

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

San Diego Gas & Electric Company,
Complainant,

v.

Sellers of Energy and Ancillary Services
Into Markets Operated by the California
Independent System Operator and the
California Power Exchange,
Respondents.

Docket Nos. EL00-95-000
EL00-95-002
EL00-95-003

Investigation of Practices of the California
Independent System Operator and the
California Power Exchange

Docket Nos. EL00-98-000
EL00-98-002
EL00-98-003

Public Meeting in San Diego, California

Docket No. EL00-107-000

Reliant Energy Power Generation, Inc.,
Dynegy Power Marketing, Inc.,
and Southern Energy California, L.L.C.,
Complainants,

v.

California Independent System Operator
Corporation,
Respondent.

Docket No. EL00-97-000

California Electricity Oversight Board,
Complainant,

v.

All Sellers of Energy and Ancillary Services
Into the Energy and Ancillary Services Markets
Operated by the California Independent System
Operator and the California Power Exchange,
Respondents.

Docket No. EL00-104-000

California Municipal Utilities Association,
Complainant,

v.

All Jurisdictional Sellers of Energy and Ancillary
Services Into Markets Operated by the California
Independent System Operator and the
California Power Exchange,
Respondents.

Docket No. EL01-1-000

Californians for Renewable Energy, Inc. (CARE),
Complainant,

v.

Docket No. EL01-2-000

Independent Energy Producers, Inc., and all
Sellers of Energy and Ancillary Services Into
Markets Operated by the California Independent
System Operator and the California Power
Exchange; All Scheduling Coordinators Acting
on Behalf of the Above Sellers; California
Independent System Operator Corporation; and
California Power Exchange Corporation,
Respondents.

Puget Sound Energy, Inc.,
Complainant,

v.

Docket No. EL01-10-000

All Jurisdictional Sellers of Energy and/or Capacity
at Wholesale Into Electric Energy and/or Capacity
Markets in the Pacific Northwest, Including
Parties to the Western Systems Power Pool
Agreement,
Respondents.

**STATUS REPORT OF THE CALIFORNIA INDEPENDENT
SYSTEM OPERATOR CORPORATION CONCERNING
CONGESTION MANAGEMENT REDESIGN PROPOSAL**

I. BACKGROUND

On January 30, 2001, the California Independent System Operator Corporation ("ISO") filed in the above-captioned proceedings a motion ("the January 30 Motion") requesting that the Commission defer the requirement that the ISO file, by January 31, 2001, a redesign of its congestion management system and require that, in the alternative, the ISO file, by March 31, 2001, a status report including, to the extent practicable, a schedule for a definitive

submission.¹ In the January 30 Motion, the ISO explained that deferral of the submission of a congestion management redesign proposal was necessary because of the profound changes to the California wholesale electricity markets mandated by the Commission's November 1, 2000, and December 15, 2000, orders in this proceeding.²

On March 30, 2001, the ISO submitted a status report in accordance with the commitment made in its January 30, 2001 motion ("March 30 Status Report"). In the March 30 Status Report, the ISO informed the Commission that, at that time, it was focussing its efforts on a proposed plan of near-term modifications to and expansion of its operational practices and market rules (the "Market Stabilization Plan") intended to stabilize operations of the ISO Controlled Grid and mitigate the exercise of market power in the California wholesale electric markets. The ISO's proposed Market Stabilization Plan included near-term modifications to the ISO's methodology for managing congestion and a number of related proposals including new forward day-ahead and hour-ahead markets for energy. The ISO noted that the Market Stabilization Plan still needed to be

¹ Concomitant with this motion, the ISO posted on its web site a "Congestion Management Reform Draft ISO Proposal," dated January 26, 2001, which represented the culmination of a 10-month effort by the ISO to develop a comprehensive redesign of congestion management as ordered by the Commission in January 2000. However, events in the California markets during the second half of 2000 dramatically altered the context in which this proposal had been developed.

² The Commission's December 15, 2000, order also directed the ISO to examine long-term market redesign issues, including: "(1) the adoption of security-constrained unit commitment dispatch; (2) the use of simultaneous rather than sequential auctions; (3) the creation of an installed capacity market; (4) the establishment of reserve requirements; and (5) demand-side response programs." *San Diego Gas & Electric Co. v. Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator and the California Power Exchange, et al.*, 93 FERC ¶ 61,294 at 62.017 (2000). The ISO continues to recognize the need to consider such issues and notes that the resolution of such issues may have a substantial impact on the ISO's long-term congestion management design.

finalized and presented for Commission approval.³ The ISO also acknowledged the need for longer-term modifications to the ISO's congestion management system, but explained that determining a schedule for the submission of a definitive congestion management redesign proposal could only occur after the ISO and the State of California addressed the substantial near-term challenges facing the California wholesale electric markets during the Summer 2001 peak season. In the March 30 Status Report, the ISO therefore requested a continued deferral of the filing date for the submission of a congestion management reform proposal subject to the submission, by no later than July 31, 2001, of a status report detailing further developments related to congestion management reform. The ISO now submits the following status report in accordance with the commitment made in its March 30 Status Report.

