



August 17, 2005

Mr. Jerry Royer  
Program Technician, Energy Division  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102

Re: Draft Resolution E-3943

Dear Mr. Royer:

The California Independent System Operator Corporation (“CAISO”) writes in response to draft Resolution E-3943 (“Resolution”). The Resolution proposes to direct (1) Southern California Edison (“SCE”) and Pacific Gas and Electric Company (“PG&E”) to develop, in cooperation with the CAISO, a new operating procedure to mitigate congestion by influencing procurement and scheduling activities through the use of effectiveness factors and (2) to work with the CAISO to identify any potential new resources or capacity that can be added to CAISO Operating Procedure M-438. While the CAISO greatly appreciates the Commission’s conscientious, proactive efforts to promote grid reliability as well as reduce the burden and costs associated with real-time congestion management, the CAISO requests that the Commission either withdraw the Resolution without prejudice or defer its consideration until, or if, the CAISO indicates that additional interim operating procedures are warranted to comply with the intent of Decision (“D.”) 04-07-028. As discussed further below, the CAISO makes this request based on:

- Many of the system conditions that prompted D.04-07-028 no longer prevail. Transmission upgrades in Southern California have significantly reduced the magnitude and cost of intra-zonal congestion, including costs associated with CAISO must-offer waiver denials and out-of-sequence (OOS) energy dispatches.
- The procedures adopted in E-3910 for San Diego Gas & Electric Company (“SDG&E”) are most useful to mitigate highly predictable patterns of intra-zonal congestion. PG&E’s service territory currently lacks such predictability. Similarly, the transmission upgrades mentioned above have altered the predictability of congestion in much of SP15, injecting uncertainty as to the likely utility of the proposed operating procedure at this time and under current system conditions.
- The CAISO’s implementation of Phase 1B of its market redesign effort has enhanced the management of real-time dispatches.
- The procedures developed in compliance with D.04-07-028 were intended by the Commission to serve as a “bridge” until longer-term solutions, such as resource adequacy requirements, are implemented. Based on the anticipated implementation date of June 2006 for local capacity requirements, the CAISO questions the practicality

of developing, implementing, and, for the effected utilities, obtaining federal cost recovery during the interim period. However, if the upcoming Phase 2 resource adequacy decision does not adequately address local reliability concerns, the CAISO would reevaluate the need to augment existing operating procedures.

- The Resolution is unnecessary to ensure appropriate development of existing M-438.

On December 23, 2004, the CAISO wrote in support of SDG&E's Advice Letter 1641-E, which proposed to utilize effectiveness factors and estimated path-specific congestion cost signals to determine whether to replace a schedule that may contribute to a congested path with an alternate resource(s) that would mitigate the congestion. The CAISO stated that the theory underlying the SDG&E's proposal was sound and that it was likely to foster more feasible scheduling. This was particularly true under the conditions faced by SDG&E. SDG&E was, and had been, experiencing chronic, highly predictable congestion at its Miguel Substation and existing Reliability-Must-Run designations in SDG&E's service territory subsumed the generation capacity requirements for SDG&E's M-438 Local Capacity Commitment Area. As such, the CAISO's current recommendation to withdraw or defer the Resolution does not constitute a reversal of its earlier support for SDG&E's D.04-07-028 compliance, but rather reflects the view that SCE and PG&E are not currently similarly situated.

As noted above, the extension of additional SDG&E-like procedures to the service territories of PG&E and SCE as proposed in the Resolution would be most useful to mitigate highly predictable intra-zonal congestion patterns. In order to improve the effectiveness of the SDG&E procedure, as well as explore whether the expansion of like procedures in the SCE and PG&E areas would be beneficial, the CAISO fulfilled its commitment to provide more timely historic data that captures congestion MW amounts and costs for specific intra-zonal paths on a previous day basis. This information has provided all market participants, including the investor owned utilities ("IOUs"), the opportunity to see the effects of their scheduling practices on intra-zonal congestion and take appropriate actions that incrementally improve reliability. While this data remains useful in the SDG&E area, it has yet to show the highly predictable patterns of intra-zonal congestion necessary to justify development of the additional procedures outside of SDG&E's service territory.

