December 11, 1998

The Honorable David P. Boergers
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: California Independent System Operator Corporation,
Docket No. ER99-____-000
Amendment No. 13 to the ISO Tariff

Dear Secretary Boergers:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, and Section 35.13 of the Commission's regulations, 18 C.F.R. § 35.13, the California Independent System Operator Corporation ("ISO")[1] respectfully submits for filing six copies of an amendment ("Amendment No. 13"[2]) to the ISO Tariff. Amendment No. 13 would modify the ISO Tariff and Protocols in several respects. The modifications fall within four categories: (A) changes to encourage compliance with the ISO Tariff, (B) a change to eliminate a problem associated with the allocation of cost responsibility for transmission capacity that is derated in the ISO's Hour-Ahead Market ("HA Market"), (C) a change to use market mechanisms to assist in resolving overgeneration conditions, and (D) changes addressing a number of miscellaneous issues that have arisen in the course of the ISO's administration of the ISO Tariff. All of the Tariff changes were developed using a stakeholder process to obtain input from Market Participants.

Before describing the tariff changes in greater detail, the ISO wants to note

1 Capitalized terms not otherwise defined herein are defined in the Master Definitions Supplement, ISO Tariff Appendix A, as filed August 15, 1997.

2 Amendment No. 12, although not so identified, amended section 28 of the ISO Tariff and was filed with the Commission on December 4, 1998.

the relationship of this filing to the Commission's statements in the *AES* order issued on October 28, 1998.[3] In that order, the Commission required the ISO to use a stakeholder process to develop structural solutions for the identified market design problems.[4] The ISO must file a comprehensive proposal no later than March 1, 1999. While the Commission noted that it wanted to avoid piecemeal changes, it also recognized that some proposed changes should be implemented sooner than March 1, 1999.[5] As a result, the Commission allowed for one interim filing to be made prior to March 1, 1999.

Despite the fact that the changes contained herein were being developed prior to the issuance of the *AES* order, the ISO interprets Amendment No.13 to be the one interim filing discussed in that order. Some of the tariff changes contained in Amendment No. 13 are appropriately described as structural solutions to market design problems and, to that extent, the filing falls within the interim filing mentioned in the *AES* order.

I. Compliance Issues

There are two sets of tariff revisions intended to encourage greater compliance with the requirements of the ISO Tariff. The first set of revisions involves elimination of payments to Scheduling Coordinators ("SCs") for Ancillary Services capacity and Imbalance Energy when energy is generated using the capacity that has been committed to the ISO. The second set of revisions involves changing the method by which the costs of Ancillary Services are billed. Currently, Ancillary Services costs are billed based on scheduled (as opposed to metered) Demand. Thus, if an SC under-schedules, its bill is reduced and the costs are picked up by those other SCs that do not underschedule. The proposed tariff changes would bill Ancillary Services using metered Demand instead of scheduled Demand.

1. Nonpayment for Uninstructed Deviations

If the ISO is to meet Applicable Reliability Criteria, capacity successfully bid into the ISO's Ancillary Services markets must be unloaded, available, and capable of meeting the terms of its bids when called. If a generator produces energy using capacity already committed to the ISO as reserves for Ancillary Services, such capacity is not available for dispatch by the ISO. The unavailability of Ancillary Services capacity when called upon can cause considerable operating difficulties, can raise costs, and can cause

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3 *See AES Redondo Beach,* 85 FERC ¶ 61,123 (1998).

4 *Id.* at 61,462.

5 *Id.*

a violation of WSCC and NERC policies. Even if the ISO does not dispatch the capacity from a winning bid in the Ancillary Services auction, the capacity is obligated to be unloaded and available to the ISO.

When a SC successfully bids generating capacity in the Ancillary Services market and then produces energy from the same capacity in the absence of a Dispatch Instruction from the ISO, this behavior is an "uninstructed deviation" under the ISO. *See* section 23.2.2 of the ISO Tariff (definition of "Uninstructed Imbalance Energy"). A SC engaging in such uninstructed deviations is currently paid for both the Ancillary Service capacity and the Uninstructed Imbalance Energy at the Hourly Ex Post Price. *See* section 23.2 of the ISO Tariff (temporary sections 2.5.23.1 and 2.5.23.2). Thus, generators have an incentive to use Ancillary Services capacity for uninstructed deviations, and this incentive is particularly acute when the Hourly Ex Post Price is high. The essence of the tariff change is to eliminate the payments made both for Ancillary Services capacity and for Uninstructed Imbalance Energy when generators engage in the behavior discussed above.

