UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	**)** **)**	**Docket No. ER10-1998-000**

ANSWER OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
TO COMMENTS

Pursuant to Rule 213 of the Federal Energy Regulatory Commission's (Commission) Rules of Practice and Procedure, 18 C.F.R. § 385.213 (2009), the California Independent System Operator Corporation (ISO) hereby files an answer to comments submitted by intervening parties[1] in response to the ISO's July 27 tariff amendment in the above captioned proceeding (July 7 Filing). As explained below, the Commission should accept the July 27 Filing as filed and with the additional clarifications the ISO provides in response to comments as discussed further herein.

I. BACKGROUND

On July 27, 2010, the ISO filed with the Commission an amendment to the ISO FERC Electric Tariff to modify its price correction timing provisions. In this amendment, the ISO proposes to limit the timeframe that it can change posted prices to five days, unless the Commission orders otherwise. In addition, the ISO

[1] The following parties intervened and filed comments: Powerex Corp.; Pacific Gas and Electric Co. (PG&E); and Dynegy Morro Bay LLC. The following parties also intervened but did not file comments or protests: Modesto Irrigation District; Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside; and California Department of Water Resources State Water Project.

proposes to include additional detail in its tariff setting forth the ISO's ability to rectify price processing or publication issues within a limited time, as specified in its Business Practice Manual (BPM), after which time all posted prices will remain the same unless otherwise ordered by the Commission. The amendment provides market participants the price certainty they have requested, while providing a reasonable time frame within which the ISO can change posted prices to ensure that such market prices are consistent with the ISO's filed tariff.

Under the ISO's current market design, before and after the ISO has posted prices, the ISO performs a price correction process to evaluate, validate, and correct prices to ensure that market settlement is consistent with the ISO tariff. The ISO makes all reasonable efforts to ensure that prices published on OASIS and the CAISO Market Results Interface (CMRI) and used for settlement and billing are calculated accurately, reflect all pertinent operational data and system conditions, and are consistent with ISO tariff provisions. All financially binding prices produced by the ISO day-ahead and real-time markets are subject to the price correction process. Price corrections and price changes may occur within a price correction process time horizon, which currently consists of a period of five calendar days after the relevant trading day. After the time horizon has expired, the ISO has only limited authority to adjust, recalculate, or otherwise correct prices.[2]

After the ISO had several months of experience with the new market design, the ISO commenced a thorough review and evaluation of its price correction process and overall market performance. Stakeholders also indicated in various

[2] These requirements are specified under the ISO tariff Section 35, that was accepted by the Commission on June 20, 2008.

stakeholder forums, as well as at the ISO's regularly held Board of Governors meetings, that they highly value price certainty in the ISO's markets and are averse to price changes that occur beyond the price correction time horizon.

The ISO undertook the post-five day price correction process stakeholder initiative primarily to address market participants' concerns about price corrections and their desire for greater price certainty. Based on stakeholder feedback, the ISO recognized that price corrections after the five-day price validation window hamper participants' shadow settlement efforts and complicate the settlement of their bilateral arrangements that often utilize ISO market prices. In light of these issues, the ISO worked with stakeholders to revise the price correction process time line in a manner that better addresses these concerns.

II. ANSWER

A. The Proposed Price Corrections Time Horizon Tariff Structure Appropriately Addresses and Balances the Competing Interests Raised in the Preceding Stakeholder Process.

Pacific Gas & Electric Co. (PG&E) requests that the Commission require the ISO to modify its tariff so that the ISO cannot shorten the time frame for price corrections to less than the five-calendar day period it is proposing herein without a subsequent tariff change approved by the Commission. In its July 27 Filing, the ISO proposed to shorten the time period from the current maximum of eight calendar days to five calendar days. The ISO proposes to retain the same tariff and BPM structure that is in place today. Under that structure, the tariff sets forth the maximum number of days within which the ISO may make a price correction, but allows for a shorter time period if specified in the ISO's BPMs.[3] The ISO believes this proposed framework provides the most equitable balance between the competing stakeholder interests that were apparent during the stakeholder process. In that regard, stakeholders expressed an overall preference to a shortened price correction time horizon, recognizing that the time period should be set to ensure sufficient time for the ISO to successfully complete price validation and any necessary price corrections.

