

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION  
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**California Independent System            )  
Operator Corporation                    )  
  )  
  )**           **Docket No. ER08-760-000**

**REQUEST FOR CLARIFICATION, OR IN THE ALTERNATIVE, REHEARING  
OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

Pursuant to Section 313 of the Federal Power Act (“FPA”), 16 U.S.C. § 825I, and Rules 212 and 713 of the rules and regulations of the Federal Energy Regulatory Commission (“FERC” or the “Commission”), 18 C.F.R. §§ 385.212 and 385.713 (2007), the California Independent System Operator Corporation (“CAISO”) hereby submits this Request for Clarification, or in the Alternative, Rehearing of the Commission’s May 30, 2008 Order regarding the CAISO’s proposed Transitional Capacity Procurement Mechanism (“TCPM”).<sup>1</sup> While CAISO generally supports the Commission’s findings in the May 30 Order, it seeks clarification, or alternatively, rehearing on several aspects of the order that stem from the Commission’s determination that a single must-offer waiver denial (“MOWD”) results in an automatic 30-day TCPM designation.<sup>2</sup>

First and foremost, the CAISO seeks clarification that the Commission did not intend that if the CAISO’s Real-time Market Application (“RTMA”) Real Time Dispatch (“RTD”) software dispatches the non-resource adequacy (“RA”) capacity of a partial RA

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<sup>1</sup> *Cal. Indep. Transmission Sys. Operator*, 123 FERC ¶ 61,229 (2008) (“TCPM Order”).

<sup>2</sup> Capitalized terms not otherwise defined herein have the meaning set forth in the Master Definition Supplement, Appendix A to the ISO Tariff.

resource before either committing an available off-line RA resource or dispatching the available capacity of an on-line RA resource, such dispatch would result in an automatic 30-day designation of capacity under the TCPM. The CAISO requests that the Commission act expeditiously on this aspect of the CAISO's clarification/rehearing request because it has significant implications for the commitment and dispatch decisions that CAISO grid operators will be making this summer, and it could be difficult for the CAISO to go back and unwind those commitment/dispatch decisions at a later date. This is a significant issue starting July 1, because there are 67 partial RA units in the month of July.

The CAISO also seeks clarification that a 30-day designation following a must-offer waiver denial ("MOWD") will not result in a double capacity payment (or double minimum load and start-up payments) to a FERC Must Offer Generator that becomes a Resource Adequacy Resource during the 30-day designation period.<sup>3</sup> Specifically, the Commission should clarify that, under such circumstances, the TCPM designation resulting from a MOWD expires on the date that the FERC Must Offer Generator becomes a Resource Adequacy Resource, and the resource's capacity payment will be prorated accordingly. In addition, the CAISO requests that the Commission clarify that TCPM resources will be paid a monthly capacity payment based on the existing monthly seasonal shaping factors reflected in Appendix F, Schedule 6 of the CAISO Tariff (which the CAISO carried over from the Reliability Capacity Services Tariff ("RCST")), and not based on a straight application of 1/12 of the annual target capacity price. Finally, the CAISO requests that the Commission clarify how the CAISO should allocate

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<sup>3</sup> Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definition Supplement, Appendix A to the ISO Tariff.

the costs associated with 30-day TCPM designations that result from an MOWD. The Commission did not address this issue in the TCPM Order. The CAISO believes that the costs associated with automatic 30-day TCPM designations should be allocated on a local basis, a zonal basis, or a CAISO system-wide basis depending on the utilization of the resource during the designation period. As such, CAISO is proposing tariff language in the compliance filing being submitted simultaneously herewith that is consistent with the allocation methodology approved by the Commission in the “Amendment No. 60” proceeding.

#### **I. REQUEST FOR CLARIFICATION/REHEARING AND SPECIFICATION OF ERROR**

The CAISO respectfully submits that the TCPM Order erred in the following respects:

- The TCPM Order could be interpreted to require the CAISO to designate for 30 days the non-RA capacity of a partial RA unit that is dispatched by the CAISO’s RTD software based solely on Energy bid levels, even though RA capacity was available for dispatch, but the CAISO’s RTD software precludes the CAISO from reflecting the higher incremental cost of dispatching the non-RA capacity (*i.e.*, the 30-day TCPM capacity payment) in the economic optimization. The CAISO’s software and systems cannot differentiate between the RA and non-RA capacity of a partial RA resource in its real-time dispatch and, as such, cannot account for the higher incremental cost associated with dispatching the non-RA capacity of a partial RA resource as a result of the automatic 30-day TCPM designation that results from a single MOWD. This could result in the dispatch of higher (incremental) cost non-RA capacity before available RA capacity and a 30-day designation under the TCPM although the non-RA capacity was not needed for reliability because other (*i.e.*, RA) capacity was available to be dispatched.
- The TCPM Order failed to recognize (1) that the Commission-approved tariff language provides that the capacity of Resource Adequacy Resources is not eligible to be TCPM capacity, and (2) the possibility that a FERC Must Offer Generator could be listed as a Resource Adequacy Resource within 30 days following a MOWD and thus potentially receive a

double payment for its capacity – once under the TCPM program and once under the resource adequacy program.