Although the ISO does have the authority under Section 2.5.26 of the ISO Tariff to impose a penalty when a resource is unable to deliver an Ancillary Service in accordance with its bid, imposition of that penalty requires that a test be administered in real time. Moreover, when the Hourly Ex Post Price exceeds the Ancillary Services payment by a great amount, the penalty may not provide a sufficient disincentive to deviations.

The specific Tariff changes are shown in Attachment D and may be summarized as follows:

(1) Revisions to Section 2.5 of the ISO Tariff that –

- clarify the obligation to conform to dispatch instructions and the consequences of failure;
- explain the specific circumstances under which payments will be rescinded and how they will be calculated; and
- revise the equations for determining payments to SCs to exclude rescinded amounts.

(2) Changes to Section 23 of the Tariff (Temporary section 11.2.4.1) that revise the settlement of Uninstructed Imbalance Energy to eliminate Energy payments associated with uninstructed deviations on obligated capacity.

(3) Conforming changes are made to Appendix D of the Settlements and Billing Protocol.

In order to implement the tariff revisions association with nonpayment for uninstructed deviations, changes to the ISO software will be required. The ISO anticipates that software changes will be ready by April 15, 1999. Therefore, the ISO respectfully request an effective date for the tariff revisions described above of February 10, 1999, or seven days after the ISO posts notice on the ISO Home Page that the software is ready for use, whichever is later.

2. Billing Based on Metered Demand

The capacity costs of all Ancillary Services, except for dispatched Replacement Reserve, are currently billed based on *scheduled* Demand. *See* sections 2.5.20.1 and 2.5.28 of the ISO Tariff. This aspect of the ISO Tariff provides SCs with an opportunity to avoid Ancillary Services capacity costs by underestimating scheduled Demand. Under-scheduling of Demand causes a substantial shift of Ancillary Services capacity costs from those SCs that under-schedule to those SCs that schedule accurately. In order to remove the current incentive to under-schedule, the proposed revisions would bill all Ancillary Services based on metered Demand.

The ISO notes that, in its October 30, 1997, Order, the Commission specifically encouraged the ISO to consider “penalties or market mechanisms” to encourage good scheduling practices “to ensure reliability and avoid cost shifting.” *California Independent System Operator Corporation, et al.,* 81 FERC ¶ 61,122 at 61,494 (1997). Implementing billing based on metered demand will eliminate the incentive to under-schedule to avoid Ancillary Services charges; however, there may still be other reasons why SCs would underschedule. Whether additional changes are necessary to eliminate other incentives to under-schedule will be considered in coordination with the comprehensive Ancillary Services redesign proposal to be filed on March 1, 1999.

The specific tariff changes appear in Attachment E, and may be summarized as follows:

(1) Changes to Section 2.5 of the tariff that –

- revise the calculation of Ancillary Service obligations (which determine Ancillary Service billing) to reflect metered Demand;

- eliminate the reference to “sell-back” of Ancillary Services (because no Ancillary Services obligation is associated with Day Ahead (“DA”) load schedules, there is nothing to sell back);

- revise the calculation of the user rate for each Ancillary Service; and

- eliminate the distinction between dispatched and undispatched Replacement Reserve.

(2) Changes to the Ancillary Services Requirements Protocol revise the calculation of Ancillary Service obligations.

(3) Conforming changes are made to the Settlements and Billing Protocol Appendix C and Appendix D.

(4) A conforming change is made to the Scheduling Protocol.

In order to implement the tariff revisions associated with billing based on metered demand, changes to the ISO software will be required. The ISO anticipates that software changes will be ready by March 31, 1999. Therefore, the ISO respectfully requests an effective date of either February 10, 1999, or seven days after the ISO posts notice on its Home Page that the software is ready for use, whichever date is later.

