistency between the two types of information is incorrect. There is no inconsistency between the CAISO having information regarding the electric topology of external transmission systems that were once part of the CAISO's BAA and not having the information to verify the real time dispatch of external resources used to implement interchange transactions.

Other commenters claim or imply that the IBAA criteria regarding available information indicates that the CAISO first determined to apply the IBAA proposal to the SMUD and TID

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123 *Id*. at 37; *see also* Diagram 11 in Attachment A to Exhibit ISO-1, Panel Testimony of Mark Rothleder and Dr. Price.

124 *See* Proposed MRTU Tariff § 27.5.3.3 (factor number 6), Attachment C to the Transmittal Letter to the June 17 Filing.

BAAs and then came up with the criteria that matched its determination. The innuendo or implication of these comments is incorrect for at least a couple of reasons. First, the fact that an area or municipality within the CAISO BAA might seek to become its own control area is an event certainly capable of repetition in the future. In such a case, the CAISO would again have information about, and experience with, the electric topology of the system formerly within its BAA that might support a decision to establish another IBAA. In addition, there are other activities or initiatives in the West (e.g., the approval of NERC Reliability Standards regarding interchange transactions in the WECC) that might lead to the CAISO having more information that would support the establishment of other IBAAs. In summary, it is appropriate to have the criteria of information available to the CAISO included in MRTU Tariff Section 27.5.3.3.

D. The Single Hub Proposal and the Default Pricing Points Are Reasonable

Several parties assert that the CAISO's single hub proposal and the default pricing points are arbitrary, unreasonable, excessively high (for imports) and low (for exports), and inaccurate.[125] Most of these comments, in one form or another, assert either that: (i) having 12 pricing points at each of the 12 Intertie Scheduling Points between the CAISO and the proposed IBAA would be more accurate than the IBAA proposal, or (ii) the CAISO's move from a multiple proxy bus approach to a single proxy bus approach with the default pricing points is less accurate and will cause market inefficiencies. All of these concerns were noted and addressed by the CAISO in the June 17 Filing.

For example, the CAISO explained that the IBAA proposal is a substantial improvement over radial modeling and pricing at each of the multiple Intertie Scheduling Points within the

[125] *See, e.g.*, IID at 25-28; SVP at 17-42; TANC at 70-71 (P 134); LADWP at 6; Western at 46-48.

IBAA.[126] The CAISO also responded to the arguments that the IBAA proposal is not as accurate as the CAISO's original multiple hub pricing proposal.[127] The CAISO explained that from a modeling perspective, a single hub approach can be less accurate than the CAISO's original multiple hub approach *if* there was accurate identification by Market Participants of the resources actually supporting their scheduled interchange transaction and if the information was used to assign transactions to the appropriate hub for pricing and modeling purposes. However, the CAISO indicated that a single hub approach will provide a more accurate model than a multiple hub approach in which Market Participants are permitted to use contract path schedules to deliver power to the highest priced hub, without regard to the location of the generation supporting the transaction. Dr. Hildebrandt explained that the potential congestion management benefits of the sub-hub approach depend *entirely* on having an accurate representation of the marginal System Resource (*e.g.*, SMUD Hub, WAPA Hub, Captain Jack, etc.) actually supporting the import and export schedule and bids submitted by Market Participants.[128] The CAISO also noted that:

> the CAISO IBAA proposal will function as a multiple hub approach, and realize the associated modeling benefits, to the extent that the relevant market participants enter into alternative pricing arrangements with the CAISO. The CAISO cannot ignore the potential pricing consequences of a multiple hub proposal absent confidence that it can accurately identify the location of resources supporting scheduled interchange with the IBAA.[129]

Regarding arguments that the single proxy bus approach with the default pricing points will be inaccurate, Dr. Harvey noted that, except for BAAs that are radially interconnected, no

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126 *See* Transmittal Letter to the June 17 Filing at 44-45.

127 *Id.*

128 Exhibit ISO-2, Testimony of Dr. Hildebrandt at 8 (emphasis added).

129 Transmittal Letter to the June 17 Filing at 45.

single proxy bus location will provide a perfect representation, under all conditions, of the changes in line flows associated with a change in scheduled net interchange with that dispatch region.[130] Dr. Harvey explains that any single proxy bus pricing system is necessarily a compromise absent a high degree of information exchange between two BAAs regarding interchange transactions.[131] Specifically, Dr. Harvey states that:

> in practice, except in the case of radially connected dispatch regions, no single proxy bus location will provide a perfect representation, under all conditions, of the changes in line flows associated with a change in scheduled net interchange with that balancing authority area. The location of the proxy bus in any single proxy bus pricing system is therefore necessarily a compromise that will not be ideal over all system conditions.[132]

The opinion of the CAISO's MSC is similar to that of Dr. Harvey's. The MSC states that in the absence of detailed information on the day-ahead schedules of all generation units and inter-ties outside of the CAISO control area that exert an influence on power flows in the CAISO BAA, the CAISO's "proposal of a single aggregate IBAA with an import and export price appears to be the best available way to obtain day-ahead schedules that are accurate predictions of real-time flows that do not involve significant monetary transfers from CAISO participants to these entities."[133]

The CAISO respectfully requests that the Commission find that, in the absence of better information that would confirm the location and operation of the external resources used to implement interchange transactions, placing individual or aggregated System Resources in the Full Network Model at dominant transmission bus locations within the external IBAA is a

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130 *See* Exhibit ISO-4, Scott Harvey, "Proxy Buses and Congestion Pricing of Inter-Balancing Authority Area Transactions" June 9, 2008 at 8.

131 *Id.*

132 *Id.*

133 *See* Attachment I to the June 17 Filing, the MSC's Opinion on Modeling and Pricing of Integrated Balancing Areas under MRTU ("MSC Opinion") at 2.

reasonable means of modeling and pricing the effects of such transactions on the CAISO Controlled Grid. The CAISO reiterates that the approach contained in the IBAA proposal is the same approach successfully being used by the RTO's in the east.

With regard to the default pricing locations themselves, the CAISO explained and supported its approach in the June 17 Filing.[134] The CAISO noted that it has an obligation to ensure that prices on its system and in its markets are just and reasonable and that it cost-effectively manages congestion on the CAISO Controlled Grid.[135] As explained in the testimony of Dr. Harvey, the CAISO must buy power offered by CAISO sellers in a transparent market; there is no symmetric obligation on the SMUD-TID IBAA.[136] Because the CAISO must accept all qualified offers to sell and buy into its markets, the CAISO has the right and responsibility to establish an appropriate price and terms for such sales and purchases.[137] The CAISO reiterated the possible harm that could come to CAISO ratepayers if an LMP pricing regime (the cornerstone of the MRTU market design) were in place without the IBAA proposal. In the absence of information regarding the location and operation of the external resources used to implement interchange transactions, the CAISO must establish market rules and related prices that eliminate inappropriate price incentives and reduce the risk to CAISO Market Participants of paying: (i) too much for power, and (ii) for the cost of the real time re-dispatch necessary because the CAISO procured and paid for power that was not representative of the value of such power to the CAISO for managing congestion on the CAISO Controlled Grid.[138]

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134 *See* Transmittal Letter to the June 17 Filing at 23-26 (generally) and 25-26 (regarding the specific default locations).

135 Exhibit ISO-1, Panel Testimony of Mark Rothleder and Dr. Price, at 60.

136 Exhibit ISO-3, Testimony of Dr. Harvey, at 22-23.

137 Exhibit ISO-1, Panel Testimony of Mark Rothleder and Dr. Price, at 60.

138 *Id.*

Mr. Rothleder and Dr. Price indicated that it is a reasonable assumption that entities within the SMUD and TID IBAA generally will procure less expensive power available from the Pacific Northwest.[139] Absent information that verifies that such entities are not dispatching their own internal generation to support a scheduled import to the CAISO, the CAISO believes that a Captain Jack System Resource represents a reasonable approximation of the marginal resources likely to be used to support the scheduled interchange transaction.[140] Similarly, the CAISO believes that exports to the SMUD-TID IBAA will generally be scheduled to serve load in the SMUD area (as represented by the SMUD hub), since that is the location in the SMUD-TID IBAA with the greatest amount of load and any export would reduce higher cost generation within the SMUD-TID BAA.[141] For all of the above reasons, the CAISO requests that the Commission approve the single proxy bus approach and the default pricing pricing points as contained in the IBAA proposal.

E. Allegations that the IBAA Proposal Violates the Terms of Existing, Approved Agreements and the CAISO's Commitment to Honor Existing Transmission Contracts

TANC and others allege that the IBAA proposal violates the terms of existing approved agreements and violates the CAISO's commitment to honor existing transmission contracts ("ETCs")[142] under MRTU.[143] As set forth in more detail below, the CAISO's IBAA proposal

139 *Id.*

140 *Id.* at 60-61.

141 *Id.*

142 ETCs are defined as "contracts which grant transmission service rights in existence on the CAISO Operations Date (including any contracts entered into pursuant to such contracts) as may be amended in accordance with their terms or by agreement between the parties thereto from time to time." MRTU Tariff, Appendix A.

143 TANC at 24-43; CCSF at 8 and 11.

does not violate any existing approved agreement. Nor does the IBAA proposal amount to a failure of the CAISO to honor either ETCs or Transmission Ownership Rights ("TORs").[144]

1. The IBAA Proposal Does Not Violate the Terms of the Amended Owners Coordinated Operation Agreement.

TANC and SVP allege that the IBAA proposal violates the terms of the Amended Owners Coordinated Operation Agreement ("OCOA").[145] While there are several reasons why the claims of TANC and others are in error, the overarching error is simply that the provision of Section 8.4 of the Amended OCOA on which TANC and others rely only applies to a Party's use of its own transmission facilities. The IBAA proposal, and any rates and charges associated with the IBAA proposal, have nothing to do with TANC's (or another COTP participant's or third party transmission customer's) use of its own facilities, i.e., the COTP.[146] The IBAA proposal only involves the rates and terms of service in using the CAISO Controlled Grid. The provision in Section 8.4 regarding not charging a rate for power that flows over the System relied on by TANC and others is *not applicable* when a Party to the OCOA seeks to use the transmission facilities of *another Party*. Moreover, TANC's assertion is not only flawed, it is prohibited specifically by section 8.4 itself.

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144 TORs are defined as "[t]he ownership or joint ownership right to transmission facilities within the CAISO Balancing Authority Area of a Non-Participating TO that has not executed the Transmission Control Agreement, which transmission facilities are not incorporated into the CAISO Controlled Grid." MRTU Tariff, Appendix A.

145 TANC at 28-33, 35-43;SVP at 25.

146 *See, e.g.*, Exhibit ISO-3, Testimony of Dr. Harvey at 20 (indicating that "[t]he System Resources used by the CAISO have nothing to do with either the provision or pricing of transmission service over the SMUD or TID transmission facilities or managing congestion on the SMUD or TID transmission systems. The owners and operators of the SMUD and TID transmission systems are the sole providers of transmission service over those facilities.").

The provisions of the Amended OCOA relevant to understanding the errors in TANC's allegations (and the allegations of others) include Sections 5, 8.4, 10 and 11 (as well as certain defined terms in Section 4). All of these provisions and the allegations are discussed below.

a. The Amended OCOA Deals with Each Party's Use of Their Own Facilities and the Coordinated Operation of the Three Line System

It is important to recognize that each Party's use of the coordinated three line system under the Amended OCOA involves *each Party's right to use its own facilities*. This fact is clear from reading the Amended OCOA. Section 4.34 of the Amended OCOA defines the PACI-P, for the purposes of the agreement, as: "the portion of the PACI owned by PG&E and located between Indian Spring and the COTP Terminus and the portion of the PACI owned by PacifiCorp between Malin Substation and Indian Spring to which PG&E has rights." Section 4.35 of the Amended OCOA defines the PACI-W, for the purposes of the agreement, as: "the portion of the PACI owned by WAPA and located between the Malin and Round Mountain Substations." Section 4.15 of the Amended OCOA defines the COTP as: "[t]he California-Oregon Transmission Project, a 500-kV transmission line and associated facilities between the Captain Jack substation near COB and the COTP Terminus."

Section 4.48 of the Amended OCOA defines the "System" as the "combined PACI-P, PACI-W, and COTP." The amount of each Party's (i.e., PG&E's, WAPA's, and the COTP Participants') use in the three-line System is related to each Party's facilities. This fact is evident from reading Section 10 and 11of the Amended OCOA. Section 10 sets forth the allocation of the Rated System Transfer Capability ("RSTC") of the three-line System and allocates the RSTC to each Party based on each Party's ownership rights in their own transmission facilities. For example, for North to South transfers the allocations are: "1600MW for the PACI-P; 1600 MW

for the PACI-W; and 1600 MW for the COTP."[147] For South to North transfers the allocations are: "1225MW for the PACI-P; 1225 MW for the PACI-W; and 1225 MW for the COTP."[148] Section 11 sets forth the allocation of the Available Scheduling Capability ("ASC") on the three line system. Again, the apportionment or allocation of the scheduling capability also is related to the facilities owned by each Party. The allocation of ASC: "among the *COTP ASC Share*, *WAPA's PACI-W ASC Share*, and the *PACI-P ASC Share* shall be calculated on a pro rata basis according to the COTP RSTC Share and the PACI RSTC Share in a north-to-south direction and separately in a south-to-north direction using the following allocation formulas."[149] In other words, the allocation of Available Scheduling Capability is based on each Party's share of RSTC which, as set forth above, means it is allocated on a one-third basis based on the transmission facilities that each Party owns.

It also is important to recognize that the Amended OCOA does not deal with the scheduling of transmission service over the facilities of each Party. The scheduling of transmission service to customers over the transmission facilities of PG&E, WAPA, and the COTP occurs under the transmission tariffs of PG&E (now the CAISO), WAPA, and TANC respectively and not under the Amended OCOA.[150]

b. The Prohibition On Being Charged A Rate For Power That Flows Over The System in Section 8.4 Applies to A Party's Use Of Its Own Facilities and Does Not Entitle or Create Any Rights to Use of the Facilities of Another Party

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147 Amended OCOA at § 10.1.1.

148 Amended OCOA at § 10.1.2.

149 Amended OCOA at § 11.2.1 (emphasis added).

150 Western's Open Access Transmission Tariff can be found at the following website: http://www.oatioasis.com/WAPA/WAPAdocs/WAPA-OATT.pdf. Western's Tariff is on file with the FERC as an acceptable non-jurisdictional reciprocity tariff. As noted earlier, TANC's Transmission Tariff for service over the COTP can be found at: http://www.oatioasis.com/TANC/TANCdocs/TANC_OATT_July_13_07.pdf.

The provision in Section 8.4 regarding not charging a rate for power that flows over the System is not applicable when a Party to the OCOA seeks to use the transmission facilities of another Party. This fact is clearly set forth in Section 5 of the Amended OCOA and in Section 8.4 itself.