- The TCPM Order is unclear in that it did not modify the CAISO's tariff language which provides that TCPM capacity will be paid a capacity payment based on monthly seasonal shaping factors, but indicated in a footnote that TCPM capacity designated as the result of a MOWD would receive a payment equal to a straight 1/12 of the appropriately adjusted annual target capacity price.
- The TCPM Order did not specify the appropriate methodology for allocating costs associated with 30-day TCPM designations resulting from a MOWD. The CAISO proposes to allocate such costs using the approved Amendment 60 methodology, so that the costs will be allocated based on the reason for the MOWD, *i.e.*, local, zonal, or system.

To the extent that the TCPM Order intended that; that resources that had entered into resource adequacy contracts for less than their Net Qualifying Capacity would be eligible for a TCPM designation if their non-RA capacity is dispatched by the RTD software event though RA capacity was available for dispatch, (1) TCPM resources that become Resource Adequacy Resources during the 30-day designation period should receive both a TCPM capacity payment and a resource adequacy capacity payment, (2) the CAISO should not apply the monthly seasonal shaping factors in determining the monthly TCPM capacity payment, and/or (3) the costs of TCPM designations resulting from MOWDs to be allocated in the same manner as the costs of TCPM Significant Event designations, the CAISO respectfully requests rehearing of such findings for the reasons described below.

## **II. BACKGROUND**

On March 28, 2008, the CAISO submitted its TCPM proposal which provides the CAISO with a tariff-based mechanism to permit the CAISO to engage in backstop

capacity procurement under a defined set of circumstances when necessary to meet Reliability Criteria and maintain system operations.

The TCPM is designed to work with the must-offer obligation (“MOO”) that the Commission imposed as a mitigation measure during the 2000 – 2001 California Energy Crisis, as well as with the resource adequacy requirements adopted by the California Public Utilities Commission and other Local Regulatory Authorities. Under the ISO Tariff, the CAISO is to engage in backstop procurement under the TCPM only if it does not have capacity available to meet the reliability need from units that are Resource Adequacy Resources. The CAISO is authorized to grant and revoke waivers of both the Commission-imposed MOO, which applies to FERC Must Offer Generators, and the must-offer requirement for Resource Adequacy Resources.<sup>4</sup> In the event capacity is needed to reliably operate the system, the CAISO is required to grant waivers to FERC Must Offer Generators first, before granting waivers to Resource Adequacy Resources.

On May 30, 2008, the Commission accepted the TCPM tariff filing subject to modification. The Commission directed the CAISO to modify its TCPM proposal by “providing units with a minimum 30-day capacity designation upon the first commitment under the must-offer obligation.”<sup>5</sup> In other words the issuance of a MOWD to a FERC Must-Offer Generator would result in an automatic 30-day designation under the TCPM.<sup>6</sup> In addition, the Commission stated in a footnote that:

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<sup>4</sup> The CAISO has previously filed a Request for Clarification or in the Alternative Waiver, due to a mistake in revoking the waiver of a FERC Must Offer Generator before revoking the waiver of a similarly situated Resource Adequacy Resource.

<sup>5</sup> TCPM Order at P 32. The Commission stated, “we direct the CAISO to make a compliance filing within 30 days of the date of this order with revised tariff sheets that require the designation of a TCPM capacity resource for a (minimum) 30-day period upon the first commitment, i.e. must-offer waiver denial, of a resource under the must-offer obligation.” *Id.* at P 37.

<sup>6</sup> *Id.* at P 37.

In exchange for its commitment to make its capacity available for the first 30 days, the resource should receive payment equal to 1/12 of the appropriately adjusted annual Target Capacity Price per proposed CAISO Tariff section 43.7.<sup>7</sup>

The Commission did not expressly state in the TCPM Order how the costs of TCPM designations resulting from MOWDs should be allocated.