II. TO Debits

SCs may be subject to Usage Charges in the DA Market when they schedule across congested transmission interfaces. These Usage Charges are credited to Participating TOs, which in turn credit them to their end-use customers. If the transmission capacity of a portion of the ISO Controlled Grid is reduced after the close of the DA Market, due to a deration, SCs would not receive the benefit of a portion of the transmission service for which they paid in the DA Market. Accordingly, Section 7.3.1.7 of the ISO Tariff currently provides that, in that circumstance, the SCs whose schedules are cut in response to the derating are compensated for the transmission capacity that is no longer available to them at the Usage Charge rate determined for the Hour-Ahead (HA) Market. To keep the ISO revenue neutral, the Participating TOs who received the DA revenue are debited at the HA Usage Charge rate to pay those SCs.

The HA Usage Charge, however, typically exceeds the DA Usage Charge and can be as high as $250/MW. In such cases, SCs receive much more per MW for the reduced volumes than they have committed to pay. Conversely, Participating TOs pay more to cover the reimbursements to SCs than they received in DA Usage Charges with respect to the derated transmission capacity. This situation has sometimes caused net debits of millions of dollars to the Participating TOs. The substantial difference between HA Usage Charges and DA Usage Charges and the resulting in very large cost shifts were not envisioned as part of the ISO's market design.

Earlier this year, the ISO Board of Governors directed ISO staff to pursue a solution to the "TO Debit Issue" that would eliminate the large debits that TOs have experienced since ISO startup. Software in place at the ISO's startup was not capable of correcting the problem. Although the ISO worked with Market Participants, including the Participating TOs, to find a feasible solution to the problem short of software modifications, none was identified prior to October, when the ISO developed a software modification solution to the problem. The proposed amendment implements that solution. The ISO has reviewed the proposal with Market Participants, including the Participating TOs.

The proposed revisions to the ISO Tariff are included as Attachment F. Under the proposal, when transmission capacity is derated after the DA Market closes, the Participating TOs would be required to refund to the ISO the DA Usage Charges they received that are related to the derated capacity. SCs would continue to be compensated for the reduced ability to schedule transactions in the HA market at the HA Usage Charge rate, but would pay HA Usage Charges for transactions they do schedule. To the extent the amount received by the ISO by debiting the Participating TOs at the DA Usage Charge rate is insufficient to compensate SCs for reduced transmission capacity, the remaining costs will be allocated to SCs in proportion to their DA schedules. In accordance with the resolution of the ISO Governing Board, this approach would apply only when at least two hours' advance notice of the deration is provided to SCs, so that they may adjust their schedules accordingly. As a result, if SCs sufficiently reduce their schedules in response to the derating, and make no further changes in their HA schedules, they will pay the DA Usage Charge for only the amount of capacity remaining in their schedules. This procedure would apply also to FTR holders, i.e., they would receive DA Usage Charge revenues but would reimburse SCs at the DA price in the event of a derating.

The following example illustrates the operation of the proposal. When there is a transmission line derating after the close of the DA market, the ISO would -

> (1) Notify SCs of the derating, telling them the percentage reduction occasioned by the derating, from which the SCs would be able to determine the amount by which they would need to reduce their schedules in order to avoid HA Usage Charges. The ISO would give SCs two hours to submit HA schedules before the first HA market affected by the derating. For example, if an interface was derated at 0830, SCs would have two hours, i.e., until at least 1030, to submit revised HA schedules. At 1030, the next HA scheduling deadline is 1050 for the trading hour starting two hours later, i.e. HE1400. Thus, the first trading hour affected by the TO Debit solution would be 1300 to 1400. For any HA Market affected by the derating in which there was less than one hours for SCs to respond, the ISO would treat the derating as a real time adjustment with no debits to TOs or to SCs. In the example above, from 0830 to 1300, all schedule

adjustments would be treated as real time and there would be no HA debits or credits resulting from the deration.

(2) Compensate the SCs that reduce their schedules to reflect the derating at the HA price. The ISO would determine the total cost for this capacity as the product of the total MW of derated capacity and the HA Usage Charge.

(3) Collect from Participating TOs the amount of Usage Charges they received in the DA market at the DA Usage Charge price.

(4) Credit those SCs that reduced their schedules in response to the derating by the product of the capacity they surrendered and the HA Usage Charge.

(5) Create an "allocation" for SCs equal to the total cost determined in (2) above less the amount collected in (3) above. The ISO would allocate this total to the SCs pro rata based on their final DA schedules.

