

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

**California Independent System) Docket Nos. ER06-615-___ and
Operator Corporation) ER07-1257-___**

**ANSWER OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR
CORPORATION TO MOTIONS TO INTERVENE AND COMMENTS**

On May 19, 2008, the California Independent System Operator Corporation (“CAISO”) submitted a filing in the above-referenced proceedings (“May 19 Compliance Filing”) to comply with the Commission order issued in the proceedings on March 24, 2008, 122 FERC ¶ 61,271 (2008) (“March 24 Order”).¹ The Commission established a June 9, 2008 comment date regarding the May 19 Compliance Filing. In response, several parties submitted motions to intervene and one party, the California Department of Water Resources State Water Project (“SWP”), filed comments.²

The CAISO does not object to any party’s motion to intervene. However, pursuant to Rule 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.213, the CAISO hereby files its answer (“Answer”) to SWP’s comments. For the reasons explained below, the Commission should accept the May 19 Compliance Filing without modification, except as described herein.

¹ Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the CAISO’s Market Redesign and Technology Upgrade (“MRTU”) Tariff (also called the CAISO Tariff).

² The following parties submitted motions to intervene: the City of Vernon, California; Pacific Gas and Electric Company; and Sacramento Municipal Utility District.

I. ANSWER

A. Background

Although the May 19 Compliance Filing included a number of MRTU Tariff revisions submitted in response to March 24 Order, only one commenter submitted comments and then only with regard to a single compliance item. In the March 24 Order, the Commission accepted the commitment the CAISO made in its December 7, 2007 post-technical conference reply comments in the above-referenced proceedings (“December 7 Reply Comments”) to add to the MRTU Tariff a summary of the actions the CAISO may take in the event of a “market disruption.”³ The Commission also directed the CAISO to revise the MRTU Tariff to include a definition of a market disruption.⁴

To comply with these directives, in the May 19 Compliance Filing the CAISO proposed a definition of the term “Market Disruption” and proposed to include, in new Section 7.7.15 of the MRTU Tariff, a summary of the actions the CAISO may take if a disruption occurs in any CAISO Market. The proposed definition of a Market Disruption is “[a]n action or event that causes a failure of the normal operation of any of the CAISO Markets.”⁵ SWP’s comments on the May 19 Compliance Filing take issue both with the CAISO’s proposed definition

³ March 24 Order at P 47. The CAISO made this commitment upon further consideration of an issue earlier discussed in the CAISO’s November 15, 2007 post-technical conference response (“November 15 Response”) in the above-referenced proceedings. December 7 Reply Comments at 52. The market disruption issue arose in the context of Section 6.4.4 of the Business Practice Manual (“BPM”) for Market Operations, which concerns actions the CAISO may undertake in response to market disruptions in the Day-Ahead Market. Transmittal Letter for May 19 Compliance Filing at 3.

⁴ March 24 Order at P 47.

⁵ May 19 Compliance Filing at Attachment B (definition of “Market Disruption”).

and with certain provisions in Section 7.7.15 (specifically, the provisions of Section 7.7.15(b)).

B. The Proposed Definition of a Market Disruption Is Consistent with the CAISO's Compliance Obligation.

SWP argues that the proposed definition of a Market Disruption is inconsistent with the CAISO's November 15 Response and thus is outside the scope of the CAISO's compliance obligation in these proceedings because the definition encompasses not only physical emergencies, such as reliability issues or System Emergencies as described in Sections 7.6 and 7.7 of the MRTU Tariff, but also market outcomes and bidding results that do not reflect normal operation of a CAISO Market.⁶

SWP misrepresents the scope of the CAISO's compliance obligation. Although the November 15 Response did refer to the type of market disruptions related to system operations issues and System Emergencies referenced in Sections 7.6 and 7.7 of the MRTU Tariff, those are not the only types of market disruptions the CAISO may need to address. The MRTU Tariff also includes other actions outside of Sections 7.6 and 7.7 that the CAISO can undertake concerning a Market Disruption, e.g., a Market Interruption.⁷ For example, Section 11.5.6.1 specifies the Settlement of Energy in circumstances where the CAISO issues an Exceptional Dispatch to avoid a Market Interruption, and Section 11.5.8.1 specifies the Settlement of Energy in circumstances where the

⁶ SWP at 2-4.

⁷ See the discussion below concerning the very similar defined terms "Market Disruption" and "Market Interruption."