### III. REQUEST FOR CLARIFICATION, OR IN THE ALTERNATIVE, REHEARING

The CAISO respectfully requests that the Commission clarify, or in the alternative, grant rehearing of the following aspects of the TCPM Order:

**A. Capacity Above A Resource Adequacy Resource's Resource Adequacy Capacity That Is Dispatched Through The RTD Process Even Though RA Capacity Was Available To Be Dispatched Should Not Receive A 30-Day TCPM Designation**

In its TCPM filing letter, the CAISO noted that concerns had been raised that application of the Commission-approved RTMA process (which includes a Real Time Commitment ("RTC") process and a Real Time Dispatch ("RTD") process)<sup>8</sup> resulted in FERC Must Offer Generators being committed and dispatched before Resource Adequacy Resources and RMR units that are already under capacity contracts. Some stakeholders pointed to Section 40.7.6 of the CAISO Tariff which provides, "*To the extent conditions permit*, the ISO will revoke the waivers of Resource Adequacy Resources and RCST resources prior to revoking the waivers of other FERC Must-Offer Generators." (Emphasis added.) Although conditions rarely interfere with the CAISO's

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<sup>7</sup> TCPM Order at n.35.

<sup>8</sup> The RTC module of RTMA commits (starts-up) fast start units and looks out over a two hour window to determine what units need to be brought on-line. The RTD module of RTMA dispatches the capacity of the resources that are already on-line (looking over this same time frame) based on Energy bids. The function of the RTMA is to meet forecasted Imbalance Energy Requirements while minimizing the procurement cost. See Section 34.3.

ability to follow this sequence day-ahead, the CAISO's RTMA procedures and software are a condition that does not always allow the CAISO to do so in real-time.

In that regard, with respect to commitments and dispatches of resources under RTMA other Resource Adequacy Resources, RMR units or non-RA units are generally available, but the RTMA software requires that the most economic unit be committed/dispatched even if that means committing/dispatching a FERC Must Offer unit before and Resource Adequacy Resource or RMR unit. Section 34.3 of the CAISO Tariff, provides:

[t]he ISO shall employ a multi-interval constrained optimization methodology (RTD Software) to calculate an optimal dispatch for each Dispatch Interval within a time horizon that shall extend to the end of the next hour. The ISO shall Dispatch resources that have submitted Energy Bid over the time horizon to meet forecasted Imbalance Energy requirements minimizing the Imbalance Energy procurement cost over the entire time horizon, subject to resource and transmission constraints. . . The ISO also shall instruct resources to start up or shut down over the time horizon based on their submitted and validated Start-Up Fuel Costs, Minimum Load Costs and Energy Bids... The ISO shall only start resources that can start within the time horizon”<sup>9</sup>

The RTMA software provides the functionality required by the ISO Tariff by committing/dispatching resources for a capacity deficiency expected in a two hour horizon, based on short term load forecasts and committed capacity, using economic considerations. When operating under the RTMA, the CAISO cannot deny a MOWD to a less expensive non-RA unit prior to a more expensive effective RA unit without violating the requirement for economic commitment/dispatch.

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<sup>9</sup> Section 34.3.0.2(e) provides that the CAISO “shall not discriminate between Generating Units, System Units, Loads, Curtailable Demands, Dispatchable Interconnection schedules and System Resources other than based on price, and the effectiveness (*e.g.*, location and ramp rate) of the resource concerned to respond to the fluctuation in Demand or Generation or to resolve Inter-zonal Congestion.”

During the TCPM stakeholder process, the CAISO indicated that it would investigate the feasibility of implementing potential changes to its RTC application that would reduce the number of commitments of FERC Must Offer Generators pursuant to the RTC. The CAISO determined that it would be feasible to incorporate into the optimization, in time for June 1, 2008 TCPM implementation, proxy values to represent the additional costs paid to the non-Resource Adequacy and non-RMR units which currently are not taken into account in the RTC optimization.<sup>10</sup> Accordingly, the CAISO proposed to revise Section 34.3 to include the following costs in the optimization:

- Adding in the unit's first bid price segment to the Minimum Load Cost. This bid price would be a proxy for the Imbalance Energy price that is paid to a FERC MOO unit for its minimum Load Energy. This reflects the fact that FERC MOO units receive a so-called "double payment" for their minimum load Energy, Minimum Load Cost Compensation plus an Imbalance Energy payment.
- Adding in a value representing an estimate of the daily Must Offer capacity payment. Specifically, the CAISO would use a price equal to 1/8 of the applicable Monthly TCPM Charge.<sup>11</sup>

No party protested this proposal. Further, the May 30 Order did not expressly reject or modify this proposal (although certain modifications must be implemented as a result of the Commission's approval of a 30-day TCPM designation as a result of a MOWD, rather than a daily Must Offer capacity payment).<sup>12</sup>

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<sup>11</sup> The CAISO noted that adding these two cost components into the RTC optimization was appropriate because these are incremental costs that will be incurred if the CAISO were to commit a FERC Must Offer Generator instead of an Resource Adequacy Resource or RMR unit. The CAISO stated that this should result in a significant reduction in MOO commitments in RTC -- a result that would be consistent with the general intent of Section 40.7 that RA and RMR units be committed before the units of FERC Must Offer Generators.