Revisions are made to sections 7.3.1.7 of the Tariff and Settlement and Billing Protocol Appendix E 2.3.3 to implement this proposal.

III. Negative Pricing for Supplemental Energy

California has historically experienced significant levels of overgeneration during the spring months. In May and June 1998, the ISO observed overgeneration with a peak level in June of 2500 MW in real time. The ISO attempts to alleviate overgeneration with decremental Supplementary Energy bids.[6] If there are insufficient bids to mitigate the overgeneration, the ISO then sets the price that results from its balancing energy and ex post pricing ("BEEP") software to zero.

If these measures do not resolve the problem, the ISO may make bilateral agreements with neighboring control areas to sell excess energy. In certain circumstances, the ISO has paid the control area to take the excess energy. Bilateral agreements with neighboring control areas have exceeded 1000 MW in a given hour.

If all of these measures fail to resolve the overgeneration problem, the ISO reduces generation by each SC on a pro-rata basis. This step has only been attempted once, and it proved to be complicated, time-consuming, and only marginally effective. This action is one of the last measures to be implemented, because it would burden all SCs, not only those causing the overgeneration problem. (It is not possible to target in

[6] In a decremental Supplemental Energy bid, a SC bids a price for the right to reduce its scheduled energy, effectively substituting the overgeneration for the energy it scheduled.

real time only those SCs causing the problem, because they cannot be identified until end-use meter data are received 46 days later).

Some Market Participants have been critical of the ISO's practice of entering into bilateral contracts to resolve overgeneration. Market Participants' concerns were twofold: (1) the bilateral contracts do not provide any associated market signal; and (2) in-state participants did not have an opportunity to take advantage of this favorable pricing. The ISO agreed with these Market Participants that it would be preferable for the ISO to resolve overgeneration using market forces instead of using bilateral contracts.

The ISO has concluded that negative Supplemental Energy pricing could significantly improve the overgeneration situation and would be relatively simple to implement. Negative Supplemental Energy pricing would allow SCs to submit decremental Supplemental Energy bids under which the ISO would pay the SC for reducing energy delivery below that scheduled. When, after all positive decremental bids are exercised, overgeneration still exists, the ISO could begin selecting negative decremental bids (in merit order), so that SCs that bid negative prices could be paid to reduce their supply. In such circumstances, the resources that are overproducing or under-consuming would bear the cost of such payments. As a result, those entities responsible for the overgeneration would bear the associated costs.

The revisions to the ISO Tariff that are proposed in order to implement negative Supplemental Energy Pricing are shown in Attachment G.[7] The revisions provide for the establishment of a negative 10-minute interval price, and thereby establish the possibility of a negative Hourly Ex Post Price.

IV. Miscellaneous Tariff Revisions

The proposed amendment includes nine miscellaneous revisions to the ISO Tariff. These are described below, and appear as Attachments H through P to this filing.

1. Procurement of Operating Reserve

Section 2.5.3.2 of the ISO Tariff requires the ISO to maintain minimum contingency Operating Reserve made up of Spinning Reserve and Non-Spinning Reserve in accordance with WSCC Minimum Operating Reliability Criteria. In addition, this section provides that the ISO shall maintain additional Operating Reserve equal to

[7] The Tariff sheets implementing this revision also correct a typographical error in the existing Tariff sheets. The words "Settlement Period," which had been omitted at the end of section 2.5.22.4.1 of the Tariff, are added.

the total amount of Interruptible Imports scheduled by SCs for any hour. Such additional Operating Reserve must either be self-provided by SCs or purchased from the ISO.

The current language requires if the additional Operating Reserve is self-provided by an SC, it must consist entirely of Non-Spinning Reserve. The Tariff is silent, however, as to the sources of the additional Operating Reserve if it is procured by the ISO rather than self-provided by a SC. The revisions to this section clarify that the ISO has the ability to procure either Spinning Reserves or Non-Spinning Reserves if an SC only partially provides the Operating Reserve requirement for Interruptible Imports. In addition to sections 2.5.3.2, conforming changes have been made to sections 2.5.20.2, and Ancillary Services Requirements Protocol ASRP 5.2. These revisions appear in Attachment H.