Similarly, the patterns and magnitude of intra-zonal congestion and other real-time management issues that affected Southern California and prompted D.04-07-028 have been greatly impacted by significant transmission upgrades. As the Commission is aware, since issuance of D.04-07-028, upgrades have been undertaken on Path 26, the South of Lugo system, Miguel-Mission, and Sylmar. These system upgrades as well as the CAISO's Phase 1B improvements in resource dispatch have reduced intra-zonal congestion management and its associated costs. Total intra-zonal congestion costs in the CAISO control area consist of three components: (1) minimum load cost compensation ("MLCC") for units denied must-offer waivers, (2) RMR dispatch costs, and (3) OOS redispatch costs. From January to July 2005, overall intra-zonal congestion costs have decreased nearly 60%, with MLCC costs down approximately 66% from 2004 levels and OSS redispatch costs down approximately 56% from last year's levels. Equally significant, the Resolution's effectiveness factor approach primarily addresses the OOS cost category of intra-zonal congestion. This cost category has totaled

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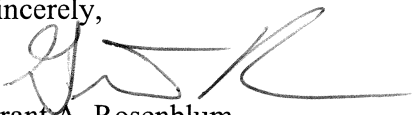
approximately \$2 million for the entire CAISO control area from May through July. This reduction in costs has correlated in Southern California to less predictable congestion patterns.

Although the CAISO is recommending that the Resolution be withdrawn or deferred, the CAISO acknowledges that there is no assurance that the reduced intra-zonal congestion costs and patterns will endure. Changes in load, system conditions, or load-serving entity scheduling practices may compel the need for additional procedures to augment existing M-438 for PG&E's and SCE's service territories. However, until such conditions are observed, developing the additional procedures may be impracticable. Moreover and as noted above, the CAISO believes that its local capacity requirements proposal advanced in the Commission's resource adequacy proceeding workshop process offers the long-term solution envisioned by D.04-07-028. Should the Commission maintain its previously stated intention of implementing resource adequacy by June 2006, the CAISO believes that sufficient tools will then exist to obviate all interim procedures required by D.04-07-028. It follows that if the upcoming Phase 2 resource adequacy decision does not adequately address local reliability concerns, the CAISO will be required to reevaluate existing procedures to ensure local reliability, including the possible need to extend and augment D.04-07-028-related operating procedures.

Finally, as you are also aware, the CAISO, through operating procedure M-438, dictates that when loads are forecast to reach specified levels within an IOU's service area, the IOU is required to dispatch energy from identified generation resources at stipulated levels (to the extent possible). To date, the CAISO has not identified either load levels or generation units in PG&E's service territory under procedure M-438, and has no current plans to make any such designations. Similarly the CAISO intends to continue to work with SCE to refine its M-438 Capacity Commitment Table. If circumstances change, the CAISO may modify or designate load level and specific generation unit values in the Capacity Commitment Tables for the IOUs. If that occurs, the CAISO believes sufficient authority already exists to require the IOUs to follow the procedure.

We thank you for your anticipated timely consideration of this matter and urge the Commission to either withdraw the Resolution or defer its consideration until informed by the CAISO that additional procedures are necessary for SCE and/or PG&E. Please contact me if you have any questions.

Sincerely,



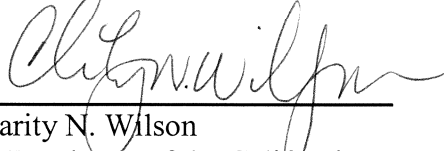
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## **CERTIFICATE OF SERVICE**

I hereby certify that I have served, by electronic mail, a copy of the foregoing  
Comments of the California Independent System Operator Corporation on Draft  
Resolution E-3943 on all parties shown on the attached list.

Executed on August 17, 2005, at Folsom, California.



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Charity N. Wilson  
An Employee of the California  
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