The ISO agrees with PG&E that, based on the ISO's current abilities to correct prices and stakeholders' strong preference for price certainty after prices have been published, the proposed maximum of five days time horizon strikes the proper balance between the need for accurate prices on one hand, and the need for price certainty, on the other. During the stakeholder process, in accepting the five day time period, however, stakeholders also requested a commitment by the ISO to endeavor to further shorten that time period over time. Accordingly, the ISO committed to continue to evaluate on a yearly basis the possibility of moving towards a shorter time period.[4]

PG&E's request that the ISO hardwire the price correction time horizon was not raised until the policy development phase of the stakeholder process had ended and the ISO was conducting its tariff stakeholder process, *i.e.,* after the ISO had already made its commitment during the policy development stakeholder process. The ISO believed that it's acceptance of PG&E's proposed tariff modification would have signaled a change in the ISO's commitment, and could have undermined the

---

3 See proposed amendments to Section 35.3.

4 *See* ISO Business Practice Manual for Market Operations Section 8.1.6.2.

broad support the ISO had garnered for its overall proposal because the ISO's commitment to continue to evaluate shortening the time period.

The ISO notes that the framework the ISO proposed on July 27 -- which mimics the existing tariff and BPM framework -- provides PG&E and other stakeholders due process to consider the merits of shortening the time frame. The time frame can only be shortened through a modification of the ISO BPM, which is subject to a robust stakeholder process. In considering a shorter time frame each year, the ISO will ensure that, if based on stakeholder input shortening the time frame does not strike an appropriate balance of the competing interests the ISO will retain the existing time frame.

Nevertheless, the ISO does not fundamentally oppose PG&E's request, with the understanding that the ISO will retain its commitment to evaluate the price correction time horizon on a yearly basis as reflected in the BPM for Market Operations. Therefore, if the Commission accepts PG&E's proposal, the ISO will submit the modified tariff sheets in a subsequent compliance filing consistent with the Commission's order.

B. The Proposed Twenty-Day Time Period to Correct Proccessing and Publication Issues Experienced Further Strikes the Proper Balance Between the Competing Interests

In reviewing the changes made to published prices under the ISO's new Locational Marginal Pricing market design, the ISO determined that the bulk of changes made after the five day price correction time horizon were as a result of a failure to successfully publish a corrected price within the five day window. The ISO discussed the issues that led to the incorrect postings during the stakeholder process. The ISO explained in great detail that as a result of the price corrections processing and publications procedures it must follow, it is not possible to resolve such problems within the five day time horizon. Under its current procedures, processing and publication issues cannot be detected until after corrected prices have been published. At this time, this occurs approximately six days after the trading day. The ISO has developed and is testing certain procedures that will verify any discrepancies between published prices and prices pushed through to its settlements systems. This verification process cannot, or course, commence before the sixth business day and at this time the ISO is able to conduct this procedure at approximately ten business days after the trading day. Subsequently, if the ISO identifies a discrepancy, depending on the type of prices affected, the ISO must find a way of republishing such prices. Accordingly, the ISO established through the stakeholder process that currently the 20 business days is the minimum amount of time it requires to ensure that posted prices will reflect corrections and will be consistent with the prices pushed to settlements.

Powerex opposes the ISO's proposal and asks the Commission to direct the ISO to modify its proposed twenty-day timeline for correcting processing or publication issues to a period closer to the five-day price correction time horizon. Powerex does not propose a specific time frame, but comments that the twenty-day price correction timeline for processing or publication issues will unnecessarily perpetuate some of the existing uncertainty the ISO seeks to eliminate in this proceeding. The ISO disagrees that its proposal unnecessarily or arbitrarily extends any price uncertainty. Rather, as discussed above, the ISO's proposal provides for a limited and prudent amount of time during which the ISO can correct such publication issues and ensure that posted prices and settlements are consistent.

Given the limited number of these occurrences over time and the limited scope of their impact, the price uncertainty presented by the ISO's proposal is minimal. While Powerex notes that from time-to-time it observes discrepancies in the ISO's pricing relative to its settlement statements, over the past six months, only 0.4 percent of all hours (i.e., 18 out of 4320) were affected by such publication issues. The limited occurrence of such events provides a sufficient level of confidence that the twenty-day time period does not substantially increase price uncertainty. As a result, all other stakeholders do not object to the ISO's proposal, as is evidenced by the lack of any other protest on this issue.

In any case, the ISO does not intend to retain the twenty-day time period in perpetutity. Rather, the ISO has already begun undertaking efforts to identify any issues within a shorter period of time, and expects that by the end of the year, the ISO will be able to correct such publication or processing issues within a shorter period of time.[5] Powerex states requests that the Commission direct the ISO to make a filing with the Commission by December 1, 2010, providing information on its progress and indicating the time window it expects to adopt for correction of prices due to processing and publication issues. The ISO does not object to such a report, but believes December 1, 2010, is too soon.

To provide such validation in its report, the ISO must first identify the occurrence of such issues. As evidenced by the fact that only 0.4 percent of the

---

[5] July 27 Filing Transmittal Letter at pp. 6-7.

hours over the past six months were affected by this issue, three months may not be enough time for such issues to actually materialize. Therefore, the ISO requests that were the Commission to require such a report, the report should be based on at least six full months worth of experience. In that report, the ISO could provide its assessment of the feasibility of a shorter time period, and if appropriate would submit appropriate tariff language to reflect a shortened time period.