2. Instructed and Uninstructed Imbalance Energy

Under the current ISO Tariff, payments to SC's for instructed Energy from Spin, Non-Spin or Replacement Reserve are the product of the instructed energy (EnQInst) and the BEEP Interval Ex Post Price. *See* section 23 of the ISO Tariff (temporary section 11.2.4.1.1). However, certain tariff provisions incorrectly indicate that payments to SCs for instructed Energy are the product of the instructed energy (EnQInst) and the Hourly Ex Post Price. These provisions have been revised to remove this inconsistency

Amendment No. 6 to the ISO Tariff added section 23, making temporary changes to the tariff to address critical reliability issues that were identified in the operational dry run prior to start up. Amendment No. 6 established the BEEP Interval Ex Post Price as the basis for Instructed Imbalance Energy and the Hourly Ex Post Price as the basis for Uninstructed Imbalance Energy. Amendment No 6 did not, however, revise the pricing provisions for Spinning Reserve, Non-Spinning Reserve, and Replacement Reserve in a corresponding manner. Thus, as noted above, payments to SC's for instructed Energy from Spin, Non-Spin or Replacement Reserve are currently defined as the product of the instructed energy (EnQInst) and the Hourly Ex Post Price instead of the BEEP Interval Ex Post Price. The proposed amendment corrects this inconsistency by revisions to sections 2.5.27.2 and 2.5.27.3 and 2.5.27, the Master Definitions Supplement, and Settlement and Billing Protocol Appendices C and D.

Finally, the proposed amendment replaces the term "instructed Energy" in these sections with the defined term "Instructed Imbalance Energy." The revisions appear in Attachment I.

3. Settlement of Replacement Reserves

Under the ISO Tariff, the ISO can determine the quantity and location of the required ancillary services (i.e., Regulation, Spinning Reserves, Non-Spinning Reserves and Replacement Reserves). See, section 2.5.3 and sections 2.5.14, 2.5.15, 2.5.16 and 2.5.17 (the "Bid Evaluation" provisions) of the ISO Tariff. The ancillary services should be settled on the same basis (*i.e.*, either on a zonal or system-wide basis) as they were procured. The ISO software automatically settles ancillary services on the same basis as they were procured.

However, certain Tariff sections dealing with Replacement Reserves refer to the presence of congestion as determining when the ISO will settle on a zonal basis. See, section 2.5.28.4 of the Tariff and SABP, Appendix C, C 2.2.3. Thus, despite the fact that the ISO's software automatically settles ancillary services on the same basis as they were procured, the current tariff language requires the ISO to settle Replacement Reserves zonally only in the presence of actual congestion. Stated differently, if the ISO decides to procure replacement reserves zonally because for operational reasons, and no congestion is experienced, the current tariff language requires the ISO to settle on a system-wide basis.

The settlement of Replacement Reserves on a basis different from the method in which they were procured results in inappropriate cost shifting. The proposed amendment provides that the settlement of Replacement Reserve charges on a system or zonal basis is tied to the ISO's basis for procurement and not on the actual presence of congestion. The proposed revisions appear in Attachment J.

The revisions to the tariff described in this section will no longer be necessary when billing according to metered Demand, described in section I.1 above, is instituted. However, since there may be a delay in implementing billing based on metered Demand due to software considerations, the ISO requests that the revisions contained in Attachment J be approved so as to fix, as soon as possible, the inconsistency between Replacement Reserves and the other Ancillary Services. When the revisions instituting billing based on metered Demand are made effective, they will eliminate the language in section 2.5.28 that is affected by this provision.

4. Scheduling and Billing Protocol Variables

Appendix H to the Settlement and Billing Protocol governs the computation of Reliability Must-Run Payments and Charges. In Appendix H, the term "ER_{uot}" is currently used for two separate variables: "Emissions Rate" and "Energy Requested in Real Time." The proposed amendment revises Sections H 2.1, H 3.5, and H 4 of Appendix H to assign the term "EMR_{uot}" to the variable "Emissions Rate." This amendment will eliminate any potential confusion between the two variables. The revisions appear in Attachment K.