II. THE NEED FOR A CONTINUING EXTENSION

The Commission has issued a number of orders since March 30 which mandate significant modifications to the ISO's market structures. In the Commission's April 26, 2001, order in this proceeding⁴, the Commission established a mitigation and monitoring plan intended to address the potential for unjust and unreasonable prices in those markets due to the imbalance of supply and demand in California and the ability of suppliers of electricity in those

³ On April 6, 2001, the ISO filed a detailed description of its proposed Market Stabilization Plan in the above-captioned proceeding in compliance with a letter order issued by the Director of the Commission's Office of Markets, Tariffs and Rates in the above-captioned proceeding on March 30, 2001.

⁴ *San Diego Gas & Electric Company v. Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator Corporation and the California Power Exchange, et al.*, 95 FERC ¶ 61,115 (2001) ("April 26 Order").

markets to exercise market power. The Commission held that the mitigation and monitoring plan established by that order superseded those elements of the ISO's proposed Market Stabilization Plan relating to market power mitigation. The Commission further held that, "Other elements of this [market stabilization] plan, such as the day-ahead and hour ahead market proposal, go beyond the scope of this proceeding and would need to be filed under section 205" April 26 Order, 95 FERC at 61,365.

The mitigation and monitoring plan established for the California wholesale markets in the April 26 Order was significantly modified and expanded by the Commission's June 19, 2001, order in this proceeding.⁵ Together, the Commission's April 26 and June 19 Orders mandate significant changes to the structures and operation of the ISO's markets, including:

- the establishment of price mitigation mechanisms during all hours in the ISO's markets and throughout the entire WSCC area, under which the methodology for determining the prices paid to suppliers of energy or Ancillary Services varies depending upon a variety of factors, such as whether the ISO is in a declared System Emergency or whether the supplier is a gas-fired generating unit, a non gas-fired generating unit, or a marketer,
- the implementation of a must-offer requirement for all generators in California, whether or not owned or controlled by a public utility, and
- the expansion of the ISO's authority to coordinate and control planned generator outages.

A substantial portion of the ISO's resources for the past three months has been devoted to assessing the changes to the ISO's markets and operations

⁵ *San Diego Gas & Electric Company v. Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator Corporation and the California Power Exchange, et al.*, 95 FERC ¶ 61,418 (2001) ("June 19 Order").

mandated by the April 26 and June 19 Orders, determining the steps necessary to comply with those orders, implementing the software modifications and revised procedures needed to implement those orders, notifying Market Participants of these changes, and identifying aspects of the orders that may require clarification or modification. The challenges created by the energy crisis in California have also required the commitment of additional resources to satisfy the ISO's primary responsibility – maintaining the reliability of the ISO Controlled Grid. In addition, ISO staff have been involved with numerous other efforts, including participation in the negotiations on refunds and related issues established by the Commission, as well as negotiations and litigation related to the ISO's Grid Management Charge, the transmission Access Charge, and various related issues.

Throughout this period, the ISO has not lost sight of the need for modifications to the ISO's congestion management system. As noted in the March 30 Status Report, however, a longer-term congestion management redesign proposal must take into account all of the recent changes to the California wholesale electric markets, including those mandated by the Commission's April 26 and June 19 Orders, as well as various efforts and initiatives being undertaken by the State to resolve the current crisis that confronts California and its electric consumers. The ISO has continued to explore potential reforms that would modify and improve the ISO's current congestion management system in the near-term. The potential reforms currently being considered by the ISO include establishment of a day-ahead unit commitment procedure; a clearing market for overlapping inc and dec bids that

would address the "Target Price" issue; and a day-ahead and hour-ahead energy market, as discussed in the April 6, 2001 submission of the ISO's Market Stabilization Plan.

The ISO intends to develop these potential reforms and present those that the ISO believes are most critical in the near-term for stakeholder review. In addition, the ISO has established a Market Advisory Group that has met to consider possible reforms to the ISO's congestion management procedures. Consistent with the Commission's directives in the April 26 Order, if adopted by the ISO, any of these reforms that require modifications to the ISO Tariff would be filed with the Commission pursuant to Section 205 of the Federal Power Act.

In addition, the ISO believes that additional resources can be devoted to the longer-term congestion management redesign effort once the ISO has safely seen the ISO Controlled Grid through the critical summer peak season and has addressed all of the implementation and related issues arising out of the April 26 and June 19 Orders. The ISO further believes that it will be possible over the next three months to develop a more specific schedule for the submission of a long-term congestion management redesign proposal, which will be provided in the ISO's next status report in this proceeding. The ISO notes that the June 19 Order also requires the ISO to file on or before March 26, 2002, a report on market conditions in the ISO's markets. June 19 Order, 95 FERC at 62,567. The ISO anticipates that a consideration of its methodology for managing transmission congestion would be included in that assessment of market conditions.

III. CONCLUSION

For the foregoing reasons, the ISO respectfully requests that the filing date for the submission of a congestion management reform proposal continue to be deferred subject to the submission, by no later than October 31, 2001, of a status report detailing further developments related to congestion management reform and, to the extent practicable, a more specific schedule for submission of a congestion management reform proposal.

Respectfully submitted,

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Dated: July 31, 2001

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all parties on the official service list compiled by the Secretary in the above-captioned proceeding and in Docket No. ER00-555, 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, DC this 31st day of July, 2001.

David B. Rubin