Section 5 of the Amended OCOA. Section 5 of the Amended OCOA reads in full as follows:

> This Agreement governs the coordinated operation of the PACI and COTP. It is the intent of the Parties to maintain the System as coordinated facilities to benefit its Transfer Capability. Except as to the use of the Tesla ByPass provided under this Agreement and as necessary to perform curtailment sharing obligations under Section 11 of this Agreement, *no Party provides or shall be required to provide any transmission or other electric service to another Party under this Agreement*.[151]

The section clearly provides that: (i) the purpose of coordinated operations is to increase or benefit the Transfer Capability of the System, and (ii) no Party shall provide (or be required to provide) transmission service or other electric service to another Party under the OCOA. The last sentence of Section 5 specifically prohibits a conclusion that anything in the Amended OCOA (including the provision in Section 8.4 relied on by TANC and others) means that a Party "provides or shall be required to provide any transmission or other electric service to another Party under this Agreement."[152] If a Party wants to use the facilities of another Party (*e.g.*, TANC or another COTP participant requesting to use the CAISO Controlled Grid by scheduling an interchange transaction) the Amended OCOA creates no right of use to those facilities and the request will take place under the providing Party's applicable transmission tariff.[153]

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151 Section 5 of the OCOA (emphasis added).

152 *Id.*

153 Using the names of the Parties to the Amended OCOA, it is clear that the last sentence of Section 5 means that: (i) TANC is not providing and cannot be required to provide any transmission or other electric service over its facilities (i.e., the COTP) to PG&E or Western due to the coordinated operation of the three-line System under the

Section 5 means that the provision regarding a Party not being charged a rate for power that flows over the System in Section 8.4 only concerns *each Party's use* of *its own facilities*. If the rates charged and services do not involve: (i) transmission service over a Party's own facilities *and* (ii) an attempt to charge a rate for the parallel flow affects of a Party's use of its own facilities, there is no violation of the OCOA. For example, for TANC (or another COTP participant) there can be no charge for the unscheduled parallel flows affects on the PACI-P and PACI-W when they are using the COTP. There is no conflict between this provision and the IBAA proposal; the CAISO simply does not apply any rate or levy any charge when a COTP participant or third party transmission customer schedules transmission service over the COTP.

There is no dispute regarding this point in the record developed in this proceeding thus far. When a transmission customer schedules service over the COTP, the entire transaction occurs outside of the CAISO's sphere of authority; it involves transmission service over facilities that are not part of the CAISO Controlled Grid; it occurs under a transmission tariff (TANC's) over which the CAISO has no control; and the CAISO has no role whatsoever in the financial settlement of COTP transmission service schedules that are arranged under TANC's transmission tariff.

Furthermore, as the CAISO indicated in the Transmittal Letter, it does not (and will not under MRTU) charge for unscheduled, parallel flow affects of transactions that use non-CAISO Controlled Grid facilities.[154] Specifically, in terms of prohibition in Section 8.4 of the OCOA, the CAISO will not assess COTP transmission customers a charge for the parallel flows that

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Amended OCOA; (ii) PG&E is not providing and cannot be required to provide any transmission or other electric service over its facilities (i.e., the PACI-P) to TANC or Western due to the coordinated operation of the three-line System under the Amended OCOA; and (iii) Western is not providing and cannot be required to provide any transmission or other electric service over its facilities (*i.e.*, the PACI-W) to TANC or PG&E due to the coordinated operation of the three-line System under the Amended OCOA.

[154] Transmittal Letter to the June 17 Filing at 50.

might occur on the CAISO Controlled Grid when they are using the COTP. If the CAISO has to re-dispatch resources in real time due to parallel flows on the CAISO Controlled Grid, CAISO demand will bear all these costs through neutrality in the Real-Time Market.[155] In addition, it is very significant (in terms of TANC's allegations) that TANC and others do not allege that Section 8.4 of the Amended OCOA is being violated today with how the CAISO handles parallel flows in real time under the existing CAISO Tariff. The reason this is significant is because there will be *no change* in how parallel flows are handled in implementing MRTU. There is no violation of Section 8.4 today (and TANC alleges none) and there will be no violation of Section 8.4 under the MRTU Tariff because there will be *no change* in how parallel flows are handled under MRTU.

In order to violate Section 8.4 of the Amended OCOA, the CAISO would have to charge TANC (or a COTP participant) for the parallel flow on the PACI-P for *TANC's or another COTP participant's (or a third party transmission customer's) use of the COTP*. When a COTP participant uses the COTP to serve loads outside of the CAISO BAA, there is no charge for the unscheduled flow on the PACI-P. Moreover, this conclusion does not change depending on whether the transmission customer using the COTP chooses to serve load within the IBAA or decides to engage in an interchange transaction with the CAISO. In terms of the transmission customer's use of the COTP, the customer's use and the transmission service provided is the same (albeit to different delivery points). It is the application of a rate to the parallel flows that accompany a *COTP participant's use of the COTP* that is prohibited by Section 8.4 of the Amended. The rates and charges a COTP participant faces when decides to schedule an interchange transaction with the CAISO are not rates and charges associated with transmission

[155] *Id.*

service over the COTP; the rates and charges *solely* are for service over the CAISO Controlled Grid.

It is important to recognize that it is the unilateral decision of the COTP transmission customer to schedule an interchange transaction with the CAISO (as opposed, *e.g.*, to using the COTP transmission service to serve load within the IBAA) that results in the application of CAISO rates and charges. Absent the request to use the CAISO Controlled Grid (for which rates and charges are authorized and appropriate), the CAISO applies no rates or charges associated with a COTP's transmission customer's use of the COTP. A violation of Section 8.4 of the Amended OCOA does not turn on the delivery point chosen by the COTP transmission customer, it is the application of a rate or charge on the parallel flows associated with use of the COTP that is prohibited. The CAISO has not (under the existing CAISO Tariff) and will not (under the MRTU Tariff) apply a rate or levy a charge on the parallel flows associated with a COTP transmission customer's use of the COTP.

c. TANC's Attempt to Extend the Provision Against Being Charged a Rate for Power that Flows Over the System Beyond A Party's Use of Its Own Facilities to a Party's Use of the Facilities of Another Party Is Flawed and Prohibited by Section 8.4 Itself

TANC attempts to expand the scope of Section 8.4 – which provides that no party may be charged a rate for power that flows over the COTP – to apply when TANC (or another COTP participant) uses another Party's facilities other than the COTP (i.e., TANC's use of the CAISO Controlled Grid). However, the IBAA proposal only pertains to service over the CAISO Controlled Grid; it has nothing to do with transmission service over the COTP which is outside of the CAISO's scope of authority and responsibilities. TANC's argument that the provision in Section 8.4 on not being able to charge a rate for power that flows over the System is *violated by the IBAA proposal* clearly is an assertion that the provision in Section 8.4 applies when TANC or

another COTP participant requests and schedules service *over the CAISO Controlled Grid*. This claim is incorrect on its face and should be summarily rejected by the Commission. Section 8.4 provides in relevant part:

> 8.4 Coordination Rights of Parties
> The System shall be operated as a coordinated three-line transmission system. *No Party shall be charged any rate and PG&E shall not be charged any transmission loss for any power, which flows over the System or over the Tesla ByPass.* The preceding sentence shall not preclude appropriate remedies in the event that any Party adversely impacts another Party's rights under this Agreement to use the Tesla ByPass. Except to the extent necessary for sharing Curtailments, *no Party shall have a right under this Agreement to have any of its power delivered on or otherwise have the use of transmission facilities owned by another Party*.[156]

TANC argues that the provision regarding not being charged a rate for power that flows over the System extends beyond a Party's use of its own facilities and applies when the Party to the OCOA requests or takes service over the facilities of another Party. In evaluating TANC's claim, it is helpful to distinguish between the unscheduled, parallel flows that accompany a Party's use of its own transmission facilities under the Amended OCOA and the scheduled use or request to use the transmission facilities of another Party under the Amended OCOA.

Unscheduled Parallel Flow. As discussed previously in this Answer and in the June 17 Filing, to the extent the flows involve the unscheduled, parallel flows on the PACI-P associated with TANC's (or another COTP participant's) use of the COTP, there is no violation of Section 8.4. The CAISO does not and will not assess COTP transmission customers a charge for the unscheduled, parallel flows that might occur on the CAISO Controlled Grid when they are using the COTP. The CAISO deals with effects of parallel flow in real time and CAISO demand bears the cost via neutrality charges. Moreover, this method for accounting for parallel flow is used

[156] Section 8.4 of the OCOA (emphases added).

today under the existing CAISO Tariff and will continue to be used under the MRTU tariff as amended by the IBAA proposal.

Scheduled Transactions on the CAISO Controlled Grid. TANC clearly asserts that the provision is section 8.4 extends to *scheduled flows* on the facilities of *other Parties*. For example, TANC states that:

> The ISO's attempt to evade the terms of the Amended OCOA by asserting that it will only charge congestion and losses for scheduled flow [under MRTU] and that it will not charge for unscheduled flow is totally beside the point. The Amended OCOA prohibits all charges, no matter how calculated, based upon any flow, no matter what its course associated with the use of the three-line system by the transmission owners. The Amended OCOA's prohibition against charges for any flows on the three-line system applies without distinction to schedules that do not include use of, as well as those that include any use, of the ISO Controlled Grid. In the latter instance, any charge may not include cost associated with the three-line system.[157]

TANC's attempt to extend the ambit of the protection of Section 8.4 beyond a Party's use of its own facilities to scheduled transactions on the facilities of another Party is in error.[158] Under TANC's view of the provision, a Party to the OCOA would have an economic credit or a right of economic set-off when the Party requests service over the facilities of *another Party* under *other agreements* (*e.g.*, the WAPA OATT or the CAISO Tariff). In other words, the above-quoted language by TANC would mean that when TANC (or another COTP participant)

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[157] TANC at 43 (P 85) (citations omitted; emphasis added). *See also* TANC at 43 (P 84) (where TANC claims that: "[i]ndeed the Amended OCOA prohibits *all charges, no matter how calculated, based upon any power flow, no matter its cause*").

[158] The CAISO notes that when TANC witness Griess describes the Amended OCOA, his description of § 5 and § 8.4 does not mention the impacts of *scheduled flows* on the *facilities of the other Parties*. Rather, Mr. Griess correctly mentions only the effects of *unscheduled, parallel flows* across the *facilities of the other Parties*. Specifically, Mr Griess states that:

> "[a]s such, the COI facility owners specifically precluded each other from charging each other for the effect of parallel flows across the COI. Amended OCOA §8.4. In addition, the COA, OCOA, and the currently effective Amended OCOA have all provided that no party has the right to use the other parties' transmission service rights, Amended OCOA § 5, while at the same time, no party would be charged based upon the impacts of parallel flows across the other party's facilities.

TANC Exhibit TNC-2 at 8 (P 15; emphases added).

schedules service over the CAISO Controlled Grid under either the existing CAISO Tariff or the MRTU Tariff, if the schedule involved a physical flow over the PACI-P facilities, TANC (or the COTP participant) could not be charged for that flow and presumably would be entitled to a credit or offset against the applicable charges. However, the provision relied on by TANC (and others) simply does not reach or extend to such activity. Indeed, TANC's interpretation is prohibited by Section 8.4 itself.

The very section of the Amended OCOA relied on by TANC addresses TANC's argument and emphasizes that "*no Party shall have a right under this Agreement* [*i.e.*, the Amended OCOA, including the provision relied on by TANC] *to have any of its power delivered on or otherwise have the use of transmission facilities owned by another Party*."[159] TANC would be correct that the provision regarding not being charged a rate for power that flows over the System extends to "scheduled" flows (as well as unscheduled flows) <u>*so long as*</u> the scheduled flows are associated with a Party's own use of its own facilities. However, the Parties evidently recognized the potential for an overbroad interpretation of the second sentence in Section 8.4 and limited the scope of the provision by providing that "*no Party shall have a right under this Agreement to have any of its power delivered on or otherwise have the use of transmission facilities owned by another Party*."[160] There is no ambiguity regarding this provision. TANC's argument that when TANC or another COTP participant schedules service over the CAISO Controlled Grid (*i.e.*, schedules an interchange transaction) that its has some right that must not be abridged by virtue of the provision in the Amended OCOA (regarding not being charged a rate for power that flows over the System) is in direct conflict with provision that: "*no Party*

159 Section 8.4 of the Amended OCOA (fourth sentence; emphasis added).

160 *Id.*

shall have a right under this Agreement to have any of its power delivered on or otherwise have the use of transmission facilities owned by another Party."[161]

Putting TANC's flawed argument to the side, there is absolutely no conflict between the two sentences in Section 8.4 of the Amended OCOA. The provision regarding not being charged a rate for power that flows over the System applies to a Party's own use of its own transmission facilities and not being charged for any of the accompanying parallel flows that occur on the facilities of the other Parties due to coordinated operations. The latter provision in section 8.4 and the provision in Section 5 simply make clear that the provision against being charged a rate for power that flows over the System (or any other provision of the Amended OCOA) does not mean that: (i) the other Parties are providing transmission service (Section 5) to the Party, and/or (ii) the Party has any right under the Amended OCOA to have any of its power delivered on or otherwise have the use of the transmission facilities owned by another Parties.

Of course, if TANC's flawed reading of the scope of the second sentence in Section 8.4 were correct (*i.e.*, that the provision applies to the *scheduled use* of the facilities of *another Party*), it would apply to TANC's (and the other COTP participant's) use of the CAISO Controlled Grid today under the existing CAISO Tariff. However, from the time the CAISO began operations in 1998 up until the filing of the IBAA proposal, neither TANC nor any other COTP participant has alleged that it is entitled to a set-off or credit against applicable transmission charges due to the second sentence in Section 8.4. There is a good reason for the absence of any such claim because the second sentence in Section 8.4 creates no rights "*under*

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161 *Id.*

[the Amended OCOA] *to have any of its power delivered on or otherwise have the use of transmission facilities owned by another Party*.[162]

d. The Provision Against Being Charged a Rate for Power that Flows Over the System Has Been Consistently Understood to Be Limited to a Party's Use of Its Own Facilities Since the Approval of the Coordinated Operations Agreement in 1993

TANC Witness Griess says that the cornerstone of the California-Oregon Intertie ("COI") is the Amended OCOA.[163] Mr. Griess notes that the OCOA was a successor agreement to the Coordinated Operations Agreement ("COA") which became effective on March 17, 1993, when the COTP went into commercial operation and was interconnected with the PACI.[164] Mr Griess also notes that the COA was the subject of intense litigation before the Commission in Docket No. ER92-626-000 among the California owners of the COI including TANC.[165] Mr. Griess then states that:

> One very important facet of the Amended OCOA, *that has been in place since the original COA went into effect*, is the COI facility owners' recognition and acknowledgement of the fact that the three COI lines when operated in a coordinated fashion could achieve benefits greater that any one of the COI facilities could obtain on its own. As such, the COI facility owners specifically precluded each other from charging each other for the *effect of parallel flows across the COI*. Amended OCOA § 8.4. In addition, *the COA, OCOA, and the currently effective Amended OCOA have all provided that no party has the right to use the other parties' transmission service rights*, Amended OCOA § 5, while at the same time, no party would be charged based upon the *impacts of parallel flows across the other party's facilities*. Amended OCOA § 8.4. *Under the Amended OCOA (and the COA and OCOA), the acknowledgement and acceptance of the parallel flows at no cost* was a economic and operational

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162 There is no doubt that during the period from April of 1998 to the filing of the IBAA proposal on June 17, 2008 TANC would have claimed a right to refunds if such a claim were valid. *See, e.g.*, TANC at 43 (P 84) (indicating "[o]f course any violation of the Amended OCOA would subject the [CA]ISO to the potential for refunds").