Finally, Powerex seeks confirmation that "that the only prices that can be used for settlements are the prices posted on OASIS, subject to price correction timelines proposed in this docket."[6] The ISO stated in its Transmittal Letter that "[a]fter 20 business days, if there is still a discrepancy between the published prices and the prices used for settlements, the ISO will adjust the settlement prices to reflect the prices posted on OASIS for the applicable intervals." The ISO submits that the Commission can confirm this as it is clearly stated in the ISO's transmittal letter.

C. The ISO's Proposal Unambiguously Eliminates Uncertainty Regarding Post-Five Day Price Corrections by Eliminating the Authority for Such Corrections Unless Ordered By FERC

Dynegy attempts to create the false impression that the ISO's proposal as to when the ISO will correct prices after the five day price correction time horizon is vague.[7] The proposed language in Section 35.3 clearly states that the ISO will not make any price corrections beyond the price correction time horizon unless ordered by the Commission. There is nothing vague about the ISO's proposed tariff

[6] Powerex Comments at p. 6.

[7] *See* Dynegy Comments at p. 3.

amendment. The ISO cannot correct prices after the five day period unless the Commission directs it to do so. The Commission should accept the proposed tariff revisions as filed.

Dynegy also attempts to create the false impression that the ISO does not strive to adhere to its tariff and is unwilling to be transparent in the face of market issues that give rise to tariff compliance issues.[8] Dynegy reminds the ISO of its obligation to apply the filed rate and to correct prices that do not reflect the operation of its market rules and suggests that the ISO's is attempting to "side-step that requirement by creating an open-ended price-correction policy that, in effect, renders that obligation ineffective."[9] Dynegy has no evidence -- nor can it -- to support its gross mischaracterization of the ISO's practices. Dynegy's assertions are unfounded as demonstrated by Dynegy's failure to provide any corroborating evidence to support its assertions and the fact that no other market participant has joined Dynegy in its comments.

Rather, the support the ISO has garnered for its proposal to eliminate changes beyond the price correction time horizon is a direct result of both the ISO's efforts in the robust stakeholder process that preceding this filing and its significant interaction with stakeholders in previous daily, weekly and now bi-weekly market issues conference calls, regulary market performance meetings, and stakeholder meetings to address new market enhancement initiatives over the past year and a half. The ISO has worked tirelessly to (1) continuously address in significant detail market issues encountered over time, (2) provide in depth analysis of their impacts,

---

8 *See* Dynegy Comments at pp. 3-4.

9 See Dynegy Comments at p. 4.

and (3) provide information allowing market participants to judge for themselves the performance of ISO markets.

Dynegy is inappropriately attempting to expand the scope of this proceeding to tariff compliance matters, unrelated to the merits of the instant tariff amendment. However, Dynegy fails to provide one iota of evidence to support its position that additonal requirements need to be imposed on the ISO. Nor does Dynegy provide a single example where the ISO failed to provide adequate information to market participants regarding a market issue that resulted in a tariff compliance issue.

Indeed, the past year's experience in the ISO's markets contradicts Dynegy's assertions. The ISO has diligently and expeditiously sought to deal with market issues as they have arisen in an open and transparent manner. After implementation of a new market design, as can be expected, it is not unusual that a market operator identify errors or software issues that result in market outcomes that are not as anticipated under the filed tariff. The ISO has identified such issues and has worked expeditiously to resolve these issues. Moreover, for each instance, subject to confidentiality requirements, the ISO has provided a technical bulletin to explain both the market issue and the impact these issues have had on the market. The ISO has advised the market when it has determined the need to correct prices outside the price correction time horizon and has consistently taken appropriate actions to deligiently report such events.[10] Furthermore, the ISO has taken all appropriate regulatory actions to ensure compliance with the filed rate. Dynegy's bald assertion that the ISO will cease to operate in this transparent manner is

[10] *See* List and Link to Technical Bulletins: http://www.caiso.com/2381/2381f87327f70.html.

unfounded and provides no basis for the Commission to expand the scope of this proceeding.