<sup>12</sup> As the CAISO indicates in its compliance filing that is being filed simultaneously herewith, the automatic designation of capacity as the result of a single MOWD requires (1) elimination of the proxy for the Imbalance Energy payment because TCPM resources do not receive a "double payment" for their Minimum Load Energy, and (2) replacement of the daily capacity payment with a monthly TCPM capacity payment.

However, the decision in the May 30 Order that a single MOWD results in a 30-day designation of capacity under the TCPM creates a new -- and significant problem -- similar to that which the CAISO corrected with its modifications to the RTC optimization.

<sup>13</sup> This problem arises due to the existence of a large number of resources that are partial resource adequacy resources, *i.e.*, resources who have a Net Qualifying Capacity that exceeds their Resource Adequacy Capacity amount. Unless the limited modifications proposed herein are adopted, the result could be significant designations of capacity for 30-day periods as the result of the CAISO's RTD software attempting to economically acquire energy for the next two hours (based solely on energy bids) and dispatching the non-RA Capacity of partial RA units before it commits Resource Adequacy Resources or dispatches the Energy of Resource Adequacy Resources that have already been committed (even though the actual incremental cost of committing or dispatching available RA capacity would be less than the incremental cost of dispatching the non-RA capacity of the partial RA unit taking into account the 30-day TCPM capacity payment).

This problem stems from the fact that the RTD software can only treat a resource as a single (or one type of) resource -- either a Resource Adequacy Resource or a FERC Must Offer Generator, but not part one and part the other. Because RTD does not permit the CAISO to "split" the unit into a Resource Adequacy Resource with respect to the Resource Adequacy Capacity and a FERC Must Offer Generator with

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<sup>13</sup> The CAISO did not address the RTD issue in the TCPM amendment filing because, under the RCST, the dispatch of the non-RA capacity of a partial RA resource would not result in a daily Must Offer capacity payment for such capacity. See Section 40.14. The CAISO did not propose to change this aspect of the RCST in the TCPM filing. The issue arises now because of the Commission's decision to reject the daily Must Offer capacity payment tariff language and instead find that a single MOWD results in a 30-day TCPM designation.

respect to the capacity in excess of the RA Capacity amount, the CAISO is unable to incorporate into the RTD software the incremental cost (*i.e.*, the monthly TCPM capacity payment) the CAISO would incur if RTD dispatches the non-RA Capacity of a partial RA Resource.<sup>14</sup> Thus, the RTD optimization could cause the CAISO to dispatch Energy from the non-RA capacity of partial RA units before it dispatches the energy of Resource Adequacy Resources that are already on line or commits short-start Resource Adequacy Resources even though such RA capacity is available (and actually less expensive than the non-RA capacity based on the total incremental cost). This will occur because RTD cannot capture the true incremental cost (*i.e.*, the monthly TCPM capacity payment in addition to the Energy bid) associated with dispatching the non RA capacity of the partial RA resource. This could result in ratepayers paying millions of dollars for TCPM designation costs that are not necessary or appropriate due to the fact that RA capacity was available for dispatch or commitment, but RTD economically dispatched available energy from on-line non-RA capacity because RTD could not account for the TCPM capacity payment associated with the non-RA capacity of the partial RA unit. The concern is magnified in July because there are 67 partial RA units with non-RA capacity totaling approximately 2,695 MWs.

Under these circumstances, the CAISO respectfully requests that the Commission clarify that the non-RA Capacity of a partial RA resource should not receive a 30-day TCPM designation if such capacity is dispatched through the RTD

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<sup>14</sup> The CAISO does not believe that it would be appropriate to include the TCPM capacity payment as an incremental cost for dispatching the entire capacity of the partial RA unit because that would not reflect the true incremental cost of dispatching the RA capacity and could result in other non-RA capacity being dispatched before the RA Capacity or the partial RA resource.

process when RA or RMR capacity was available for dispatch but was not dispatched.<sup>15</sup> As indicated above, RTD dispatches units looking out over a two hour period for system energy needs, and the dispatch decisions are based on economics (Energy bid costs) not reliability *per se*. In that regard, the RTD is expected to dispatch non-RA capacity if its Energy bid is lower, even though RA capacity is available. Absent the clarification requested by the CAISO, however, the CAISO could be required to give a 30-day TCPM designation to the non-RA capacity of a partial RA unit that gets dispatched through the RTD process, even though the dispatch was essentially a dispatch for energy based on economic reasons not reliability reasons, and even though the CAISO had no ability in its software or systems to account for the actual incremental cost (*i.e.*, the monthly TCPM capacity payment) of dispatching the non-RA capacity. This limitation would only apply to dispatches of the non-RA capacity of partial RA units through the RTD process. It would not apply, in instances where the CAISO must manually dispatch or commit such capacity to meet reliability needs, *i.e.*, for local reliability or zonal reasons. Nor would it apply to RTD dispatches of non-RA capacity if no RA or RMR capacity was available for dispatch through the RTD. In those, instances, the MOWDs would result in 30-day TCPM designations. To the extent the Commission believes that some compensation other than an energy payment is appropriate when RTD dispatches the non-RA capacity of a partial RA unit rather than available RA capacity, then the Commission should determine the appropriate level of such compensation. However, a 30-day TCPM designation clearly is not just and