163 TANC Exhibit TNC-2 at 8 (P 15).

164 *Id.* at 4-5 (P 8, n.3).

165 *Id.*

> burden worth permitting to receive the benefits of higher transfer capability, capacity sharing, and coordinated curtailment sharing.[166]

Mr. Griess's description of the COA, OCOA, and the currently effective Amended OCOA in the above-quoted passage does not conflict with IBAA proposal in any way because it: (i) is correctly stated from the perspective of each Party using its own facilities, (ii) only mentions unscheduled parallel flows associated with a Party's use of its own facilities, and (iii) specifically excludes a Party's request to use the facilities of another Party. This is the plain reading of the Amended OCOA by TANC's own witness, and it is consistent with the CAISO position herein.

Mr. Griess also is correct that these provisions have been in effect since the original COA was approved by the Commission in Docket No. ER92-626-000.[167] It is worth noting that the provisions in the original COA support the CAISO's position that the provision relied on by TANC only applies to a Party's use of its own facilities and does not entitle or create any rights to use the facilities of the other Parties to the Amended OCOA. The precursor to the current § 8.4 of the OCOA was § 8.1 of the COA. As filed in compliance with *Opinion No. 389* and *Opinion No. 389-A* in June of 1994 the provision read as follows:

> 8.1 Coordination Rights of Parties. The System shall be operated as a coordinated three-line transmission system. No Party shall be charged any rate and no Company shall be charged any transmission loss for any power which flows over the Tesla ByPass. The preceding sentence will not preclude appropriate remedies in the event that any Party adversely impacts another Party's rights, as provided in this Agreement, to use the Tesla ByPass. Except to the extent necessary for the sharing of Curtailments, or as provided in separate arrangements, no Company shall have a right to have any of its power delivered to it over COTP, and no COTP Participant or TANC member shall have a right to have any of its power delivered to it over the PACI. Any rights to deliver power to or receive power

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166 *Id*. at 8 (P 15; emphases added).

167 Mr. Griess states that "[t]he capacity sharing arrangement under the Amended OCOA, has also been carried forward since the original COA." TANC Exhibit TNC-2 at 9 (P 16).

from the PG&E Electric System, except to the extent necessary for the sharing of Curtailments, shall be provided by separate arrangements.[168]

The provision in the original COA is clear that the notion of not being charged for the parallel flows associated with a Party's use of its own facilities does not extend to the Party's use of another Party's facilities and that any such use of another Party's facilities "shall be provided by separate arrangements."[169]

e. The CAISO Does Not Apply a Rate or Charge to "COTP Schedules", the Rates and Charges Under the MRTU Tariff As Modified by the IBAA Proposal Only Apply to Schedules Using CAISO Controlled Grid Facilities

In its protest, TANC clearly recognizes the need to cast its arguments in terms of "COTP schedules" to demonstrate a valid violation of Section 8.4 of the Amended OCOA. As noted previously, the provision regarding not being charge a rate for power that flows over the System pertains only to a Party's use of its own facilities. In TANC's (or another COTP participant's) case, the use of its own facilities means schedules for use of the COTP (or "COTP schedules"). However, when TANC (or another COTP participant) chooses to schedule an interchange transaction with the CAISO, the request to the CAISO involves a request for service over the CAISO Controlled Grid. TANC strains to cast its objections to the IBAA proposal (activity that involves the scheduled use of the CAISO Controlled Grid) as affecting transmission service over the COTP or affecting "COTP Schedules." For example, TANC states that:

(i) "[the] LMP point will assign an economic consequence to COTP schedules from flows on the PACI, which violates one of the basic tenets of the Amended OCOA";[170]

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168 *See* § 8.1 of the COA as filed on June 27, 1994 with the Commission in Docket Nos. ER92-626-000 and ER92-595-000 (emphasis added).

169 *Id.*

170 TANC at 29 (P 57) (emphasis added).

(ii) "[t]he concerns with the IBAA proposal are with pricing and modeling of COTP schedules. There is no question that the IBAA proposal assigns a cost to schedules using the COTP that sink in the ISO based on flows over the three-line system";[171]

(iii)"[t]he ISO's spreading cost recovery of congestion and losses to the entire former PG&E control area is hardly comparable to the calculation designed to capture the effect of congestion and losses on the PACI that will be assessed to COTP schedules. Indeed the Amended OCOA prohibits all charges, no matter how calculated, based upon any power flow, no matter its cause";[172] and

(iv) "[t]he CAISO, in its IBAA plan, has unilaterally decided that this no longer suits its purposes and, as I understand it, is proposing to charge COTP schedules into the CAISO for congestion whenever the PACI lines reach their scheduling limit. The Amended OCOA precludes this result;"[173]

(v) "[t]he impact of this proxy bus mechanism on the COTP manifests itself in the fact that all COTP schedules that would be delivered to the CAISO BAA would be priced at the injection point of the COTP (the Captain Jack proxy bus) rather than the actual interconnection point of the COTP with the CAISO BAA (Tracy Substation). This imparts a toll fee on the COTP schedules which reflects the CAISO calculation of congestion and losses on the PACI facilities and the CAISO Grid due to the parallel flow effects of the COTP schedules. It is this toll fee that the IBAA proposal assesses to the COTP schedules that is in direct violation of the Amended OCOA and the Amended COI Path Operating Agreement";[174] and

(vi)"The IBAA proposal fails to honor the terms of the ICAOA by assessing charges to COTP schedules based upon congestion management concerns on the ISO Controlled Grid.[175]

Of course, a "COTP schedule" is a schedule that represents a customer's use of the COTP, not the CAISO Controlled Grid. Contrary to TANC's arguments, the IBAA proposal applies no rate, imparts no "toll fee" or levies any congestion (or other) charges on "COTP

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171 TANC at 38 (P 76) (emphasis added).

172 TANC at 43 (P 84) (emphasis added).

173 TANC Exhibit No. TNC-1 (witness Beck) at 9 (P 20; emphasis added).

174 TANC Exhibit No. TNC-2 (witness Griess) at 11-12 (P 21; emphases added).

175 TANC at 35 (P 72; emphasis added).

schedules" *i.e.*, a transmission customer's use of the COTP. All of the effects described by TANC apply to an entity's unilateral decision to use, or schedule the use of, the CAISO Controlled Grid (*i.e.*, "CAISO Controlled schedules"). The CAISO applies no charge or rate to either the transmission service over the COTP (or "COTP schedules") or the parallel flow effects on the PACI-P facilities of transmission service over the COTP. These are the elements that must be established to demonstrate a violation of Section 8.4 of the Amended OCOA and TANC has proven neither.

All of TANC's allegations pertain to rates and charges associated with and entity's decision to use the CAISO Controlled Grid and only the CAISO Controlled Grid. Trying to asses the impacts of the scheduled use of the CAISO Controlled Grid (*i.e.*, interchange transactions between the IBAA and the CAISO) is just that – assessing the impact on and pricing the use of the CAISO Controlled; the IBAA proposal does not amount to the CAISO levying a charge on a transmission customer's use of the COTP under TANC's tariff. The CAISO respectfully requests that the Commission reject the arguments of TANC and others regarding a violation of the Amended OCOA.

f. The Allegations of TANC and Others Regarding the IBAA Proposal Are a Collateral Attack on the Commission's Previous Approval of LMP Pricing and the MRTU Market Design

As noted in the June 17 Filing and in the testimony of Dr. Scott Harvey, Dr. Eric Hildebrandt, and the panel testimony of Mark Rothleder and Dr. James Price, the location of resources matters under an LMP regime.[176] This fact is true for resources internal to the CAISO Controlled Grid and for those resources external to the CAISO Controlled Grid used to

[176] Filing Letter at 8; Exhibit ISO-1 at 2, 8; Exhibit ISO-2 at 7-8.

implement interchange transactions. The location of external resources that support import and export transactions all affect the CAISO's congestion management process on, and the resulting LMPs for, use of *the CAISO Controlled Grid*. The LMPs that result from the default single hub pricing proposal and any alternative arrangements will be applied at locations (PNodes) on the CAISO Controlled Grid including the Intertie Scheduling Points. In addition, the LMPs will be applied only to billing determinants associated with service over CAISO Controlled Grid facilities (*i.e.*, imports to, exports from, and transactions internal to the CAISO Controlled Grid).

The essence of the arguments of TANC and others is the following: in trying to assess the impacts of interchange transactions (imports and exports) on the CAISO Controlled Grid, the CAISO may not (in the absence of information from the entities scheduling transactions regarding the location of the external resources used to implement the transactions) place virtual System Resources at external locations in the Full Network Model based on the best available information in the CAISO's possession. This position is nothing short of a collateral attack on the Commission's previous approval of the use of location-based marginal pricing for transactions using the CAISO Controlled Grid, including imports to and exports from the CAISO Controlled Grid. The Commission should reject the collateral attack on LMP pricing for imports to and exports from the CAISO Controlled Grid.

g. The CAISO Is Not Violating the CAISO Tariff in Responding to TANC's Arguments Based on the Amended OCOA

TANC asserts that in developing the IBAA proposal it is violated the provision in the CAISO Tariff that the CAISO will not have a role in interpreting existing contracts.[177] TANC's assertion is in error regarding the CAISO's development of the IBAA.

[177] TANC at 35-36 (P 73).

As noted in the June 17 Filing, under the existing MRTU Tariff and the Commission's authorizations under the Federal Power Act, the CAISO's authority covers the provision of transmission service over the CAISO Controlled Grid including both the management of congestion over the CAISO Controlled Grid and the provision of marginal losses over the CAISO Controlled Grid. Under the MRTU market design as amended by the IBAA proposal, the scope of the CAISO's activities and the CAISO's authority is not changing – it still applies to the provisions of transmission service over the CAISO Controlled Grid including managing congestion and providing for losses. In the June 17 Filing the CAISO stated that:

> It is important to remember that since its inception, the CAISO has provided transmission service and managed congestion over CAISO Controlled Grid facilities (which include the Intertie Scheduling Points at points of interconnection between CAISO Controlled Grid facilities and non-CAISO Controlled Grid facilities). With implementation of MRTU, the methods by which the CAISO will manage congestion on the CAISO Controlled Grid will change, but the focus of the new market design continues to be the operation of, and service over, CAISO Controlled Grid facilities and only CAISO Controlled Grid facilities. Approval and implementation of the IBAA proposal cannot, and does not, expand the sphere of CAISO operations to non-CAISO Controlled Grid facilities.[178]

The CAISO noted that MRTU was developed to remedy problems in the existing CAISO market design, in particular a flawed congestion management approach and that neither MRTU nor the IBAA proposal attempts to institute a new service or reflect a new authorization given to the CAISO. Rather, they apply new methodologies to the services being applied today under the CAISO's existing authorizations.[179]

In addition, when the CAISO developed the IBAA proposal the issues associated with ETCs and TORs and the MRTU market design had been addressed in a series of Commission

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178 Transmittal Letter to June 17 Filing at 48.

179 *Id*. at n.173

orders.[180] For example, to the extent any of the protestors are objecting to the provision of marginal losses under MRTU or claim that the use of marginal losses amounts to a double payment for losses under their existing contracts, this issue has been addressed by the Commission. The Commission stated that:

> We find reasonable the CAISO's proposal to assess marginal losses to Scheduling Coordinators of ETC contracts in the same manner as the CAISO proposes to assess marginal losses to other load within the CAISO's transmission grid. Assessing all customers, including ETC rights holders, marginal losses associated with their transactions is consistent with cost causation principles. This also helps assure least-cost dispatch and the establishment of optimal nodal prices.[181]

In developing the IBAA proposal, the CAISO knew that with the provisions in the existing CAISO Tariff regarding ETCs, that TANC and the other protestors had not asserted that the CAISO's provision of transmission service over the CAISO Controlled Grid (including the management of congestion and losses) under the existing CAISO Tariff violated the contracts. The CAISO also knew that with implementation of MRTU, the methods by which the CAISO will manage congestion on the CAISO Controlled Grid would change, but that the focus of the new market design continues to be the operation of, and service over, CAISO Controlled Grid facilities and only CAISO Controlled Grid facilities. In other words, the fact that scope of the CAISO's authority was not changing with the MRTU, in addition to the Orders issued by the Commission on ETCs and TORs under MRTU, meant that the CAISO did not (and does not) believe there was a need to "interpret" any existing contract in developing the IBAA proposal. Indeed, as noted in the previous sections, because the scope of the CAISO's activities and authorizations are not changing with MRTU and because TANC has not raised the issue

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[180] See *California Independent System Operator Corporation*, 110 FERC ¶ 61,113 (2005) (Guidance Order an Conceptual Proposal for Honoring Existing Transmission Contracts); *California Independent System Operator Corporation*, 112 FERC ¶ 61,007 (2005) (Order on Scope and Standard of Review of Existing Transmission Contracts); and the *September 2006 Order*.

[181] *September 2006 Order* at P 959.

regarding the Amended OCOA under the existing CAISO Tariff, TANC's contractual arguments appear to the CAISO to be a renewed attack on the use of LMP pricing for transmission services over the CAISO Controlled Grid.

It is undeniable that it was TANC that first raised the issue regarding the Amended OCOA in March 2008 and, having raised an issue with the Amended OCOA, TANC now argues that the CAISO may not read the Amended OCOA or the Commission's Orders approving the agreement (in its original or Amended form) in order to respond to TANC's claims. Furthermore, the CAISO in fact was an important party in the recent Commission proceedings where the Commission approved the Amended OCOA.[182] TANC did not object to the CAISO's participation and opinion in the proceeding that produced the current Amended OCOA and the Commission should reject TANC's argument here.

There is a good reason why TANC did not object to the CAISO's participation in the proceeding that produced the current Amended OCOA and that reason is that the CAISO itself has several duties and obligations under the Amended OCOA in its role as the current Path Operator for the COI.[183] Indeed section 8.1.6 of the Amended OCOA sets forth twenty (20) duties for the CAISO in its role as Path Operator for the COI. For all of the above reasons, the CAISO respectfully requests that the Commission reject TANC's allegation that the CAISO's may not respond to TANC's arguments regarding the IBAA proposal and the Amended OCOA particularly when the CAISO participated in the Commission approving the current Amended OCOA.

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182 The OCOA was recently amended per a settlement agreement the proceeding at the Federal Energy Regulatory Commission ("FERC" or "Commission") in Docket No ER07-882-000 et al. The Commission approved the settlement agreement on December 20, 2007. *See PacifCorp, et al.*, 121 FERC ¶ 61,278 (2007) (settlement agreement effective on January 1, 2008).

183 *See, e.g.*, §§ 4.39, 8.1.2 and 8.1.6 of the Amended OCOA.

2. The IBAA Proposal Does Not Violate the Terms of the Amended California-Oregon Intertie Path Operating Agreement.

TANC claims the IBAA Proposal violates the California-Oregon Intertie Path Operating Agreement ("COI POA").[184] The purpose of the COI POA is to establish an arrangement with the Path Operator for COI to ensure that the Owner's transmission capacity is available to the maximum extent practical consistent with the reliable operation of the COI. The CAISO is a party to the agreement and is the Path Operator. Section 8.3 of the COI POA set forth twenty-one (21) duties of the Path Operator. Contrary to TANC's assertions, none of the duties is in conflict the MRTU Tariff as amended by the IBAA proposal.