CAISO procures Energy outside of the CAISO Balancing Authority Area to avoid a Market Interruption.⁸

The March 24 Order did not direct the CAISO to include provisions in the MRTU Tariff to remedy only the types of market disruptions caused by System Emergencies or physical operations issues. Instead, the March 24 Order stated as follows:

We find that the actions the CAISO will take in the event of a market disruption could significantly affect rates, terms and conditions of service. Consequently, we accept the CAISO's commitment to add to the MRTU tariff a summary of the actions it could take in the event of a market disruption. This should alleviate WPTF's [the Western Power Trading Forum's] concerns.⁹

These Commission directives made it clear that the CAISO's compliance filing should include a summary of the range of potential actions the CAISO may take in the event of a market disruption. Since the MRTU Tariff already contemplates that the CAISO may taken actions in circumstances other than physical emergencies such as reliability issues or System Emergencies, it is appropriate for the CAISO's compliance filing to address "market disruptions" that occur for reasons other than System Emergencies or physical operations issues. Similarly, as explained in the May 19 Compliance Filing, nothing in the March 24 Order can be read to suggest that the types of market disruptions the Commission directed the CAISO to address should be limited to disruptions in the Day-Ahead Market. It is appropriate for the CAISO to specify in the MRTU

⁸ The circumstances in which the CAISO may issue an Exceptional Dispatch are described in Section 34.9 of the MRTU Tariff.

⁹ March 24 Order at P 47.

Tariff the types of actions it will undertake to prevent or reduce the harmful effects of all types of market disruptions because the CAISO cannot accurately predict whether a physical emergency, rather than some other type of event, will be the only kind of rare and extreme event that disrupts (or threatens to disrupt) the CAISO Markets and thus compels the CAISO to apply the market disruption provisions of the MRTU Tariff.¹⁰

SWP states that it does not understand the rationale for the CAISO's proposed definition of a Market Disruption because the CAISO did not discuss it as part of a stakeholder process in preparing the May 19 Compliance Filing.¹¹ The rationale for the proposed definition is the Commission's directive "that the actions the CAISO will take in the event of a market disruption could significantly affect rates, terms and conditions of service" and that the CAISO should therefore include a definition of market disruption in the MRTU Tariff.¹² The CAISO did not establish a stakeholder process because it typically prepares filings to comply with specific Commission directives without obtaining stakeholder input on those directives. Moreover, there was nothing in the March 24 Order that suggested that the CAISO needed to take the unusual step of seeking stakeholder input in preparing the May 19 Compliance Filing.

In the course of preparing this Answer, the CAISO determined that it should explain an important distinction between the proposed definition of a

¹⁰ See Transmittal Letter for May 19 Compliance Filing at 3.

¹¹ SWP at 4.

¹² March 24 Order at P 47.

Market Disruption and the very similar existing definition of the term *Market Interruption*, which means “[t]he disruption of the normal operations of a CAISO Market.”¹³ The Commission has already determined that this term is appropriately defined. Clearly the two concepts are very similar and do overlap. As provided in the proposed Section 7.7.15(g) of the MRTU Tariff, in the event the CAISO experiences a Market Disruption, the CAISO anticipates that it may be required to engage in Exceptional Dispatch. But it does not anticipate that it will be the case for all Market Disruptions. Therefore, it is important to keep these two definitions distinct. However, the CAISO proposes in this Answer to further clarify the definition of a Market Interruption to mean “a Market Disruption for which the CAISO is required to conduct Exceptional Dispatch,” and the CAISO is prepared to make this clarifying change in a compliance filing. The CAISO regrets failing to clarify the similarity between these two defined terms in preparing the May 19 Compliance Filing.

C. Proposed Section 7.7.15(b) Appropriately Authorizes the CAISO to Remove Bids and Self-Schedules that Have Previously Resulted in a Market Disruption and Does Not Need to Be Revised in this Regard.

SWP argues that proposed Section 7.7.15(b) of the MRTU Tariff, which states that the CAISO may "remove Bids and Self-Schedules that have resulted in a Market Disruption previously" in order to prevent or minimize the effect of a new Market Disruption, is an unexplained and unjustified expansion of the

¹³ MRTU Tariff, Appendix A, definition of “Market Interruption.” The Commission accepted the definition of the term Market Interruption, which was proposed in the CAISO’s August 3, 2007 filing in the above-referenced proceedings, in *California Independent System Operator Corporation*, 123 FERC ¶ 61,285 (2008) (accepting MRTU tariff revisions proposed in the August 3, 2007 filing, except to the extent that the Commission directed the CAISO to make modifications to those proposed revisions).

actions listed in Section 6.4.4 of the BPM for Market Operations. SWP asserts that Section 7.7.15(b) should be revised to state how MRTU-compliant Bids and Self-Schedules are expected to cause a Market Disruption, to provide an objective measure of the Bid/Self-Schedule outcomes that comprise Market Disruption, to spell out procedures for and consequences of Bid/Self-Schedule removal, and to provide for reports permitting stakeholder review of the CAISO's decision to remove Self-Schedules.¹⁴