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<sup>15</sup> The CAISO notes that this action is a Dispatch of Energy, not a unit commitment. In that regard, because the unit itself is a Resource Adequacy Resource, the unit will have already been committed and be on-line. The RTD would only be dispatching Energy from the already committed unit in an amount above the RA Capacity amount.

reasonable because, due to the availability of RA or RMR capacity, the non-RA capacity would not have even been dispatched if the CAISO had the ability to “split” the unit in the RTD and reflect the true incremental cost of the dispatch.

The result proposed by the CAISO is consistent with the intent of the May 30 Order. There the Commission recognized that the CAISO should provide a capacity payment to non-RA capacity when the RA program is not able to provide the CAISO with sufficient resource to operate the grid reliably.<sup>16</sup> That is not the case in the circumstances described herein. RA Capacity would be available for dispatch; so, the non-RA capacity would not be dispatched for reliability purposes, it would be dispatched only because its energy cost is less than the energy from the available RA Capacity.

The CAISO also notes that Generating Units can affect the RTD dispatch through their Energy bids. If the Commission were to find that RTD’s dispatch of the non-RA capacity of a partial RA unit results in an automatic 30-day TCPM designation, such Generating Units will be encouraged to submit artificially low Energy bids in order to get dispatched before RA units, thereby earning a 30-day capacity payment. This is an inappropriate and perverse result, but one which the CAISO cannot prevent because the RTD software cannot capture the true incremental cost of dispatching the non-RA capacity. The CAISO would have to make significant changes to its pre-MRTU software and systems to address this issue, and that is not warranted given the cost and time it would take to implement such changes and given the short-term nature of the TCPM. The ISO notes that partial unit issues are addressed in the MRTU systems and software.

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<sup>16</sup> May 30 Order at P 36.

The CAISO requests that the Commission expeditiously act on this aspect of the CAISO's Request for Clarification, Or In The Alternative, Rehearing. An expedited decision is necessary so that CAISO grid operators will be able to make informed decisions this summer about the commitment and dispatch of resources and know what the ramifications of their decisions are. The ultimate resolution of this issue will dictate how the CAISO dispatches partial RA capacity following an initial commitment (start-up) by RTC and determine whether or not the CAISO treats the non-RA portion of this capacity as TCPM capacity or FERC MOO capacity following such dispatches. It will be difficult to "unwind" these decisions at a later date; so, the CAISO, requests that the Commission promptly issue a decision on this one issue. Given the large number of partial RA units starting in July, this will significantly impact commitment and dispatch decisions and could have significant cost implications.

**B. Resources Receiving An Automatic 30-Day TCPM Designation Cannot Be Both TCPM Resources And RA Resources And Should Not Receive Double Capacity Payments**

The TCPM Order does not appear to address the circumstance in which a FERC Must Offer Generator that is granted a MOWD becomes a Resource Adequacy Resource during the 30-day designation period.<sup>17</sup> The CAISO requests that the Commission clarify that if a FERC Must Offer Generator that is issued a MOWD becomes a Resource Adequacy Resource during the 30-day designation period, the TCPM designation will expire on the date that the resource becomes a Resource

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<sup>17</sup> Since the inception of the RA program, there have been numerous instances where a resource is a FERC Must Offer Generator one month and becomes a Resource Adequacy Resource the next month.

Adequacy Resource, and the TCPM capacity payment will be pro-rated accordingly. Absent such clarification, the resource would inappropriately receive a double payment for its capacity (as well as double payments for its minimum load and start-up costs) because it would be under an offer obligation as a Resource Adequacy Resource and a TCPM designated resource at the same time.