TANC cites to only one of the twenty-one duties in section 8.3. The specific section TANC relies on is Section 8.3.19 and the section provides that the CAISO shall enter to Agreements that have two attributes. However, in its protest TANC fails to provide the agreement itself so that it can be reviewed as part of the record,[185] fails to mention that there are two attributes that Section 8.3.19 says such agreements must contain, quotes only the latter attribute in the section, and asserts that the IBAA proposal contradicts that attribute. In other words, TANC's description of the requirements of section 8.3.19 is cursory, incomplete and deeply-flawed. The CAISO respectfully requests that the Commission reject TANC's arguments regarding the COI POA.

Section 8.3.19 reads in full as follows:

> 8.3 Path Operator for COI Duties: The Path Operator for COI shall, in accordance with Prudent Utility Practice and Applicable Requirements:
> * * * *

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184 TANC at 4 (P 5).

185 The COI POA was recently amended per the settlement agreement in the proceeding in Docket No ER07-882-000 et al. The Commission approved the settlement agreement on December 20, 2007. *See PacifCorp, et al.*, 121 FERC ¶ 61,278 (2007) (settlement agreement effective on January 1, 2008). Unless otherwise noted, references to the "COI POA" means the COI POA as approved by the Commission in Docket No.ER07-882-000, et al.

> 8.3.19 Enter into, maintain, amend and enforce agreements with COI Control Area Operators (i) necessary to perform obligations under this Agreement, including but not limited to those duties pursuant to Sections 8.3.4, 8.3.10, and 8.3.11, and (ii) that prohibit the application to the Parties of any requirement, rule, obligation, rate or charge in a tariff, rate schedule or other document issued or revised by any COI Control Area Operator without the written consent of the Administrative Committee;[186]

Section 8.3.19 clearly provides that the CAISO as Path Operator for the COI must enter into, maintain, amend and enforce agreements with COI Control Area Operators that have the attributes in both subsection (i) and subsection (ii).[187] The section provides that the agreements the CAISO as Path Operator must enter into (and maintain, amend and enforce) are agreements with COI Control Area Operators. Currently, this can only mean SMUD (or the CAISO itself); it can not be the Bonneville Power Administration ("BPA") because the definition of a COI Control Area Operator requires a Control Area in California that includes at least one of the three transmission lines that constitutes the COI.[188] In addition, the agreements must: (i) be necessary for the CAISO to carry out its obligations as Path Operator under the Agreement, ***and*** (ii) prohibit the application to the Parties [PG&E, the COTP Participants, WAPA, and the CAISO] of any requirement, rule, obligation, rate or charge in a tariff, rate schedule or other document issued or revised by any COI Control Area Operator (again SMUD or the CAISO itself) without the written consent of the Administrative Committee. TANC's attempt to ignore the first attribute inappropriately changes the meaning of the provision and should be rejected.

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186 *See* Section 8.3.19 of the COI POA (emphasis added).

187 The CAISO notes that the COI POA uses overlapping definitions or terms. For example, the CAISO is the "Path Operator" and has the duty to comply with the Section but it also is a "COI Control Area Operator" and a "Party" under the Agreement. SMUD is a "COI Control Area Operator" and a "Party" under the Agreement as well. It also is helpful to recognize that § 8.3.19 was amended and brought forward from a similar provision in the OCOA, *i.e.*, the precursor to the Amended OCOA. *See* § 8.1.6.19 of the PG&E Rate Schedule FERC No. 229 in effect on January 1, 2005. It also is helpful to recognize that while the CAISO is the "initial Path Operator for COI" under both the COI POA and the OCOA, the OCOA has provisions for selecting a different Path Operator. *See* § 8.1.2 of the Amended OCOA.

188 *See* Section 4.10 of the COI POA.

As noted in the June 17 Filing, the CAISO has not found it necessary to, and does not believe it has, entered into an agreement with a COI Control Area Operator that has both attributes described in § 8.3.19 of the COI POA. The CAISO has entered into two agreements that are worthy of discussion but neither violates the COI POA. First, the CAISO has entered into an Interconnected Control Area Operating Agreement ("ICAOA") with SMUD. However, the ICAOA with SMUD does not have provisions that fall within the second clause of § 8.3.19 of the COI POA. For example, the ICAOA with SMUD does not prohibit the application to SMUD of "any requirement" (paraphrasing the second clause in § 8.3.19 of the COI POA) in the CAISO Tariff. Indeed, the stated purpose of the ICAOA with SMUD is to:

> establish the rights and obligations of the [CA] ISO and SMUD with respect to the operation, maintenance, and control of the Interconnection. *This Operating Agreement is based upon the ISO Tariff*, WECC and NERC policies, guidelines, and requirements, contracts between and among SMUD, Western Area Power Administration - Sierra Nevada Region (Western), and third parties, and established operating procedures. This Operating Agreement acknowledges that other Transmission Owners may have certain concurrent responsibilities.[189]

Second, the CAISO has entered into a COI Control Area Operating Agreement ("COI CAOA") with SMUD.[190] However, by its terms the COI CAOA does not prohibit the CAISO from implementing the IBAA proposal and neither TANC nor any other party submitting a protest in this proceeding has raised the agreement as an issue.

3. The IBAA Proposal Does Not Violate the Terms of the Interconnected Control Area Operating Agreement ("ICAOA") with SMUD

TANC claims the IBAA Proposal fails to honor the terms of Amendment No. 4 to the Interconnected Control Area Operating Agreement ("ICAOA") between the CAISO and

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189 *See* Section 1.2.1 of the ICAOA with SMUD (emphasis added).

190 The COI CAOA is CAISO Original Rate Schedule No. 61 and was effective on December 1, 2005.

SMUD.[191] TANC notes that the CAISO agreed that the interconnection point between the CAISO Balancing Authority Area and the COTP is at the Tracy 500-kV Substation.[192] TANC then concludes that by the CAISO agreeing to the Tracy 500-kV scheduling point for COTP schedules in the ICAOA, the ISO's proposal to "impose costs on COTP imports into the ISO violates the ICAOA."[193]

As TANC is well aware, the CAISO continually has noted that market participants will still be able to schedule at the same Intertie Scheduling Points that exist today under MRTU and this includes the Tracy 500-kV Intertie Scheduling Point for COTP schedules as set forth in the ICAOA.[194] While TANC objects to the CAISO having a more accurate assessment of the impact on the CAISO Controlled Grid of an import that is delivered using transmission service over the COTP by modeling or using a virtual resource at the Captain Jack Substation and pricing on that basis, such an import will continue to be scheduled at the Tracy 500-kV Intertie Scheduling Point between the CAISO Controlled Grid and the SMUD BAA and the prices will be applied at to billing determinants measured at the Tracy 500-kV Intertie Scheduling Point. Under the IBAA proposal, there is no violation of the ICAOA with SMUD as alleged by TANC.

4. The CAISO Continues to Intend to Honor the City and County of San Francisco Operating Agreement as Accepted by the Commission.

CCSF asserts that the IBAA proposal is inconsistent with the First Amended and Restated Operating Agreement ("OA") executed by the CAISO and CCSF, which is currently pending approval by the Commission as an uncontested settlement in Docket No. ER06-227-000.

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191 TANC at 34-35 (PP 71-72).

192 TANC at 34-35 (P 71) (citing to ICAOA §§ 2.2.4, 3.3, and Recital F).

193 TANC at 35 (P 72).

194 *See, e.g.*, Transmittal Letter to the June 17 Filing at 23.

More specifically, CCSF asserts that through the OA the CAISO must establish Scheduling Points and PNodes at the Standiford interconnection and the Oakdale interconnection and that it obligates the CAISO to calculate LMPs, model, schedule and settle CCSF's.[195] CCSF reports the CAISO's staff's failure to address CCSF's concerns regarding how their Transmission Ownership Rights as represented under the OA would be honored under the IBAA proposal.

As CAISO has previously asserted to CCSF representatives and to the CAISO Board of Governors, the CAISO intends to continue to honor the terms of the OA with regards to how transactions under the OA are scheduled and settled. To reflect this commitment, on June 17, 2008, in its Panel testimony submitted in this proceeding the CAISO included the following statement:

> **Q. HOW DOES THE IBAA PROPOSAL AFFECT THE ABILITY OF AN ENTITY TO UTILIZE ITS TRANSMISSION OWNERSHIP RIGHTS?**
>
> **A.** First, let me explain that under the CAISO tariff, TORs are transmission facilities that are within the CAISO's Balancing Authority Area but not part of the CAISO Controlled Grid. The IBAA proposal does not limit an entity's rights to use their transmission that is not part of the CAISO Controlled Grid. Nor does the CAISO's IBAA proposal in any way modify the CAISO's proposed treatment of TORs under MRTU. The CAISO is not proposing to amend Section 17 of the CAISO Tariff applicable to TORs. Consequently, TOR Self-Schedules, if valid and balanced consistent with the CAISO Tariff, will continue to be afforded the perfect hedge consistent with the locations specified in the TOR's Transmission Rights and Transmission Curtailment ("TRTC") Instructions. *Because the TOR is internal to the CAISO BAA, the TOR Self-Schedule is not subject to the single IBAA hub price which is for interchange transactions.* For example, the City and County of San Francisco ("CCSF") has a TOR that includes a scheduling priority and provides for financial Settlement based on prices established at certain Scheduling Points, as established in the TRTC Instructions. The CAISO's IBAA modeling requires mapping to specific System Resources in order to ensure effective congestion management within the CAISO BAA. *In*

[195] CCSF Protest at 5.

> *order to preserve CCSF's TOR rights under the IBAA proposal, the CAISO will establish Resource IDs to reflect CCSF's scheduling rights, and ensure that the Settlement of CCSF's TORs is consistent with how the TORs are scheduled in the Day-Ahead Market.* (emphasis added)

CCSF points to this testimony and asserts that this language avoids the issue at hand, which is how the interchange transactions will be scheduled and settled under the TOR for CCSF. The CAISO disagrees and confirms that this language was intended to specify that the CAISO will establish Resource IDs to reflect the scheduling and pricing points identified in the OA – at Standiford and Oakdale. Under MRTU, the TOR schedules are to be implemented pursuant to the TRTC Instructions process through which CCSF must specify the scheduling points and pricing points for its use of TOR rights and must do so consistently with the OA Standiford and Oakdale pricing points. CCSF looked at an older version, but the revised version posted on or about July 10 now appropriately reflects that the CAISO will establish the Resource IDs according to such instructions. The CCSF's TRTC Instructions already specify these points and the CAISO has already created PNodes for the purposes of scheduling and settling the CCSF TOR as represented by the TRTC Instructions. Prior to filing its pleading on June 8, 2008, the posted preliminary list of CRR Sources and Sinks that CCSF appears to have referred to in its comments did not contain the proper pricing point specification for the Standiford and Oakdale Location. Since that time, on or about July 10, the preliminary list was replaced with an updated list which can be accessed at http://www.caiso.com/1fe9/1fe97a2b7c40.xls. This list does reflect that pricing points have been created to accommodate the CCSF OA Standiford and Oakdale locations. In fact, the following names explicitly appear in the above references spreadsheet.

SOURCE AND SINK NAMES	RESOURCE_LOC_Type	DESCRIPTION	OpenToMP	RESOURCE NAMES
OAKDLTID_1_N001	SP	TID Intertie in Oakdale CSF	Y	OAKDALE
STANDFD2_1_N011	SP	MID Intertie in Standiford Sub	Y	STANDIFORD

The same mapping will apply in the FULL NETWORK MODEL to be used for market purposes and the TOR rights (i.e., reversal of congestion charges and scheduling priority) as provided by the CAISO Tariff will apply to CCSF's rights per those PNodes. The CAISO also notes that the CAISO staff has been working diligently to update the mapping documents and apologizes for any errors or oversights. However, the types of issues raised by CCSF regarding the implementation of the OA pricing points are more appropriately addressed through the iterative process the CAISO goes through in posting and updating these documents as issues are identified and not through this proceeding.

In the midst of the many MRTU related activities and obligations, it is true that the CAISO has not had the opportunity to specifically respond to the June 20th letter specific questions posed by CCSF. The CAISO believes it is appropriate for CCSF and the CAISO to have continued discussion regarding the implementation of their TOR rights as specifically requested in the June 20 letter by CCSF. However, because the CCSF June 20th letter is seeking clarification as to how the OA will be honored under MRTU in light of IBAA and does not pertain to the IBAA proposal itself the resolution of the implementation details in that letter is outside the scope of this proceeding. While there are implementation details to work out, at this time, there is no dispute with regard to the treatment of the OA. Having again confirmed that the CAISO will honor the CCSF OA and will provide for scheduling and settlement under the CCSF TOR at the Standiford and Oakdale PNodes irrespective of IBAA, the CAISO sees no further issues with regards to the CCSF TORs and how it is impacted by the IBAA proposal at this time.

In reviewing the Panel testimony again for the purposes of responding to CCSF's protest, the CAISO believes that the explanation of how the IBAA proposal affects the ability to utilize TORs and ETCs on pages 73 and 80 of the Panel testimony warrants some further explanation to

dispel what could be viewed as an inconsistency between these two questions. On page 73 of the Panel testimony Mr. Rothleder and Dr. Price explain that the for the purposes of the CCSF TOR, because the OA that governs the application of the TOR specifically provides that the CAISO establish PNodes and scheduling points at Standiford and Oakdale, the CAISO is specifically required by the OA to apply the LMPs at these locations. This is feasible and consistent with the IBAA proposal because as a TOR the CAISO will have complete visibility on the schedules for those rights unlike the schedules for facilities outside the CAISO's control. On page 80 of the Panel testimony the CAISO explains how generically the ETCs and TORs will continue to be priced at the locations that are permissible under the ETC and as provided in the TORs TRTC Instructions. Therefore, for purposes of settling ETCs and TORs under MRTU as currently contemplated, the adoption of the IBAA proposal does not change the fact that the CAISO will provided the "perfect hedge" and priority of schedules consistent with the applicable PNodes established for the CAISO markets.

The application of this general principle to the CAISO markets regarding how the ETC and TOR rights generally are applied when MRTU becomes operational also responds to CCSF's assertions in its Comments and Protests that under its ETC with PG&E, because they are entitled to import at "Tracy" they should also be entitled to the Tracy price and not be subject to the IBAA hub pricing for such transactions. In developing the IBAA proposal, the CAISO did not alter the application of the "perfect hedge" and priority of schedules for ETCs and TORs as previously approved by the Commission under MRTU. To require that the CAISO retain settlement for CCSF or any other ETC holder on a pricing point that is not specifically required by contract is to require that the CAISO alter its previously-approved policy and application of the perfect hedge and would require further consideration of what specific price should apply to

each set of rights given that the contracts to not speak to such matters. Stated differently, given that the CCSF ETC with PG&E has no such requirement, it is not clear what terms would govern the selection of such pricing. Moreover, how the CAISO intends to price its PNodes and Scheduling Points has little if anything to do with the ETC construct and balance struck with the stakeholders for MRTU. Market participants are well aware of the balance that was struck in honoring all ETCs through the "perfect hedge" and scheduling priorities. Through that process there was no expectation that the ETCs would be subject to any specific LMP but that they would be perfectly hedged based on the points allowed under their ETCs. The IBAA proposal in no way changes that. Nor was there any expectation that losses would be hedged through the perfect hedge and the Commission has already confirmed that this aspect of the ETC accommodations is just and reasonable.[196] To require through this filing that the ETC protection afforded under MRTU should guarantee a specific price is wholly beyond the scope of the MRTU ETC accommodation that has already been long established. Simply put, having not proposed to alter the application of the perfect hedge and priority of scheduling through the IBAA, CCSF's request that they are entitled to a Tracy price that contemplates that the Tracy intertie is a radial intertie is entirely outside the scope of this proceeding and not all appropriate at this time.