Dynegy also fails to demonstrate how its proposed additional requirements would actually provide more transperancy in price corrections beyond the five day price correction time horizon. Indeed, Dynegy's proposal seems to raise additional questions that actually undermine the policy developed through the stakeholder process. For example, Dynegy requests that the Commission require the CAISO "to disclose all instances of prices not calculated in accordance with its approved tariff discovered outside of the five-day price correction window."[11] This request suggests the need for the ISO to continuously validate on an ongoing basis all prices to ensure complete perfection and accuracy. It is not clear how such continuous validation promotes the much sought after price certainty in the ISO markets. Instead, such a requirement places more importance on the quest for the best price rather than price certainty, which is inconsistent with the balance stakeholders sought during the stakeholder process. Maybe that is why no other intervenor supports Dynegy's position. If the market valued perfect accuracy over certainty, then why did stakeholders overwhelmingly request that the ISO shorten the price correction time horizon -- a result that stakeholders were well aware would sacrifice fully knowing some additional degree of accuracy in order to ensure price certainty within the designated time frame proposed herein.

The purpose of this initiative and the current filing is not to effectuate whole cloth changes to the price corrections process at the ISO. Rather, it is to provide more price certainty by eliminating any confusion that may currently exist regarding

[11] Dynegy Comments at p. 4.

when the ISO will make price corrections beyond the five-day price correction time horizon. Under the ISO's current price correction tariff authority, the ISO conducts the review and validation of prices within the five day price correction time horizon. The ISO does not conduct such price validations beyond that time period and the ISO does not conduct a stakeholder process to determine whether its price corrections are justifiable. Within the price correction time frame, if the ISO identifies an error, the ISO corrects the prices provided it is feasible to do so. The ISO is not proposing any tariff changes to the rules contained in Sections 35.1 and 35.2, which deal with the current price correction process within the five day time period. In other words, the ISO is not proposing any changes to its price corrections process that would require it to conduct price validation beyond the five-day price correction time horizon as suggested by Dynegy. Nor did the stakeholder result yield such a change.

Dynegy states it "values price certainty, but not to the exclusion of accuracy."[12] In so doing, Dynegy suggests that the ISO would forgo accuracy and the application of its filed rate simply in all cases. Dynegy fails to provide any evidence to support its claim that the ISO will not provide adequate transparency into market issues that may impact prices. In addition, Dynegy fails to demonstrate how simply flagging these prices provides market participants with more information than the ISO has provided in its technical bulletins and will continue to provide when faced with market issues.

Indeed, when market issues occur, the ISO takes considerable steps to evaluate the impact to the best of its abilities. If the ISO were required to expend

[12] Dynegy Comments at p. 3.

such resources on every possible issue that may have absolutely no market impact, ISO staff would be dragged into a quagmire, and resources would unnecessarily be detracted from issues that do have material impact. Similarly, frequent notices of potentially erroneous prices beyond the five day price correction time horizon could result in an increase in frivilous claims, thereby creating even greater price uncertainty than exists today. The ISO and stakeholders considered many of these same questions during the stakeholder process, and the ISO's proposal offered the most balanced approach. That is why it has broad stakeholder support.

Dynegy argues that if the Commission does not compel the ISO to publish all such prices, it should require the ISO "to specify in its tariff (1) what constitutes a "material financial impact" that would warrant disclosing prices not calculated in accordance with its approved tariff beyond the five-day price correction window and (2) under what conditions it would publish a bulletin explaining, in detail, how prices were affected."[13] Having participated in the stakeholder process and given its own recitation of the difficulties in finding a one size fits all bench mark for such matters, Dynegy is well aware of the difficulties in coming up such a standard. Dynegy can only ask this question rhetorically because it it is well aware that the difficulty in coming up with a standard for changes beyond the five day price correction time horizon is what led to the stakeholder consensus for a policy that simply prohibits changes beyond the price corrections time horizon. In any event, the ISO's tried procedures for dealing with market issues have proven to be practical and useful in disclosing all matters that impact the market materially, including those that create a tariff compliance issue.

[13] Dynegy Comments at p. 5.

Dynegy's requests if granted would unravel the balance struck through the stakeholder process preceeding this filing, which is the foundation for the ISO's post-five day process carefully constructed in light of the overwhelming requests for increased price certainty. Dynegy's proposal will force participants to again consisder the increased potential that the ISO is forced to correct prices *ad infinitum*. Certainly, this would defeat the purpose of the hard deadline for price corrections beyond the five-day price correction time horizon. Instead, the ISO's proposal offers a just and reasonable solution to these difficult questions.

III. CONCLUSION

For the reasons provided herein, the Commission should accept the tariff revisions as submitted by the ISO in the July 27 Filing, with the additional clarifications discussed herein.

Respectfully submitted,

/s/ Anna McKenna

Nancy Saracino
General Counsel
Anthony Ivancovich
Assistant General Counsel – Regulatory
Anna A. McKenna
Senior Counsel
The California Independent
System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400
Fax: (916) 608-7296
amckenna@caiso.com

Attorneys for the California Independent
System Operator Corporation

Dated: September 1, 2010

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service lists for 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 Folsom, CA this 1st day of September, 2010.

/s/ Jane Ostapovich
Jane Ostapovich