Under the RCST that preceded the TCPM, the capacity of Resource Adequacy Resources was not eligible to be designated as RCST capacity during the time that the resource's capacity was identified on a Resource Adequacy Plan. The CAISO did not modify this concept when it filed the TCPM. Specifically, in the TCPM tariff amendment filing, the CAISO retained the RCST's definition of "Eligible Capacity" -- that is capacity eligible to be designated under the TCPM -- which explicitly excludes resources that are under an obligation to offer their capacity to the CAISO, including Resource Adequacy Resources. In that regard, the definition of "Eligible Capacity" provides:

Capacity of Generating Units of Participating Generators located within the ISO Control Area except the following: capacity associated with hydroelectric generation, nuclear generations, QFs, generation resources within a Metered Subsystem, resources owned by the California Department of Water Resources, State Water Project; capacity of a Generating Unit with a Reliability Must-Run contract, during the term of such contract; ***capacity of a Resource Adequacy Plan in accordance with Section 40, during the time that such capacity is identified on the Resource Adequacy Plan*** and capacity that has been designated to provide service under the TCPM, during the term of the designation.<sup>18</sup>

The Commission did not modify the definition of Eligible Capacity in its TCPM Order. Thus, the TCPM tariff language approved by the Commission provides that capacity that is identified on a Resource Adequacy Plan is ineligible to be TCPM capacity during the time that the resource's capacity is identified on the Resource Adequacy Plan. The

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<sup>18</sup> See Master Definition Supplement, Appendix A (emphasis added).

intent of this specific provision is to limit the designation of Eligible Capacity to resources that, *inter alia*, do not have other capacity contract arrangements and obligations, are not already committed under the ISO Tariff and which are not already receiving a capacity payment. If a resource is already committed as a Resource Adequacy Resource, then it is *per se* excluded from the definition of Eligible Capacity and cannot be designated under the TCPM for an overlapping period.

The Commission's determination that issuance of a MOWD to a FERC Must Offer Generator results in an automatic 30-day TCPM designation potentially conflicts with the Commission-approved definition of "Eligible Capacity." For example, assume Unit A is not identified as a Resource Adequacy Resource in a Load Serving Entity's monthly plan for June but is identified as a Resource Adequacy Resource in the monthly plan for July. If the CAISO issues a MOWD to the unit on June 30, under the TCPM Order, the unit would be a TCPM resource for the next 30 days. This would result in the unit receiving a double capacity payment (as well as double start-up and minimum load payments) for virtually the entire month of July.

The CAISO submits that a unit which is already identified as a Resource Adequacy Resource in the Monthly Resource Adequacy Plan for the month following the month in which the resource received the MOWD should not also be considered "Eligible Capacity" and be designated and paid as a TCPM unit at the same time. Not only is it inequitable for a unit to receive double capacity, start-up and minimum load payments, but also it is inconsistent with the tariff language that the Commission approved for both the TCPM and the RCST. The Commission's intent was to treat resources that receive MOWDs similar to Resource Adequacy Resources that receive a

monthly capacity payment to “ensure non-discriminatory treatment between both resource adequacy resources and units under RMR contracts, on one hand, and non-resource adequacy resources on the other hander.”<sup>19</sup> Paying a FERC Must Offer Generator that becomes a Resource Adequacy Resource a double capacity payment is inconsistent with this intent and could result in discriminatory treatment given that Resource Adequacy Resources are only eligible to receive one capacity payment.

Accordingly, the CAISO requests that the Commission clarify that a FERC Must Offer Generator that receives an MOWD and which is listed on the Resource Adequacy Plan as a Resource Adequacy Resource during the 30-day designation period, will no longer be treated as a TCPM resource beginning on the effective date that the resource becomes a Resource Adequacy Resource. Consequently, the monthly TCPM capacity payment would be prorated (as a percentage of 30 days) based on the actual number of days the resource was a TCPM resource.

### **C. Determination of Appropriate Payment for Designated Unit**

The CAISO requests that the Commission clarify its statement in footnote number 35 of the TCPM Order that a unit designated for 30 days as the result of a MOWD will receive a payment equal to 1/12 of the appropriately adjusted annual target capacity price proposed in the ISO Tariff. Under the RCST previously approved by the Commission, and as proposed by the CAISO in the TCPM filing, the monthly capacity charge is not based on 1/12 of the annual target capacity price. Rather, the monthly charge is calculated by multiplying the unit’s Availability Factor by the *monthly seasonal shaping factors* and by the target annual capacity price and then adjusting for the Peak

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<sup>19</sup> TCPM Order at PP 32, 36.

Energy Rent (“PER”).<sup>20</sup> The monthly shaping factors take into account seasonal variation in determining the appropriate price for capacity. As described in the CAISO’s

TCPM filing letter:

Under TCPM, a PER would be deducted from the capacity payment as is currently done under the RCST.<sup>21</sup> Further, the CAISO is not proposing to change how the PER is currently calculated under RCST. Rather, the CAISO proposes to continue using the hypothetical proxy unit that is used to determine the PER in the current RCST (with a heat rate of 10,500 BTU/kWh).<sup>22</sup> Also, the CAISO is also not proposing to change the availability factor and monthly shaping factors that are contained in the RCST.<sup>23</sup>

In the TCPM Order, the Commission did not reject the monthly shaping factors previously approved for the RCST and retained by the CAISO in Appendix F, Schedule 6 of the ISO Tariff. The monthly shaping factors set forth in the ISO Tariff apply to all TCPM designations. The statement in footnote number 35 is inconsistent with these tariff provisions.