F. The Process for Developing MEEAs is Reasonable and not Coercive

1. The MEEA Definition Is Not Vague and the CAISO Does Not Have Too Much Discretion

196 *California Independent Operator System Corp.*, 116 FERC ¶ 61,274 (2006).

The CAISO increased the flexibility of its IBAA proposal by giving Market Participants the option to use interchange transaction modeling and pricing arrangements that differ from the default modeling and pricing arrangements. Any Market Participant requesting such alternative arrangements is to provide the CAISO with additional information to allow the CAISO to verify the location and operation of the resources used to implement the relevant interchange transactions between the CAISO Controlled Grid and the IBAA. More specifically, if any Market Participant believes that the default rules will not appropriately price or reflect the value of their interchange transactions, then those participants can enter into an MEEA with the CAISO.

Some parties describe the MEEAs as an illusory alternative, arguing that the CAISO Tariff Appendix A definition of such agreements is too vague.[197] Many of those Market Participants specifically note concern with the use of "demonstrable benefit" in the following sentence of the definition: "[t]he CAISO may enter into such an agreement provided that there is a demonstrable benefit to the CAISO Markets resulting from such alternative arrangements."[198] The CAISO strongly disagrees.

First, the MEEA option is far from illusory. As explained in the IBAA supporting testimony, a wide variety of Market Participants, *i.e.*, any entity that controls generation by ownership or contract, could take advantage of the MEEA alternative.[199] In fact, the alternative arrangement could be with an individual generator, a group of generators, dispatchable load, load-serving entities, or an entire BAA or a group of BAAs.[200] On a related note, the CAISO

197 *See, e.g.*, TANC at PP 133, 142, 192; NCPA Protest at 10-12; SCE at 4; TID at 30-33.

198 *See, e.g.*, TANC at PP 133, 192; NCPA Protest at 10-12; SCE at 4; TID at 30-33; SMUD at 50.

199 Exhibit No. ISO-2 at 17.

200 Exhibit No. ISO-1 at 15.

also disagrees with MID's statement that the MEEAs "are nothing more than a thinly veiled attempt for the CAISO to acquire sensitive market data by offering to lessen the effects of the default approach of its own creation."[201] This statement completely ignores the benefits to both the CAISO market and to the entity providing the data.

More specifically, the CAISO market will benefit because the CAISO will use the data provided to improve the accuracy of its models and market system solutions or validate the source and expected operation of the sources supporting scheduled interchange transactions between the IBAA and the CAISO. In exchange for this additional data, the requesting party will benefit by receiving a price representing an alternative pricing location instead of the default modeling and pricing established under the CAISO IBAA proposal. *The CAISO wants to be clear that the provision of data verifying the source of the transaction is a "demonstrable benefit" that can be used to require the CAISO to enter into an IBAA.* To remove any unnecessary concerns in this regard, the Commission can so specify in its order. As Dr. Hildebrandt explained in his testimony supporting the IBAA proposal, to the extent the requesting party's generation is helpful in relieving congestion on the CAISO grid under any particular system condition, the CAISO's market software will be able to utilize these resources to manage congestion, and the LMP paid under this agreement will reflect these additional congestion relief benefits.[202] Finally, this arrangement resolves the concern about inappropriate scheduling and pricing incentives by ensuring that the location of injection used to implement the interchange with the CAISO is known and verifiable.[203]

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201 MID at 35.

202 Exhibit No. ISO-2 at 17.

203 Exhibit ISO-1 at 90; Exhibit No. ISO-2 at 16-17; Exhibit No. ISO-3 at 11, 27.

Further, the level of detail in the MEEA Appendix A definition is appropriate, as again, a "demonstrable benefit" can simply mean the provision of data that successfully demonstrates that a schedule from a specific resource at a specific point matches what was actually delivered, *i.e.*, the CAISO market got what was purchased. Adding detail beyond what exists in the current definition is unnecessary and could be too restrictive, particularly in light of the need for the CAISO to have flexibility to address each individual request to use alternative interchange transaction modeling and pricing arrangements. Nor does the CAISO feel it would be appropriate, as suggested by LADWP, to list the specific terms and conditions to be included in each MEEA. Given the wide scope of potential MEEAs from being as small as an agreement with a specific generating facility to as large as an agreement with multiple BAAs there is a need for the CAISO and the requesting party or parties to have the flexibility to draft an MEEA that address the particular circumstances at issue that outweighs any alleged benefits of having additional, rigid requirements in the tariff provisions.

Several parties claim that the CAISO inappropriately retains sole discretion as to whether to execute an MEEA.[204] These comments ignore a critical limitation on CAISO's discretion, *i.e.*, all MEEAs and any proposed CAISO Tariff amendments resulting from such alternative arrangements will be subject to FERC review under section 205 or 206 of the FPA. In addition to the FERC proceeding, the requesting party will have an opportunity to express concerns at several points during the development of the MEEA, notably in initial negotiations with the CAISO and during the later stakeholder process. More specifically, during that process, the requesting entity will need to show that it owns or controls the resources associated with the pricing point in question, or that such an alternative arrangement and the additional data

[204] *See, e.g.*, SMUD at 27; LADWP at 7; TANC at P 133.

submitted to the CAISO would result in a demonstrable benefit to CAISO markets, *e.g.*, market efficiencies and enhancements. The CAISO will also consider the extent to which the data provided can be used to validate the location and operation of the source supporting the scheduled interchange transactions. This analysis and stakeholder process provides the requesting entity the opportunity to make the alternative approach feasible and to take advantage of a more favorable pricing structure. With regard to concerns that such a stakeholder process will be a "significant hurdle" for entities interested in MEEAs,[205] the CAISO notes that the benefits of such a process (as noted above) greatly outweigh the potential for the process to add time to the development of the MEEA.

2. MEEA Proposal Does Not Hurt Other Market Participants

Some parties argue that the CAISO's proposal to permit requesting entities to enter into MEEAs hurts other market participants. For instance, TANC claims that the MEEA "wrecks havoc with the relationship between the ISO and other Balancing Authorities and threatens to subvert the operational requirements of neighboring autonomously operating Balancing Authorities to the interests of the ISO."[206] WAPA suggests, without explanation of the actual harm, that the MEEA adds yet another unilateral agreement between the CAISO and another entity when there are already too many such agreements.[207] And SCE states that creating MEEAs that settle at prices other than those calculated by the CAISO market software could result in costs not being fully recovered through LMPs.[208] Therefore, SCE notes that it is critical

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205 *See, e.g.*, NCPA at 10-12.

206 TANC at P 193.

207 WAPA at 50.

208 SCE at 5.

that all Market Participants impacted by the MEEAs be involved in their creation and understand their potential cost impacts.[209]

The CAISO agrees with SCE that the stakeholder process preceding any MEEA filing at FERC will provide a valuable development tool for such agreements. Furthermore, the CAISO does not anticipate that an MEEA would result in a settlement price not reflected in the CAISO's software. Rather, the pupose of the MEEA would be ro render a more accurate LMP generated by the software. Stated another way, ideally a MEEA will result in consistency between schedule modeling and pricing with verification built in.

In addition, during any stakeholder review of an MEEA, the requesting entity will need to address TANC's concern when it shows that, among other things, such an alternative arrangement and the additional data submitted to the CAISO would result in a demonstrable benefit – not harm – to the CAISO market and its participants. Finally, the CAISO notes that the stakeholder process designed to analyze a specific MEEA that addresses a particular alternative arrangement, rather than this proceeding focusing on a general proposal, would be a more appropriate forum for TANC's allegations of harm to the relationship between the CAISO and other BAs or to the operational requirements of BAs, if that harm in fact exist when applied to an individual alternative arrangement.

3. The CAISO Will Not Enforce Constraints on Other Systems

WAPA has expressed a concern that the CAISO's IBAA proposal could potentially allow the CAISO to enforce network constraints on WAPA's transmission system under a MEEA.[210] The specific language to which WAPA refers is found in proposed section 27.5.3 and states:

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209 *Id.*

210 WAPA at 50.

"The CAISO monitors but does not enforce the network Constraints for an IBAA in running the CAISO Markets Processes, unless the enforcement of such Constraints is allowed under a Market Efficiency Enhancement Agreement." WAPA expresses this concern even though it states it has no intention of executing an MEEA with the CAISO,[211] which is the only context in which the CAISO could potentially arrange to enforce the network Constraints for an IBAA in running the CAISO Markets Processes.[212] In addition, WAPA ignores the CAISO's clear statement that the CAISO will not enforce transmission constraints within the IBAA.[213] If these statements are not enough to ease market participant concerns regarding the enforcement of constraints, then the CAISO proposes to delete the relevant language from proposed CAISO Tariff section 27.5.3.

4. There Is Recourse Available if Parties Cannot Reach Agreement with the CAISO

Some parties expressed concern that the CAISO failed to offer affected BAAs a way to obtain a just and reasonable rate in the event the requesting market participant and the CAISO cannot reach agreement on an MEEA.[214] LADWP states further that the MEEA is not a reasonable commercial alternative, as it is designed to force IBAA entities into giving the

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211 *Id*. ("As previously discussed, Western specifically operates it transmission system to meet its federal statutory duties and obligations. Congress enacted the Central Valley Project for the specific purposes of meeting navigation, flood control, irrigation, and the protection of fish and wildlife resources. Hydropower generation is an ancillary authorized function that cannot impair the primary functions of the Central Valley Project. Western, thus, has no intention of executing an MEEA since it would be submitting its transmission system to the jurisdiction of the CAISO that could file unilateral changes to the MEEA.").

212 Proposed CAISO Tariff Section 27.5.3.

213 CAISO Transmittal Letter at 22; Exhibit No. ISO-1 at 67 ("The CAISO will not enforce transmission constraints within the IBAA. Furthermore, under the default proposal, measures will be taken to prevent the marginal transmission losses within the IBAA from affecting the prices within the IBAA and the CAISO. Therefore, the LMPs established on the CAISO Controlled Grid will not be the prices used for settlement of the IBAA, are not affected by congestion or losses within the IBAA, and only represent the marginal effect of losses and congestion within the CAISO Controlled Grid. Stated another way, the value of energy associated with transactions between CAISO and the IBAA will be based on the impact on congestion and losses in the CAISO BAA.").

214 *See, e.g.*, SMUD at 26; LADWP at 13-15.

CAISO information about IBAA internal operations and transactions.[215] In addition, the LADWP claims that the proposed CAISO Tariff provisions do not require the MEEA to include reasonable terms for both parties, and they give the CAISO the authority to decline for no reason.[216] These concerns do not withstand scrutiny.

The proposed process for developing an MEEA gives both parties to the agreement plenty of opportunities for negotiation and compromise, both in initial discussions, later in the stakeholder process, and finally in the context of the FERC proceeding. Further, to the extent the parties to the MEEA cannot agree on certain issues, FERC can assist in finding an appropriate resolution. For example, the relevant market participant could file a complaint claiming that the CAISO is being unreasonable in agreeing to MEEA terms and conditions.[217]

In summary, the MEEA proposal is an important aspect of the CAISO's filing. It provides an appropriate process for balancing the needs of parties who desire more detailed pricing of there resources under the CAISO's FULL NETWORK MODEL with the needs of the rest of the CAISO Market to ensure that the supply is delivered at the specified location at the specified time. The CAISO has taken measures to ensure that the MEEA process is both open and transparent being subject to both stakeholder review and Commission oversight. Moreover, the CAISO will not under the MEEA, absent the agreement of the other party, enforce constraints on non-CAISO Controlled Grid facilities. Furthermore, if such agreement is not

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215 LADWP at 13-15.

216 *Id.*

217 This would not be the only instance in which the Commission considers whether to require parties to enter into an agreement, as well as what the appropriate terms of the agreement should be. For example, the Commission exercises such authority under section 210 of the FPA in response to requests that FERC require entities to enter into interconnection agreements. 16 U.S.C. § 824i. *See, e.g., Brazos Elec. Power Coop., Inc.*, 118 FERC ¶ 61,199 (2007); *East Kentucky Power Coop., Inc.*, 121 FERC ¶ 61,255 (2007); *City of Tacoma Washington*, 118 FERC ¶ 61,202 (2007); *Aero Energy, LLC*, 115 FERC ¶ 61,128 (2006).

forthcoming it cannot be used as a reason for the CAISO not to enter an MEEA. The MEEA proposal presents a balanced and reasonable means of enhancing the CAISO's Market.

G. The Experience of Eastern RTOs is Relevant to the CAISO's IBAA Proposal

As noted in CAISO's filing letter, the CAISO's intent to resolve potential adverse market and reliability outcomes with the IBAA proposal is consistent with the experience of eastern RTOs.[218] Despite arguments to the contrary, eastern RTOs remain a relevant source of comparison because: (1) all ISOs and RTOs have borders, and thus, how other ISOs/RTOs resolve seams issues provide a relevant comparison in the instant case; and (2) the fact that other RTOs did not combat certain similar problems until those problems actually arose should be no reason to dismiss CAISO's efforts to preemptively eliminate similar potential improper incentives and market design flaws. CAISO's attempts to thwart potential problems before they arise should be applauded rather than criticized.

Several parties claim CAISO's use of the experience of eastern RTOs and ISOs to provide comparisons for CAISO's IBAA proposal is misplaced. TANC argues CAISO's proposal fails to recognize the physical and organizational design differences in eastern RTOs, including the fact that CAISO is an independent system operator rather than a regional transmission system operator.[219] Further, TANC claims that an ISO does not take on a regional scope in planning like an RTO.[220] IID argues there are "significant factual differences between the Eastern Connection and the Western connection"[221] and CAISO "neglected to inform the Commission of critical differences in how PJM treated its neighbors and how the CAISO

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218 IBAA Transmittal Letter at 39.