5. PX References

This ISO Tariff contains numerous references to the California Power Exchange (PX). Because the ISO is no longer integrally linked to the PX, these definitions are not needed in the ISO Tariff. In order to improve the clarity of the ISO Tariff, the ISO believes it appropriate to eliminate unnecessary and extraneous definitions in the Master Definitions Appendix. There are at least 30 definitions in the ISO Tariff that involve the PX, and there are other definitions that are made less clear by unnecessary references to the PX. By deleting the references to the PX in the ISO Tariff, the ISO also clarifies that the PX will not be treated differently than other SCs. These revisions appear in Attachment L.

6. Typographical Error in Section 2.5.6.

The following sentence appears twice in section 2.5.6 of the ISO Tariff: "Generating Units, Loads, System Resources and SCs can apply for Ancillary Services certificates in accordance with the ISO's Protocols for considering and processing such applications." The proposed amendment, which appears in Attachment M, deletes the superfluous sentence.

7. Y2K Compliance

All Market Participants who communicate with the ISO electronically must update their software to accommodate dates after December 31, 1999 (i.e, the software must be Year 2000 ("Y2K") compliant in order to continue working with the ISO after that date. The ISO's systems were built with Y2K compliance requirements in mind. To avoid misunderstandings that could lead to system failures, and resulting disputes or litigation, the proposed amendment clarifies that it is the Market Participants' responsibility to ensure that their systems interfacing with the ISO are Y2K Compliant (as defined in the ISO's Year 2000 Compliance Standards). Additionally, the proposed amendment affirms the ISO's right to disconnect Market Participants with non-Y2K compliant system interfaces in order to protect and maintain the ISO's system integrity. The revised language appears in Attachment N.

8. Application Fee

The proposed amendment revises the Scheduling Coordinator Application Protocol, Appendix A, Section 6.3 to specify that the non-refundable application fee which must be submitted by a SC Applicant is $500. The specific amount of the application fee was inadvertently deleted from Section 6.3 in the ISO's June 1, 1998, Compliance Filing. The ISO believes that inclusion of the specific amount of the application fee in Section 6.3 will prevent any potential confusion for SC Applicants and is consistent with prior Commission orders which suggest that such fees should be on file with the Commission. *See, e.g., Pacific Gas and Electric Co.*, 81 FERC ¶ 61,320 at 62,471 n.13 (1997). The revised language appears in Attachment O.

9. References to Proxy Prices

As originally drafted, the ISO Tariff reflected a planned two-part bid evaluation approach for Ancillary Services, one part based on capacity bid price and the other based on Energy bids associated with self-provided Ancillary Services. As part of this approach, the Tariff included references to "proxy prices" for Energy bids associated with self-provided Ancillary Services to be used in the second part of this evaluation process.

The two-part bid evaluation was abandoned prior to the ISO Operations Date. The ISO now makes no functional distinction between bid Ancillary Services and Energy bids associated with self-provided Ancillary Services. Under this one-part bid evaluation approach, the concept of "proxy prices" serves no purpose. The ISO Tariff, however, still contains numerous references to "proxy prices" which are now superfluous.

The proposed amendment eliminates these unnecessary references to "proxy prices" throughout the Tariff in order to make the Tariff consistent with actual ISO operations. The amendment also adds references to "System Units" in a number of sections consistent with the Commission's expressed preference that explicit references should be made to System Units in relation to the provision and testing of Ancillary Services. *See* 84 FERC ¶ 61,122 (1997). The revised Tariff language appears in Attachment P.

Stakeholder Review

The ISO is mindful of the Commission's favorable statements regarding the stakeholder process and the benefits of achieving as much consensus as possible prior to making a filing with the FERC. *See*, 85 FERC ¶ 61,123 at 61,462. This filing follows a process that has afforded stakeholders an opportunity to review and comment on both the concept and the wording of the proposed amendments.

The need for, and terms of, the substantive changes accomplished by these amendments were discussed extensively among the ISO and market participants. The specific amendments were discussed with market participants at the Market Issues Forum held on November 4, 1998. The ISO Board of Governors discussed and approved these amendments at their November meeting. Prior to the meeting, the materials presented to the Board were posted on the ISO Home Page. Following the Board meeting, the ISO Board's Market Issues/ADR Committee considered stakeholder comments on the language of the amendment via a teleconference on December 2, 1998.