The CAISO respectfully requests that the Commission clarify whether, for TCPM designations resulting from MOWDs, the Commission intended to modify the monthly seasonal shaping factors retained by the CAISO and instead pay TCPM resources a monthly capacity payment based on a flat 1/12 of annual target capacity price. The CAISO notes, that as is the case for TCPM Significant Event Designations that can occur in the middle of a month, the actual “monthly” payment to a resource in

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<sup>20</sup> See Appendix F, Schedule 6 (emphasis added).

<sup>21</sup> See section 40.14 and Appendix F, Schedule 6.

<sup>22</sup> RCST Settlement Order at PP 86-89, *order on reh’g*, RCST Rehearing Order at P 30.

<sup>23</sup> RCST Settlement Order at PP 97-99, *order on reh’g*, RCST Rehearing Order at P 34-36.

connection with a MOWD TCPM designations will be pro rata based on the number of days the resource was designated during the month.

#### **D. Cost Allocation for 30-Day MOWD Designations**

The TCPM Order does not expressly specify how the CAISO should allocate the costs associated with TCPM designations that result from MOWDs. The two primary options include: (1) allocating the costs in accordance with the approved methodology for allocating the costs of TCPM Significant Event designations;<sup>24</sup> or (2) allocating the costs in a manner consistent with the methodology for allocating must-offer minimum load compensation costs (as approved in the Amendment No. 60 proceeding) and the Must Offer Obligation daily Capacity payment under the RCST. As discussed below, the CAISO believes that the latter approach is more reasonable. Briefly, for a Significant Event, the CAISO has a reasonable expectation that the reason/event that triggered the designation will continue for the expected duration of the designation. However, this is not the case where the CAISO must procure capacity for a 30-day period based on a single MOWD, the reason for which may not continue for the duration of the designation period.

In the CAISO's "Amendment No. 60" filing in Docket No. ER04-835-000 the CAISO proposed, and the Commission approved, a methodology to allocate minimum load costs based on the reason the unit was committed, *i.e.*, for system-wide, zonal, or

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<sup>24</sup> According to Section 43.8 (5) of the ISO Tariff, if any TCPM Significant Event designations are made under Section 43.4 of the Tariff, then CAISO would allocate the costs of such designations to all Scheduling Coordinators for LSEs in the Transmission Access Charge ("TAC") Area(s) in which the TCPM Significant Event caused or threatened to cause a failure to meet Reliability Criteria. California Independent System Operator Corporation, FERC Electric Tariff, Third Replacement Volume No. 1, Section 43.8 (5). This methodology was not modified by the Commission in its TCPM Order.

local reasons.<sup>25</sup> In its Order on the RCST Settlement, the Commission found that it was just and reasonable to allocate Must Offer Capacity Payment costs in the same manner as minimum load costs because Must Offer Capacity payment costs are incurred for the same reasons as Minimum Load Costs.<sup>26</sup> Because the TCPM Order did not specify a particular method for allocating the capacity costs associated with TCPM designations that result from MOWDs, , in the compliance filing being made today in this docket, CAISO is proposing to utilize the Amendment No. 60 approach for TCPM designations as a result of MOWDs. Specifically, the CAISO proposes to classify the TCPM capacity costs *pro rata* as either local reliability costs, zonal costs, or Control-Area wide costs, respectively, based on the number of hours that the TCPM resource was on a MOWD for local, zonal or Control-Area wide reasons. Once the costs are classified as local reliability costs, zonal costs or Control-Area wide costs, they will then be allocated in accordance with Section 40.6B.5 (*i.e.*, in the same manner as Un-Recovered Minimum Load Costs). The CAISO requests that the Commission clarify, or find on rehearing, that this is a just and reasonable methodology for allocating the costs of MOWD designations.

The CAISO submits that the cost allocation methodology approved in the Amendment No. 60 proceeding is similarly appropriate for allocating the costs of automatic 30-day TCPM designations resulting from MOWDs. This methodology meets the Commission's longstanding cost causation principles,<sup>27</sup> is straightforward and not

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<sup>25</sup> *Cal. Indep. System Operator, Inc.*, Opinion No. 492, 117 FERC ¶ 61,348, *order on reh'g*, 117 FERC ¶ 61,193 (2007).

<sup>26</sup> *Independent Energy Producers Association v. California Independent System Operator Corporation*, 118 FERC ¶ 61,096 at P 125 (2007).