219 TANC at P 221.

220 TANC at P 221.

221 IID at 20.

proposed to treat its neighbors here."[222] Powerex claims CAISO failed to explain how the experience of the eastern RTOs/ISOs supports CAISO's decision to use a dual pricing point approach.[223] TID also argues there are pricing and scheduling differences with eastern RTOs.[224] Similarly, TANC and IID claim the eastern markets utilized singular proxy buses for each adjoining market rather than the two different pricing points CAISO suggests.[225]

The attempts by these parties to distinguish CAISO from the other eastern RTOs to suggest the experience of such RTOs is not relevant to the instant case do not withstand scrutiny and must be dismissed. Dr. Scott M. Harvey presented testimony on behalf of the CAISO to show the IBAA proposal is consistent with methods other balancing authorities use to price scheduled interchange in LMP-based market systems.[226] All of the RTOs discussed in the CAISO's initial filing have borders and border issues to be addressed, making such examples relevant to the case at bar. Nothing in Dr. Harvey's testimony involves regional transmission planning such that ISOs and RTOs must be distinguished from one another as suggested by TANC. Rather, the testimony demonstrates the other RTOs use proxy bus mechanisms for analyzing and pricing the congestion impacts of interchange schedules and that such experience is analogous to those methods proposed by CAISO to model and price scheduled interchange with SMUD-TID IBAA.[227] Further, in approving the MRTU, the Commission itself has previously found that the experience of eastern RTOs was relevant in demonstrating that seams

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222 IID at 22.

223 Powerex at 9.

224 TID at 19-20.

225 TANC at P 227; IID at 9.

226 Exhibit ISO-3.

227 Exhibit ISO-3 at 24-25.

issues could be overcome in developing the LMP market-based approach.[228] It is a natural corollary to this finding that the means the eastern ISOs used to resolve those same seams issue is relevant to the case at bar. Thus, the arguments presented by protesting parties that eastern RTOs should not be used as relevant examples in the instant case must be rejected.

The protesting parties also suggest that CAISO's pricing proposal is more preemptive than necessary, claiming that eastern RTOs utilized a proxy bus approach only after it was shown that problems existed. For instance, TANC argues the eastern markets were motivated to utilize proxy buses to address an existing problem, while the ISO's IBAA proposal purports to address a hypothetical problem with no basis in location specific research.[229] Similarly, IID states that PJM did not preemptively establish proxy trading points at the beginning of its market operations, based purely on speculation that market manipulation might possibly occur at some point in the future.[230]

These arguments must be rejected as efforts should most certainly be made up front to combat potential manipulation rather than waiting for a problem to exist. California has previously experienced design flaws, and accordingly, it is appropriate to take whatever preemptive measures are necessary to avoid those issues in the future. As the courts have recognized, no amount of unreasonable cost is acceptable.[231] Likewise, the eastern ISOs and RTOs faced these problems when they implemented an LMP regime. The CAISO is learning from the problems encountered in these markets under similar circumstances and is taking the appropriate steps to address those issues in advance of the problems arising in the CAISO

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228 *California Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274 (2006), *order on reh'g, California Indep. Sys. Operator Corp.*, 119 FERC ¶ 61,076 at 128 (2007).

229 TANC at P 224.

230 IID at 20-24.

231 *FPC vs. Texaco, Inc.*, 417 U.S. 380, 399 (1974).

footprint. Under these circumstances, the CAISO cannot simply "bury its head in the sand" and wait for the problems – and the adverse financial impacts they will have – to occur here. The CAISO must be proactive and implement just and reasonable measures to prevent such problems from occurring on the CAISO Controlled Grid.

TANC also argues that the agreements utilized by PJM establish a locational price for power sales between PJM and the individual company and require real-time aggregate data as opposed to the day-ahead transaction by transaction data required under the IBAA MEEA proposal.[232] In addition, TANC states that each of the contracts include a confidentiality clause and both the Progress Energy Carolinas and the North Carolina Municipal Power Agency contracts reserve the right of not only PJM but the individual company to audit the calculations of the other party to the agreement.[233]

The CAISO will discuss the reasonableness of its data requirements below. But the fact remains that TANC's arguments do not go to the relevance of the experience of the Eastern ISOs, but rather to the specifics of any MEEA agreement with the CAISO and how that agreement would be the same or different as that of the agreements in PJM. In other words, on one hand TANC states that the PJM experience is irrelevant, but on the other hand they reference the agreements utilized to PJM to establish pricing points. Accordingly their arguments validate the CAISO's reliance on the Eastern ISO's experience and support the use of the MEEA process.

H. The Proposed Process for Adding or Changing IBAAs Is Reasonable

Several parties take issue with Section 27.5.3.2, the CAISO's proposed process for potentially creating new IBAA's or amending the scope of an existing IBAA. For example,

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232 TANC at P 229.

233 *Id.*

TANC alleges that the CAISO may "unilaterally determine to establish or not establish an IBAA" and that "[s]uch unbridled discretion without consultation and agreement with the impacted Balancing Authorities is unjust, unreasonable and unduly discriminatory."[234] IID asserts the tariff language tendered by CAISO purporting to give it authority to establish new IBAAs must be rejected or removed and that "the generic factors listed to consider whether to extend its IBAA proposal to other new Balancing Authority Areas is vague and is not accompanied by quantifiable metrics."[235] These concerns are without merit. The CAISO has proposed an appropriate set of criteria upon which to base the decision as whether or not creation or modification of an IBAA is warranted. Most importantly, the CAISOs discretion is not in any way "unbridled" as it is subject to the Commission's authority under Sections 205 and 206 of the FPA.

> Under the proposed Section 27.5.3.3,
>
> > Except under exigent circumstances, the CAISO must follow a consultative process with the applicable Balancing Authority and CAISO Market Participants pursuant to the process further defined in the Business Practice Manuals, to establish a new IBAA or enter into a new MEEA or modify an existing IBAA or MEEA. Changes to an existing IBAA may include changes to the modeling of the IBAA's network topology or to the specification of the default Resource IDs described in Section 27.5.3.4. Upon completion of this process and having determined it necessary to establish a new IBAA or enter into a new MEEA or modify an existing IBAA or MEEA, the CAISO will make any necessary filings with FERC to amend this CAISO Tariff and to submit for FERC acceptance any related MEEA as appropriate, at which time the CAISO shall also provide its supportive findings for the establishment of the new IBAA or execution of the new MEEA or modification to an existing IBAA or MEEA.

The CAISO also proposed six factors in Section 27.5.3.3 that would be considered in a decision to establish or modify an IBAA: (1) the number of Interties between the IBAA and the CAISO

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234 TANC at P 198-199.

235 IID at 42-44.

Balancing Authority Area and the distance between them; (2) whether the transmission system(s) within the other Balancing Authority Area runs in parallel to major parts of the CAISO Controlled Grid; (3) the frequency and magnitude of unscheduled power flows at applicable Interties; (4) the number of hours where the actual direction of power flows was reversed from scheduled directions; (5) the availability of information to the CAISO for modeling accuracy; and (6) the estimated improvement to the CAISO's power flow modeling and Congestion Management processes to be achieved through more accurate modeling of the Balancing Authority Area.

It is readily apparent from the plain language of the CAISO's proposal that there is no "unbridled" discretion. First, there is a requirement to engage in a consultative process with the applicable external Balancing Authority Area and Market Participants, then if the CAISO determines that it is appropriate to create a new IBAA or modify an existing IBAA the CAISO must make a filing with the Commission under section 205. Conversely any decision not to create a new IBAA or modify any existing one would be subject to challenge under section 206. In either event, the CAISO's judgment is subject to oversight.

Moreover, the lack of "quantifiable metrics" does not render the proposal unjust and unreasonable. The CAISO Tariff by necessity contains numerous examples of situations in which CAISO personnel must apply judgment in accordance with specified general criteria and Good Utility Practice. For example, under Section 9.3.6.7,

> Each Participating Generator or Participating TO which has scheduled a planned Maintenance Outage pursuant to Section 9.3.4 must schedule and receive approval of the Outage from the CAISO Outage Coordination Office prior to initiating the Approved Maintenance Outage. The CAISO Outage Coordination Office will review the Maintenance Outages to determine if any one or a combination of Maintenance Outage requests relating to CAISO Controlled Grid facilities, Generating Units or System Units may cause the CAISO to violate the Applicable Reliability Criteria. This review will take consideration of factors

> including, but not limited to, the following: (a) forecast peak Demand conditions; (b) other Maintenance Outages, previously Approved Maintenance Outages, and anticipated Generating Unit Outages; (c) potential to cause Congestion; (d) impacts on the transfer capability of Interconnections; and (e) impacts on the market.

Similarly, Section 12.1.1.2 on Qualitative and Quantitative Credit Strength Indicators and Section 24.1.3.4 on Evaluation of Location Constrained Resource Interconnection Facilities require the exercise of good judgment.

Several parties protests the exception for "exigent circumstances.[236] The CAISO notes that the term "exigent circumstances" has been previously-approved by the Commission for other ISOs.[237] In *New York Independent System Operator, Inc*, the Commission specifically rejected a challenge by an intervenor that the term "exigent circumstances was "open ended and ill-defined."[238] The Commission found such a provision "is reasonable for an ISO to have the ability to file a unilateral amendment with the Commission when the ISO believes that immediate action is necessary to protect the integrity of an energy market or the transmission grid."[239]

DOE expresses the concern that the IBAA proposal allows the CAISO to establish and change any settlement point between BAAs, inside or outside the CAISO grid, without any meaningful review.[240] This is incorrect. Even if the specific identification of a pricing point is in the Business Practice Manual ("BPM"), the BPM cannot be substantively altered, without

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236 Powerex at 6-7; DOE at 6-7; TANC at 11.

237 Article 19.01 of the NYISO Agreement empowers the NYISO's BOD to direct the NYISO to make unilateral rate filings under Federal Power Act Section 205 under exigent circumstances to be effective for 120 days from the date of filing. *New York Independent System Operator, Inc*., 115 FERC ¶ 61, 005 (2006) at n.4.

238 90 FERC ¶ 61,015 at 61,034 (2000).

239 *Id*.

240 DOE at 7.

undergoing the change process approved by the Commission. Again, any actions to the contrary by the CAISO are subject to the section 206 complaint process.

In response to comments received during the stakeholder process, the CAISO has crafted a fair and transparent process to identify and modify IBAAs. There is no opportunity for the CAISO to implement changes unilaterally. To the contrary, the CAISO is aware that any change in the IBAA proposal or pricing points will receive a substantial scrutiny by Market Participants, the CAISO Governing Board and the Commission.

I. The CAISO IBAA Filing Is Sufficiently Complete to Warrant Commission Review

1. The CAISO Has Not Filed the IBAA Proposal Prematurely.

TANC asserts that the CAISO filed the IBAA proposal prematurely, as the proposal will not be effective within 120 days of the filing.[241] TANC's objection is without merit. The Commission has recognized the reality of new electric industry in which software designs must be designed, developed, and tested prior to being used in the marketplace. This is not a situation in which the CAISO is proposing to put a new facility into ratebase prior to its commercial operation date. Rather the CAISO must have Commission approval of the design concepts so that they may be implemented in a timely manner. Taken to its logical conclusion, TANC's position would either prohibit market development of put all market improvements at substantial cost risk. Since any significant change to market design and software would require more than 120 days to implement, ISOs and RTOs would have to proceed "at risk" that the Commission would subsequently approve already-designed software packages. This would place an unwarranted burden on the Commission as it would then have to balance the potential cost

[241] TANC Comments at 14, 147.

retrofits that could have been avoided had it had an opportunity to consider market design issues in a timely manner.

As stated in the transmittal letter, the CAISO anticipates that the MRTU, including the IBAA proposal, will commence in the fall of 2008. Under the Commission's regulations, the Commission may waive the requirement to file a tariff no more than 120 days prior to the date such tariff shall take effect.[242] Once the Commission has approved the IBAA proposal, the CAISO will need time to revise its modeling and software to implement the IBAA proposal, and for Market Participants to participate in scenario testing and provide feedback.[243] As discussed in the panel testimony of Mark Rothelder and James E. Price, "the CAISO has committed to finalize its model and introduce the final model, pricing, and settlement functionality in the final months of Market Simulation to ensure that the CAISO and Market Participant have had sufficient opportunity to understand how the Market will work under MRTU."[244] This final model includes the IBAA proposal, and thus cannot be finalized until the IBAA proposal is approved. Thus, good cause exists for the Commission to review the IBAA proposal at this time, despite the fact that it may not go into effect until sometime after October 15, 2008 (*i.e.*, 120 days after filing). Further, in the transmittal letter the CAISO explained that it is necessary for the CRR-related provisions of the IBAA proposal to go into effect sixty days from the date of filing (i.e., August 16, 2008) so that CRR Holders would have an opportunity to redefine their CRRs in light of the IBAA methodology in place when the MRTU goes live.[245] Importantly, the CAISO already needs to initiate the 2009 CRR annual allocation and auction process, and,

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242 *See* 18 C.F.R. § 35.3 (2008).

243 Transmittal Letter at 57.

244 Exhibit No. ISO-1 at 44.

245 *Id.*

therefore, needs a Commission decision before steps in the CRR process become difficult to reverse. Therefore, a decision on the IBAA proposal is necessary well in advance of the MRTU Go Live date, in order to accommodate the needs of CRR Holders, and ensure that they have sufficient time to adjust.

The CAISO has filed the IBAA proposal in a timely manner. Commission consideration of the IBAA proposal now will allow time for the CAISO to incorporate the IBAA into the MRTU modeling before it goes live.

2. The CAISO Has Adequately Supported Its Filing.

TANC, WAPA, and SMUD each argue that the CAISO has not provided enough studies and data to support the IBAA proposal.[246] To the contrary, the CAISO included in its filing over 300 pages of testimony and analysis supporting the IBAA proposal. In particular, the Rothelder-Price Testimony shows the impact of actual flows versus scheduled flows over the SMUD/TID IBAA.[247] As discussed therein:

> The CAISO compared actual flows to scheduled flows on interties with the proposed IBAAs. The results indicated that there is a divergence between scheduled and actual deliveries, illustrating the potential problem that could arise and therefore adversely impact the CAISO's LMP markets.[248]

The testimony goes on to show how the differences between actual and scheduled flows are a persistent problem, one that cannot be solved by merely adding external transmission to the full network model.[249] Attachment A to the Rothelder-Price Testimony shows comparisons of unscheduled flow for certain external BAAs, and is based on publicly-available information.

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246 *See* TANC Comments at 15; WAPA Comments at 26, 45, n. 125; SMUD Comments at 47.

247 Exhibit ISO-1 at 21-24.

248 *Id.* at 21.

249 *Id.* at 24-27.

The data covers a full year of service, from December 1, 2006 through November 30, 2007.[250] Diagrams 8 and 11 of Attachment A show the variance between SMUD and TID's scheduled and actual flows, which are significantly higher than those of the other external BAAs. The CAISO has provided more than adequate support for its proposal, particularly that the SMUD and TID BAAs do have the most inefficient scheduling incentives, and are therefore appropriate for including in the IBAA proposal.[251]

3. The CAISO Board of Governors Fully Supports the IBAA Filing.

TANC raises questions regarding whether the CAISO Board of Governors properly authorized the IBAA filing.[252] Although TANC acknowledges that the CAISO "appears to have thoroughly prepared for, and addressed its Board of Governors on the specifics of the IBAA proposal," TANC states that the tariff sheets filed by the CAISO omits "specific items that were pertinent to the Board of Governors' decision," such as the single hub import and export pricing points." Further, TANC claims that the CAISO inappropriately included the phrase "exigent circumstances" in Section 27.5.3.2 of the tariff.