As explained in Section I.A above, the Commission directed the CAISO to add to the MRTU Tariff a "summary of the actions it could take in the event of a market disruption."¹⁵ Although in the vast majority of circumstances, the CAISO would not expect Bids and Self-Schedules submitted in the ordinary course of business to disrupt the CAISO Markets, the CAISO cannot state for certain that there are absolutely no circumstances in which a submitted Bid or Self-Schedule could result in a disruption of the normal operations of a CAISO Market. The CAISO's goal is to continuously maintain its Locational Marginal Price ("LMP")-based market operations in order to manage congestion on its grid reliably and optimally. Therefore, an implicit goal of the CAISO is to minimize the degree of any market disruptions. In order to minimize such disruptions, the CAISO believes the proposal to remove Bids and Self-Schedules that have resulted in a Market Disruption previously is just and reasonable as they may cause the market processes to be disrupted again. In fulfilling the Commission's directive

¹⁴ SWP at 4-8, 11.

¹⁵ March 24 Order at P 47.

to delineate the actions the CAISO would take in the event of a market disruption or to prevent a market disruption, the CAISO believed it was appropriate to describe its intended actions in the MRTU Tariff and will make updates to its BPMs, including an update to the requirement in Section 6.4.4 of the BPM for Market Operations, consistent with the Tariff requirements as approved by the Commission.

To the extent such a Market Disruption could occur on more than one occasion, it would likely signal the need for the CAISO to develop market rule changes to prevent future Market Disruptions. Until such market rule changes can be developed, filed for Commission approval, and implemented, however, it would be appropriate for the CAISO to take actions that prevent all types of Market Disruptions, including the removal of Bids and Self-Schedules. Because the CAISO would expect to take such actions only under rare circumstances that cannot be anticipated in advance, and because such actions would likely be subject to *ex post* scrutiny by both the Commission and Market Participants, the CAISO does not believe it would be beneficial to develop detailed procedures for the removal of Bids and Self-Schedules under Section 7.7.15(b).

D. Proposed Section 7.7.15(b) Should Be Modified to Clarify the Treatment of Existing Transmission Contracts and Transmission Ownership Rights in the Event that the CAISO Takes Action to Prevent or Minimize the Effect of a Market Disruption.

SWP argues that proposed Section 7.7.15(b) of the MRTU Tariff needs to be modified to clarify that the CAISO will not remove firm Self-Schedules

provided pursuant to Existing Transmission Contracts (“ETCs”) and Transmission Ownership Rights (“TORs”) in the event that the CAISO takes action to prevent or minimize the effect of a Market Disruption. SWP asserts that firm ETC and TOR Self-Schedules are not part of the MRTU market, and thus such Self-Schedules are not capable of disrupting it. Further, SWP cites the protections given to ETC rights by the Energy Policy Act of 2005 and cites previous CAISO assurances that ETCs will continue to be honored under MRTU.¹⁶

SWP’s characterization of the ETC Self-Schedules is inconsistent with the Commission-approved MRTU Tariff treatment of such instruments. ETC Self-Schedules are essentially a subset of Self-Schedules that are afforded a higher priority than other Self-Schedules and provided a reversal of the LMP-based congestion charges for the balanced and valid portions. The ETC Self-Schedule is essentially the instrument used under MRTU to honor the existing rights that parties hold under their ETCs. However, it is inaccurate to say that they are not part of the MRTU market, because ETC Self-Schedules are in essence used through the market system to ensure that, if submitted and validated consistent with the MRTU Tariff, the rights under these contracts will be honored. Therefore, like all other Bids, it is important that the CAISO be able to validate and ensure that these instruments do not repeatedly cause the market to be disrupted. The CAISO recognizes that situations may arise where certain ETC Self-Schedules are passing through the validation procedures but are still repeatedly causing the market systems to be disrupted. It would be

¹⁶ SWP at 9-11.

inappropriate to force the CAISO to continue to run its markets because of submissions of ETC Self-Schedules that are not submitted consistently with its market rules and that lead to repeated market disruptions. Therefore, the CAISO requests that the Commission reject SWP's proposal to require that the ETC Self-Schedules be excluded from the new provisions proposed in Section 7.7.15.

II. CONCLUSION

For the reasons explained above, the Commission should accept the May 19 Compliance Filing without modification, except as described herein.

Respectfully submitted,

Sidney M. Davies
Assistant General Counsel
Anna A. McKenna
Counsel
The California Independent
System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400
Fax: (916) 608-7296

/s/ Sean A. Atkins
Sean A. Atkins
Bradley R. Miliauskas
Alston & Bird LLP
The Atlantic Building
950 F Street, NW
Washington, DC 20004
Tel: (202) 756-3300
Fax: (202) 654-4875

Counsel for the California Independent System Operator Corporation

Dated: June 24, 2008

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service lists in the above-referenced proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Washington, D.C. this 24th day of June, 2008.

/s/ Bradley R. Miliauskas
Bradley R. Miliauskas