<sup>27</sup> The Commission has followed a longstanding principle of cost causation:

burdensome to administer, and ensures that those customers who benefit from the designation during its term bear the costs of the designation. As the Commission has stated, “CAISO’s three bucket approach will result in a more appropriate matching of costs incurred to the customers who are responsible for imposing the costs or received benefits from the expenditure of those costs.”<sup>28</sup>

With regard to a TCPM designation resulting from a MOWD, the initial reason for the MOWD may have been the result of a local factor. However, this local issue may be resolved quickly – potentially in less than a day. During the remainder of the designation term the resource may be committed to resolve local, zonal or even CAISO system-wide needs. Thus, a designation that results from a MOWD is potentially distinguishable from the situation that would result in a TCPM Significant Event designation whereby the underlying cause of the designation is expected to be more longstanding and, thus, allocating the costs to the TAC area in which the event

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Despite the profusion of allocation methods we employ, there is a common thread that ties them together. That thread is the concept of cost responsibility or cost incurrence. Each of the methods attempts to allocate costs to the group of ratepayers in question on the basis of the causal link between the service the company provides them and the expenses the company reports.

*Pennsylvania Power and Light Co.*, Opinion No. 176, 23 FERC ¶ 61,395 at 61,850 (1983). “As a general matter, the Commission believes that the entities that cause costs should pay for such costs.” *California Indep. Sys. Operator Corp.*, 108 FERC ¶ 61,022 at P 62 (2004) (footnote omitted). An entity may be deemed to have caused costs either if it is directly responsible for imposing the cost burden at issue or if the entity benefits from the cost incurrence. For example, in *California Power Exchange Corp.*, 106 FERC ¶ 61,196 at P 17 (2004), the Commission stated: “The well-established principle of cost causation requires that costs should be allocated, where possible, to customers based on customer benefits and cost incurrence. See also *Midwest ISO Transmission Owners v. FERC*, 373 F.3d 1361, 1368 (D.C. Cir. 2004) (citing *KN Energy, Inc. v. FERC*, 968 F.2d 1295, 1300 (D.C. Cir. 1992), and holding that court evaluates compliance with cost causation principle “by comparing the costs assessed against a party to the burdens imposed or benefits drawn by that party.”). See also, *Midwest Independent Transmission System Operator, Inc.*, 108 FERC ¶ 61,163 at P 587 (2004); *California Independent System Operator Corp.*, 103 FERC ¶ 61,114 at P 20-26 (2003); *Pacific Gas & Electric Co.*, 100 FERC ¶ 61,160 at P 15 (2002); *California Independent System Operator Corp.*, 99 FERC ¶ 63,020 at 65,109-11 (2002); *Midwest Independent Transmission System Operator Inc.*, 98 FERC ¶ 61,141 (2002).

<sup>28</sup> Opinion No. 492 at 19.

occurred and is expected to continue to occur is more appropriate. However, that is not the case with a TCPM designation resulting from a MOWD where the unit potentially could be used for a number of different reliability reasons during the 30-day designation period. During this 30-day period, the CAISO will have to track the reasons why the unit is committed (*i.e.*, denied a waiver) each day during this period in order to allocate the Un-recovered Minimum Load Costs resulting from such commitments. It logically follows that the CAISO should allocate the resulting TCPM capacity costs in a manner similar to how it will allocate these Un-recovered Minimum Load Costs, namely, a *pro rata* allocation of capacity cost based on the number of hours that the resource was on a must offer waiver denial for local, zonal and system reasons during the designation period.

Accordingly, the CAISO respectfully requests that the Commission find that the cost allocation methodology approved in the Amendment No. 60 proceeding -- and reflected in the CAISO's compliance filing herein -- is similarly appropriate for allocating the capacity costs resulting from MOWD TCPM designations.

## V. CONCLUSION

For the reasons discussed above, the CAISO requests that the Commission grant the requests for clarification, or in the alternative, rehearing, as set forth above.

Respectfully submitted,

*/s/ Anthony J. Ivancovich*

Nancy Saracino, General Counsel  
Anthony J. Ivancovich, Assistant General  
Counsel  
The California Independent System  
Operator Corporation  
151 Blue Ravine Road  
Folsom, CA 95630  
Tel: (916) 351-4400  
Fax: (916) 351-4436

David Rubin  
Troutman Sanders LLP  
401 9<sup>th</sup> Street, N.W.  
Washington, D.C. 20004  
Tel: (202) 274-2964  
Fax: (202) 654-5636

Counsel for the California Independent  
System Operator Corporation

Dated: June 30, 2008

## CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for the captioned proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 30<sup>th</sup> day of June, 2008.

*1st Anna Pascuzzo*

Anna Pascuzzo