Effective Date

As discussed herein, because the software changes necessary to implement the revisions to address billing for Ancillary Services according to metered Demand (revised Tariff pages in Attachment B) and nonpayment for uninstructed deviation (revised Tariff pages in Attachment C) are not yet ready, the ISO requests that those revisions become effective on the later of February 10, 1999, or seven days after the ISO posts notice on the ISO Home Page that the software is available for use. [8] The ISO requests that all other amendments included in this filing be made effective on February 9, 1999.

Notice and Service of Documents

Communications regarding this filing should be addressed to the following individuals, whose names should be placed on the official service list established by the Secretary with respect to this submittal:

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[8] Because the ISO anticipates that the software for billing according to metered demand will be ready before the software for nonpayment for uninstructed deviations, the Tariff sheets in Attachment C incorporate the changes included in the Tariff sheets in Attachment B. (The amendments are separately identified in the black-lined attachments.) In addition, the ISO notes that the Second Revised Tariff Sheet 113 and First Revised Tariff Sheet 113A, when effective, will delete the language amended in First Revised Tariff Sheet 113 and Original Tariff Sheet 113A (providing for settlement of Replacement Reserve on the same basis as procurement).

The ISO has served copies of this letter, and all attachments, on the Public Utilities Commission of the State of California, the California Energy Commission, the California Electricity Oversight Board, and on all parties with effective Scheduling Coordinator Service Agreements under the ISO Tariff. In addition, the ISO is posting this transmittal letter and all attachments on the ISO's Home Page.

Supporting Documents

- Revised Tariff pages for which an effective date of February 9, 1999, is requested (Attachment A).[9]

- Revised Tariff pages relating to billing for Ancillary Services according to Metered Demand, for which the ISO requests an effective date of the later of February 10, 1999, or seven days after notice posted on the ISO Home Page (Attachment B).

- Revised Tariff pages relating to billing for nonpayment for uninstructed deviations, for which the ISO requests an effective date of the later of February 10, 1999, or seven days after notice posted on the ISO Home Page (Attachment C). The ISO expects these pages to become effective no earlier than the pages included in Attachment B.

- Black-lined text showing the deletions and additions to Tariff language in order to address nonpayment for uninstructed deviation (Attachment D).

- Black-lined text showing the deletions and additions to Tariff language in order to address billing according to metered demand (Attachment E).

- Black-lined text showing the deletions and additions to Tariff language in order to address TO Debits (Attachment F).

- Black-lined text showing the deletions and additions to Tariff language in order to address negative pricing for Supplemental Energy (Attachment G).

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[9] On December 4, 1998, the ISO filed Tariff amendments to implement Firm Transmission Rights and to extend the BEEP Cap. Because the requested effective dates of the amendments herein is later that the requested and statutory effective dates for the December 4 amendments, the revised Tariff pages included in Attachment A incorporate the changes in the December 4 filing.

- Black-lined text showing the deletions and additions to Tariff language in order to address the ISO's procurement of contingency Operating Reserves (Attachment H).

- Black-lined text showing the deletions and additions to Tariff language in order to address payment for Instructed and Uninstructed Imbalance Energy (Attachment I).

- Black-lined text showing the deletions and additions to Tariff language in order to address the settlement of Replacement Reserve (Attachment J).

- Black-lined text showing the deletions and additions to Tariff language in order to address confusion between variables in the Scheduling and Billing Protocol (Attachment K).

- Black-lined text showing the deletions to Tariff language in order to remove references to the PX. (Attachment L).

- Black-lined text showing the deletions to Tariff language in order to correct a typographical error. (Attachment M).

- Black-lined text showing the deletions and additions to Tariff language in order to clarify the Year 2000 compliance requirement for Market Participants. (Attachment N).

- Black-lined text showing the additions to Tariff language in order to specify SC applications fees. (Attachment O).

- Black-lined text showing the deletions from Tariff language in order to eliminate references to proxy prices (Attachment P).

- A Notice of this filing, suitable for publication in the Federal Register (Attachment Q), together with a diskette containing that notice in electronic form.

An additional copy of this filing is enclosed. Please stamp this copy with the date and time of filing and return it to our messenger.

Respectfully submitted,

____
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Vice President and General Counsel
Roger E. Smith, Regulatory Counsel
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