As TANC itself notes, the CAISO thoroughly prepared the Board of Governors regarding the IBAA filing. The CAISO prepared a fourteen page memorandum for the Board of Governors detailing the IBAA methodology, the impact of the methodology on CRRs, and the process for establishing new or modifying existing IBAAs. A copy of this memorandum was included in the IBAA filing at Attachment J. The memorandum specifically states that "the ISO is proposing to include in its Tariff provisions that, *except under exigent circumstances,* would require that the

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250 *Id.* at Att. A, Diagrams 1-12.

251 *See* WAPA Comments at 45.

252 *See* TANC Comments at 176, 177-178, 180-181, and 196.

ISO follow consultative process with the affected BAA and its stakeholders."[253] The Board of Governors was thus fully aware that under exigent circumstances the CAISO may need to initiate the processes to establish or modify an IBAA without following the precise process outlined in the Tariff, and the CAISO did not violate its tariff by failing to receive full board review and approval.

TANC seems to find fault with the fact that the CAISO fully briefed the CAISO on the IBAA proposal and its impact, but did not provide all of this detail in the tariff sheets. The overall IBAA proposal encompasses two concepts: the criteria for identifying and establishing IBAAs, and the impact that such establishment will have on the system and market participants. The Board of Governors memorandum discusses both in detail; however, it does not make sense, and is somewhat inappropriate to include both aspects in the tariff sheets. What TANC suggests is akin to including the process for a system impact study as well as the results of every study in the tariff.

During the Board of Governors meeting on May 21-23, 2008, the Board unanimously granted the CAISO management authority to implement the IBAA, including making any necessary FERC filings or entering into agreements. The Board of Governors was appropriately briefed on the subject, and its approval for the IBAA proposal properly received.

4. The CAISO Filing Is Not Deficient.

TANC criticizes the IBAA filing as deficient, citing "vague, overbroad" and "ambiguous" tariff language, and lack of detail for implementation.[254] As discussed above, the CAISO has provided over 300 pages of support for its IBAA filing, including the tariff sheets.

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253 Board of Governors Memorandum at 11 (emphasis added).

254 TANC Comments at 13, 189-194, 197-199, 201, 203, and 207.

The tariff sheets provide more than sufficient detail for the CAISO to implement the IBAA proposal, detailing the process for establishing or modifying an IBAA[255], outlining the criteria to be considered in determining whether to add or modify an IBAA[256], defining the default external resource locations for modeling the IBAA[257], describing the treatment of CRRs in light of IBAAs[258], and more. The submitted tariff sheets provide sufficient detail for the Commission to make a decision regarding the justness and reasonableness of the IBAA proposal, and for the CAISO to implement the IBAA program upon approval.

Assuming *arguendo* that more detail is necessary to implement the IBAA proposal, this does not necessarily mean that the filing is deficient. The Commission may still rule on whether the provisions before it are just and reasonable based on the support information provided in the testimony and studies. This is consistent with the Commission's approach in other complex proceedings, such as the establishment of LMP in New England, where the Commission accepted the tariff provisions before it while recognizing that additional details were under development and would be discussed in operating and business practice manuals.[259] For example, TANC criticizes as vague the definition of the term "Market Efficiency Enhancement Agreements," which the CAISO may enter into with BAAs if "there is a demonstrable benefit to the CAISO Markets resulting from such alternative arrangements."[260] TANC argues that the term "demonstrable benefit" lacks clarity. However, this is precisely the type of clarification and explanation that the CAISO can, if necessary, provide in its BPMs.

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255 Section 27.5.3.2.

256 Section 27.5.3.3.

257 Section 27.5.3.4.

258 Section 36.14.

259 *New England Power Pool*, 100 FERC ¶ 61,287 at PP 83-84 (2002).

260 TANC Comments at 192.

The courts have recognized that the tariff need not include each and every term and condition related to service. As discussed in the *City of Cleveland v. FERC*,

> [T]here is an infinitude of practices affecting rates and services. The statutory directive must be read to require the recitation of only those practices that affect rates and services significantly, that are realistically susceptible of specification, and that are not so generally understood in any contractual arrangement as to make recitation superfluous. It is obviously left to the Commission, *within broad bounds of discretion*, to give concrete application to this amorphous directive.[261]

To the extent that the terms and conditions included in the tariff need additional detail, this can be provided in the business practice manuals or, if necessary, on compliance with the Commission. Nevertheless, the CAISO has provided more than sufficient information for the Commission to rule on the overall justness and reasonableness of the IBAA proposal.

5. The CAISO Has Included an Appropriate Level of Detail In Its Tariff and Finalized BPMs Are Not Necessary for the Commission to Accept the IBAA Proposal

SMUD asserts that the fact that the BPMs addressing the IBAA have not even been drafted supports rejection of the CAISO filing[262] and argues that the details of the IBAA methodology that CAISO proposes to relegate to the BPMs must be included in the tariff.[263] SMUDs complaints are without merit. The proposed tariff language contains an appropriate level of detail and the fact that the BPMs are not finalized should not in any way impede Commission acceptance of the filing.

The Commission has understood the need to separate more tariff requirements from detailed implementation manuals under its "rule of reason." and has consistently rejected

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261 773 F.2d 1368, 1376 (D.C. Cir. 1985) (emphasis added).

262 SMUD at 21.

263 SMUD at 19-20.

arguments that Business Practice Manuals and operating procedures must be filed for Commission review. In *Midwest Independent Transmission System Operator, Inc.*, the Commission noted:

> [T]he Business Practice Manuals will provide background information, guidelines, business rules and processes established for the operations and administration of the different Midwest ISO markets; provisions of transmission reliability services and compliance with Midwest ISO settlements, billing and accounting requirements. In contrast . . . , the [tariff] is a much higher level document and contains only the rates, terms and conditions necessary to effectuate service.[264]

Citing its "rule of reason," the Commission concluded that, even though the BPMs implicated the Commission's jurisdiction, there was no reason to require that they be filed. Similarly, the Commission refused to direct the filing of the Operating Manuals for PJM, although it directed PJM to include in its Tariff any specific rates or terms of service that appeared only in the Operating Manuals.[265] The Commission has also ruled that NEPOOL and the Southwest Power Pool need not file their Operating Procedures and Market Protocols, respectively, but has again required that certain matters proposed to be included in Operating Procedures be filed for Commission approval.[266]

Nor is there a requirement that the BPMs associated with a new market design or enhancement be finalized prior to Commission action. The Commission issued its orders conditionally accepting MRTU prior to the CAISO's development of the BPMs and has taken similar action with respect the Midwest ISO's proposed Ancillary Service Market.[267] The only

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[264] 108 FERC ¶ 61,163 at P 650 (2004).

[265] Pennsylvania-New Jersey-Maryland Interconnection, 81 FERC ¶ 61,257 (1997).

[266] *New England Power Pool*, 95 FERC ¶ 61,253 (2001); *New England Power Pool*, 110 FERC ¶ 61,396 at PP 27-29 (2005); *Southwest Power Pool*, 114 FERC ¶ 61,289 (2006).

[267] *Midwest Indep. Transmission Sys. Operator, Inc.*, 122 FERC ¶ 61,172 (2008) at P. 491 (The Midwest ISO indicates that the Business Practice Manuals are still being updated to be consistent with the proposed tariff. The

requirement is that the filed tariff provisions sufficiently define the rates, terms, and conditions of service. The CAISO's tariff is not "devoid of any detail" as SMUD contests.[268] It contains a level of specificity commensurate with Commission has accepted for other aspects of the MRTU market design and for other ISOs and RTOs that also utilize a FULL NETWORK MODEL as part of an LMP-based market. Moreover, even if the CAISO has proposed to include in the BPMs terms and conditions that should be in the tariff the remedy would not be to reject the filing. Consistent with the Commission's order in *Midwest Independent Transmission System Operator*[269], the process of evaluating whether additional detail from the BPMs could be added to the MRTU Tariff need not delay a comprehensive order on the MRTU Tariff as filed with the Commission. In that order, the Commission upheld its order conditionally accepting the Midwest ISO's Transmission and Energy Markets Tariff, notwithstanding the Commission's finding that additional detail slated for inclusion in the Midwest ISO's Business Practice Manuals should be added to the Tariff.[270]

J. The CAISO's CRR Proposal Is Reasonable and Should Be Approved

In the June 17 Filing Letter, the CAISO explained, a potential financial inconsistency for the CRR Holder could arise if the CRR Source or CRR Sink of a CRR from or to the IBAA, respectively, does not match the IBAA pricing point that will be used for settling the corresponding IFM interchange transaction. Based on feedback from stakeholders, the CAISO proposed to resolve this issue by allowing the holder of a previously-released CRR whose source

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Midwest ISO also commits that, if any rate, terms or conditions are identified during the process that are not in its tariff, it will file an update with the Commission.)

[268] SMUD at 21.

[269] 109 FERC ¶ 61,157 (2004).

[270] *Id.* at PP 557-564.

or sink was affected by the IBAA change to make a one-time election either to: (a) modify the settlement of the CRR to be congruent with the revised IFM pricing points associated with the IBAA change, or (b) retain the original source or sink specification of the CRR.[271] In addition, the CAISO proposed to ensure revenue adequacy of previously-released CRRs by using the CRR Balancing Account.

SCE supports the CAISO proposal regarding existing CRRs that are impacted by an IBAA change.[272] NCPA supports early effectiveness of the CAISO's proposal for redesignation of CRRs.[273] Consistent with its overall opposition to the IBAA filing, SMUD states that the Commission should reject the CRR aspect of the proposal.[274] WAPA recommends the Commission require the CAISO to evaluate and coordinate potential cost implications so that the rest of the CRR obligation rights holders are not unexpectedly required to obligate additional funds on short notice.[275]

As noted in the filing letter, there are several reasons why the CAISO believes it is appropriate to use the CRR,

> First, because any given IBAA change will occur in a limited area of the grid, it can be expected to affect a relatively small share of the total released CRRs, and hence any impact on revenue adequacy should be small relative to the total volume of congestion revenues and CRR settlements. Second, although any particular IBAA change will typically occur in a specific area of the grid, the benefits of the IBAA change in terms of improved accuracy of congestion management and pricing will benefit users of the entire CAISO BAA. Third, it will not be possible to specifically assign any net CRR revenue shortfall at the end of each month to the IBAA change in any reliable, non-arbitrary manner.[276]

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271 Filing Letter at pages 33-36.

272 SCE at 2.

273 NCPA Protest at 12.

274 SMUD at 22

275 WAPA at 55.

276 Filing Letter at page 36.

As explained by the CAISO given the expected small magnitude of any shortfall and the benefits the IBAA proposal brings to the overall FULL NETWORK MODEL processes, WAPA's concerns regarding the need to be obligated for additional funds on short notice are unfounded.

DOE contends that the proposal does not merely change settlement points, but also imposes congestion costs and loss charges for power that flows from Captain Jack over the COTP – neither of which are part of the CAISO and the differences in congestion costs and loss charges between Tracy and Captain Jack could produce a $2 million increase in costs for DOE.[277] DOE notes that the CAISO proposes to provide DOE with new, substitute CRR's, but complains that these are the "obligation" type and that the proposed substitute CRR's would apply only prospectively, and not to 2008 CRRs.[278]

As DOE to recognizes, it can hedge its congestion costs from Captain Jack with CRRs. DOE, however, fails to identify is that it can receive monthly CRRs for the remainder of 2008. Furthermore, any complaint about the use of "obligation" CRRs represents an unwarranted collateral attack on the Commission's prior MRTU orders requiring the use of such CRRs. While DOE fears that obligation CRRs could create a financial obligation, it has not shown that LMPs at Captain Jack will ever be less than at either Tracy or at DOE's loads.

As Dr. Harvey explained in his testimony, the CAISO proposal provides an opportunity for the entities such as DOE to be treated more favorably regarding the pricing of interchange transactions than under the CAISO's existing zonal congestion management model. Under the CAISO's zonal congestion model, imports having a favorable impact on internal CAISO transmission constraints (*i.e.*, imports whose scheduling would reduce the need for out-of-merit

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277 DOE at 10, 12.

278 *Id*. at 12.

dispatch of internal generation to manage intra-zonal congestion) are not paid a premium for their favorable impact on these intra-zonal constraints, they are paid the zonal price. Dr. Harvey testifies that as opposed to having a "property right infringed," under the IBAA pricing proposal, the IBAA Entities will have the opportunity to be treated more favorably than they are today, so long as they provide the requisite information to demonstrate that their exports to the CAISO are supported by generation that has a favorable impact on internal CAISO transmission constraints. DOE can enter into an MEEA.

The Commission should find the means in which CRRs have been addressed in the IBAA proposal to be reasonable. The proposal is consistent with the Commission's prior approvals of the CAISO's CRR program and makes reasonable accommodations based on the need to have the IBAAs in place at the commencement of the MRTU market.

K. The CAISO's Stakeholder Process and Response To Settlement Proposals Has Been Reasonable

1. The CAISO's Stakeholder Process Was Reasonable

Several Parties criticize the stakeholder process conducted by the CAISO prior to the filing. For TANC "deficiencies" in the stakeholder process" render the filing a unilateral and non-collaborative proposal that fails to satisfy WECC or FERC standards for effective resolution of Balancing Authority issues and implementation of ISO programs.[279] TANC complains that the CAISO "has treated equal and autonomous Balancing Authority Areas as subordinates."[280] TID characterized the CAISO's stakeholder process as a "façade," in which the CAISO rejected

[279] TANC at 45.

[280] TANC at P 165.

every suggestion made by the various stakeholders.[281] According to SMUD, he CAISO has never adopted one suggested change to its proposal from SMUD or the other parties other than to agree that for future potential IBAAs it would follow a consultative process.[282]

At the outset, the CAISO notes that TID and SMUD are simply incorrect. As described in further detail in Attachment E, the following actions, in addition to developing a process with regard to changes to existing IBAAs and creation of new IBAAs were taken as a direct response to stakeholder comments: (i) The CAISO extended the stakeholder process and deferred action (*i.e.*, obtaining CAISO Board of Governors approval and filing with the Commission) on the IBAA proposal three times; (ii) the CAISO agreed to file the IBAA proposal as a new Section 205 filing and not as a compliance proposal due to the pricing provisions of the proposal; (iii) the developed a proposal regarding the impact of the IBAA proposal on CRRs; and (v) the CAISO included the availability of alternative modeling and pricing arrangements (*i.e.*, Market Efficiency Enhancement Agreements).

Attachment E reviews in great detail the long process and numerous meetings and stakeholder interactions that culminated in the filing. At the end of the day, however, the proposal must stand on its merits. The CAISO submits that the IBAA filing is a just and reasonable approach that better aligns modeling accuracy and pricing incentives in the absence of additional data exchange from the external BAAs that has not been achievable to-date. The CAISO has provided months for stakeholders to review both the details of the proposal and draft tariff language before seeking the authorization of the CAISO Governing Board to make the

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281 TID at 33-34.

282 SMUD at 54. SVP argues CAISO decided to move forward with its IBAA filing without any change to the modeling and pricing to address stakeholder concerns. SVP at 44.

section 205 filing with the Commission. The sheer size of the interventions, together with affidavits purporting to support their positions, belie the complaints of "surprise."

It is not surprising or wrong for the CAISO's proposal to evolve as a result of internal and external analysis during the course of the stakeholder process. Such an iterative process should be encouraged and not faulted. Obviously, that will require the CAISO and stakeholders to react to the changes – not as a moving target but to determine if the concerns raised have been adequately addressed. The CAISO has recognized that it is not always possible to achieve consensus from all Market Participants on all issues. This does not detract from the reasonableness of the stakeholder process or that the CAISO has met all of its tariff requirements and FPA standards in its IBAA proposal.

2. The CAISO Data Requirements are the Minimum Reasonably Necessary To Address Concerns of the CAISO's Department of Market Monitoring and the Market Surveillance Committee

Several parties challenge the CAISO's need for data from the IBAAs. In particular, TANC states that the data the CAISO seeks also does not appear to be tied to the reliability of CAISO system under MRTU[283] and that the CAISO seeks to compel data and information confidential to other Balancing Authorities.[284] IID that it is unreasonable for the CAISO to

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[283] TANC at P 158. For TANC, Sharing market data with the ISO raises significant concerns that must be adequately addressed, including the following: (1) the parties must ensure the data will not be misused. Competitive, market sensitive data can be mishandled and misused if not subject to proper safeguards and controls; (2) the parties must ensure that state and federal laws will not be violated by sharing competitive bid price information; (3) data exchange should be mutual; (4) any necessary releases must be secured to release the data to a third party; (5) release of the data must not harm the competitive position of either party or participants in their respective markets; and (6) the exchanged data must be the minimum needed. Until these concerns are satisfied, it would be irresponsible for any entity to supply the data and information the ISO requests. To this point, the ISO has failed to satisfy these concerns. Only through mutual negotiations will the parties be able to resolve these and any other concerns with potential data exchange. TANC at P 159.

[284] TANC at P 44. SMUD also asserts that the CAISO's proposal is intended to pressure SMUD and the other targeted BAAs into executing confidential data exchange agreements in order to obtain reasonable pricing arrangements. SMUD at 25-26. SMUD's data needs to be fully protected from misuse by the CAISO just as it must be protected from misuse by any other BAA with which SMUD interacts. Data of the nature sought by the CAISO

demand all of the voluminous, granular data it is requesting about resources, load, schedules and transactions located within the confines of another Balancing Authority Area in the West.[285] These concerns improperly seek to narrow the scope of the information required by the CAISO to inter-BAA reliability exchanges. As the CAISO has repeatedly stressed, the data is necessary to verify the location of resources that are being paid for their energy and congestion relief in the CAISO Markets. Thus, while there is an important reliability component of the data in that it better enables the CAISO to manage congestion in its forward markets and better utilize important transmission capacity, there is also an inseparable market component – the need to create proper pricing incentives and just and reasonable results.

In Attachment E, the CAISO explains how it reviewed its information requests and sought to reduce them to the minimum necessary to verify the location and compliance of resources:

> On August 21, 2007, representatives of SMUD, Western, Turlock, Modesto, Redding, and the CAISO met to discuss the modeling and settlement treatment for Embedded/Adjacent Control Areas (ECAs/ACAs) under MRTU. The discussions focused on how the CAISO proposed to represent (in the MRTU-related network models and systems) the SMUD/Western and TID control areas and how the CAISO will establish related prices. The CAISO made a short presentation describing how the SMUD/Western and TID control areas were originally intended to be modeled. The CAISO explained that its original proposal was to model and price the full detail of the ECAs/ACAs, thereby establishing and revealing Locational Marginal Prices (LMPs) for all resources and Scheduling Points within the ECA/ACA. The CAISO also explained that to do so, the CAISO's original proposal would have required each ECA/ACA to provide detailed information regarding the scheduling of physical resources within the ECA/ACA, including both "base schedules" regarding how the ECA/ACA would serve its internal load as well as imports/exports and wheel throughs to and on the CAISO system. SMUD and Western had earlier provided feedback indicating concerns related to the sensitivity of the CAISO establishing LMPs for the

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can be exploited for commercial purposes and could be used to harm SMUD's customers. SMUD at 28. See also, WestConnect at 7.

[285] IID at 18.

> neighboring ACA systems in the SMUD and TID control areas. SMUD, for example, noted that it was not able, nor should it be required, to provide its own internal schedules to the CAISO. SMUD pointed out that such a requirement would be extremely invasive, in addition to being overly burdensome and costly. Moreover, SMUD, as the Balancing Authority, had no authority to compel entities within its boundaries to provide such data to the CAISO. Thus, from SMUD's viewpoint, the CAISO's original proposal was neither realistic nor achievable. The CAISO reiterated to SMUD, Western, and Western's customers at the August 21 meeting that the CAISO had revised its approach based on the concerns raised by SMUD and Western regarding the establishment of LMPs within their own systems. These concerns were that the CAISO's original approach constituted what SMUD and Western viewed as overreaching by the CAISO, and that the original approach imposed voluminous data requirements. The CAISO indicated that, although its revised approach still allows the CAISO to model ECA/ACA transmission systems to ensure an accurate solution for the CAISO system, the CAISO would not be determining any of the constraints internal to these ACA systems and also agreed to calculate or establish LMPs only for aggregated resources that are scheduled in the CAISO markets, not for their internal ACA resources. Under its revised approach, the CAISO indicated it would utilize the existing Scheduling Points with the SMUD and TID ACAs for submission of schedules in the CAISO markets.[286]

The CAISO has stressed that under LMP location matters and, as the operator of the LMP market, the data exchange needs are not reciprocal. Nor are the data exchange requirements for the CAISO LMP pricing covered by existing WECC and NERC reliability-related protocols. The CAISO, the independent entity changed by the Commission with market administration and market monitoring responsibilities, has a responsibility to ensure that it is actually receiving the locational supply being bid into its markets. Most importantly, the CAISO has demonstrated the reasonableness of the default assumptions contained in the IBAA proposal that would be in place in the absence of an MEEA.

4. The CAISO Had Good Cause To Reject The Alternative Proposal

[286] Attachment E at 14.

As discussed in the Pannel testimony, on May 8, 2008, the CAISO received a "Proposed Alternative to the CAISO's April 18th IBAA Proposal" provided by the IBAA Entities.[287] According to TID, the CAISO's objectives for filing the IBAA proposal can be achieved through nondiscriminatory and more accurate means if it would reconsider the alternative proposal that the CAISO rejected during the stakeholder process.[288] TANC complains that a meeting to discuss the Alternative proposal was held on May 9, 2008, among the Impacted Entities and the CAISO, but before the CAISO responded to the Alternative Proposal, the April 18 Proposal was placed on the agenda for the May 21, 2008 Board of Governors public meeting and as the CAISO CEO informed the ISO Board, and unbeknownst to TANC, ISO Staff had been instructed to ignore any proposal submitted after April 30.[289]

As explained by the Panel, the CAISO had several significant concerns with this Alternative Proposal:

> First, the CAISO is unclear how the additional data proposed to be exchanged or made available would enhance the CAISO's modeling of the IBAAs. Second, under the IBAA Entity Proposal, the CAISO would not have visibility regarding the location of the resources within the IBAA used to implement interchange transactions; rather, each transaction would be modeled at the boundary (i.e., assuming the resources are located at or near the Intertie Scheduling Points themselves). While the IBAA Entity Proposal did provide that the CAISO would model the IBAA or external transmission system – and thus enable the CAISO to capture some of the network effects on its system by effectively distributing flows across the combined network associated with the scheduled interchange transactions – the source of such transactions would still be represented as injections at the ISPs at the boundary points. Without greater knowledge or visibility regarding the sources within the IBAA used to implement interchange transactions, the CAISO believes the prices produced at the identified Intertie Scheduling Points will not be representative of the value of the transactions scheduled at those locations for purposes of managing congestion on the CAISO Controlled Grid. Third, as described by Dr. Hildebrandt (*See* Exhibit No. ISO-2

287 Exhibit No. CAISO-1 at 81.

288 TID at 34-37.

289 TANC at P 170.

> at 21-22), the CAISO is not convinced the monitoring and information exchange process would be sufficient to address the CAISO's previously articulated pricing concerns.[290]

Thus, it was the merits of the Alternative proposal that warranted its rejection by the CAISO and not any limitation by CAISO management – specifically, a statement meant to reflect the desire to reach resolution of these issues and that, in recognition of the impasse reached through the bilateral negotiating process to date – it would be necessary for CAISO management to request its Governing Board authorization of a tariff filing.

5. The WECC Seams Process Is Not the Answer

Several parties contend that the issues addressed in the CAISO filing should be resolved by the WECC. According to Westconnect, by filing the IBAA proposal, the CAISO has abandoned the collaborative, WECC-wide process to find a solution to the discrepancies between day-ahead schedules and real-time flows.[291] CMUA states that the CAISOis imposing unilateral tariff changes aimed at developing the same data exchange protocol it previously promised to develop collaboratively through the WECC.[292] TANC charges that the CAISO "completely skipped the regional process at WECC to work through inter-Balancing Authority Area issues."[293]. The CPUC suggests that the parties should take advantage of existing structures, such as WECC committees and subcommittees, to convene a collaborative process and develop long-term solutions to seams issues between the CAISO and adjoining BAAs.[294] While the

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[290] Exhibit No. ISO-1 at 83.

[291] WestConnect at 5, 9.

[292] CMUA at 8.

[293] TANC at P 163; WAPA states that rather than working collaboratively with the existing BA to change the existing commercial practices, the CAISO unilaterally implemented its current proposal. WAPA at 11

[294] CPUC at 7. IID argues CAISO should pursue their concerns through NERC/WECC and develop a solution that works in the West rather than imposing its own requirements on its neighbors. IID at 34.

CAISO appreciates and supports the need for continued cooperation in all WECC reliability activities, the WECC is not equipped to resolve the market-related pricing aspects that are a central aspect of the IBAA proposal.

In addition, the CAISO worked diligently with the other parties such as WAPA, TANC, SMUD and TID on bilateral and other basis in an effort to reach resolution on critical data exchange and modeling issues prior to even commencing the IBAA stakeholder process. As described in Attachment E these results ended in an impasse:

> In summary, the CAISO engaged in a consultation with the IBAA entities from approximately June 2007 though December 2007. On October 4, 2007, the CAISO sent the IBAA entities a draft document that outlined the CAISO's then-current IBAA proposal and the supporting rationale. On November 14, 2007, SMUD responded to the CAISO indicating that it did not support the CAISO's IBAA proposal. The CAISO responded to certain of the issues raised by SMUD in a letter dated December 6, 2007, and subsequently met with representatives of SMUD, Western and TID on December 11, 2007. At that time, based on IBAA entity opposition to the CAISO's then-proposed IBAA proposal and because of the then-impending February 1, 2008, MRTU start date, the CAISO determined that it was appropriate and prudent to initiate a broader stakeholder discussion and finalize the proposal prior to MRTU start up.[295]

While the CAISO would have preferred to reach agreement with the IBAA entities the reality is there are strong differences over critical issues including, but not limited to, the type of data needed by the CAISO, the uses that the CAISO can undertake with that data, the reciprocal amount of data that should be exchanged between the CAISO and a Market Participant. The Commission not NERC or the WECC is the only entity conversant with markets and the need for just and reasonable pricing to call balls and strikes – as to the justness and reasonableness of the CAISO submission. Additional process between the entities and the CAISO, either bilaterally or as part of a WECC working group or committee is unlikely to change the status quo and instead

[295] Attachment E at 24.

will only unreasonably serve to delay reasonable and necessary improvements to the CAISO's MRTU modeling and pricing regimes.

6. Successful Negotiations with the IBAA Entities Does Not Eliminate the Need For Approval of the Default Pricing Proposal

The comments of the CPUC and the APPA appear to indicate that the ongoing negotiations with IBAA Entities[296] involve the entire IBAA proposal. This is incorrect and the CAISO emphasizes that the successful outcome of the negotiations with the IBAA Entities does not eliminate the need for the Commission's approval of the IBAA proposal with the default pricing points. The comments of the CPUC and APPA may reflect a misunderstanding regarding the market participants to whom the IBAA proposal applies. To be clear, the geographic scope of the IBAA proposal is defined by the transmission systems within the SMUD and TID BAAs, and, while it is true that the Balancing Authorities for those BAAs have a prominent role in implementing interchange transactions, the pricing aspects of the IBAA proposal apply to any market participant that uses the transmission systems within the SMUD-TID IBAA to engage in interchange transactions with the CAISO. In other words, while the CAISO and various participants in this proceeding might at times refer to entities collectively, it is a mistake to think IBAA proposal only applies to the transmission owners and the SMUD and TID Balancing Authorities. For example, it is possible that an independent power producer with resources located within the SMUD-TID BAA: (i) could use those resources to engage in interchange transactions with the CAISO, and (ii) the independent power producer could agree to provide the CAISO with information to verify the location and dispatch of its resources used to

[296] IBAA Entities is a collective reference to SMUD, TID, MID, Western, SVP, TANC, and TANC's members which include the California cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah; and the Plumas-Sierra Rural Electric Cooperative (as well as SMUD; TID and MID).

implement the interchange transactions in return for non-default pricing points. In this circumstance, the CAISO would have an alternative arrangement or Market Efficiency Enhancement Agreement ("MEEA") with the independent power producer but interchange transactions with other entities in the SMUD-TID IBAA could still be subject to the default pricing aspects of the IBAA proposal.

Moreover, the CPUC's comments support the exact proposal filed by the CAISO. The CPUC indicates that it understands the need for the default proposal to address issues associated with infeasible schedules and their potential impact on ratepayers.[297] In addition, the CPUC supports the CAISO's proposal to enter into alternative pricing arrangements or MEEAs as a means to obtain information that allows the CAISO to verify the performance of an external resources relative to what the expected performance was in the day-ahead interchange schedule in return for non-default pricing. The CPUC states that:

> The CPUC would suggest that a possible compromise would involve the provision of more transparent information by SMUD and TID to the CAISO, such that the potential problems that would be caused by infeasible schedules can be avoided. In exchange, the CAISO would provide more detailed and fair pricing at SMUD/TID-CAISO interties.[298]

The exact compromise described by CPUC is contained in the IBAA proposal and the CAISO willingness to allow for non-default pricing points in return for adequate information that allows the CAISO to verify the location and dispatch of the external resources subject to the alternative arrangement contained in an MEEA.

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[297] CPUC at 9 (noting the possibility of "infeasible" schedules adversely affecting the reliable operation of the transmission system and causing consumers to pay inappropriate costs resulting from inaccurate LMPs).

[298] *Id*. at 11.

Regarding the APPA's suggestion that the Commission defer acting on the June 17 Filing,[299] the CAISO respectfully requests that the Commission reject the suggestions as unnecessary. As noted in the June 17 Filing, the CAISO is in negotiations regarding and alternative arrangement of MEEA with the IBAA Entities and will continue with those negotiations. However, those negotiations do not diminish or eliminate the need for the Commission's approval of the IBBA with the default pricing points prior to start of MRTU.

IV. CONCLUSION.

Wherefore, the CAISO respectfully requests that the Commission approve the CAISO's IBAA proposal as proposed and as discussed herein, without suspension or hearing.

Respectfully submitted,

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[299] APPA at 1.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in the above-captioned docket.

Dated at Folsom, California on this 23rd day of July, 2008.

/s/ Anna A. McKenna