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August 14, 1998

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

**Re: California Independent System Operator Corporation,  
Amendment to the ISO Tariff, Relating to the Regulation Market**

Dear Secretary Boergers:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, the California Independent System Operator Corporation ("ISO")<sup>1</sup> respectfully submits for filing six copies of an amendment ("Amendment No. 11") to the ISO Tariff.

Amendment No.11 would modify the ISO Tariff and Protocols in three respects relating to the ISO's procurement of Ancillary Services. Two of the proposed modifications affect the ISO's procurement of Regulation and are designed to increase the amount of capacity available in the ISO's markets for Regulation and other Ancillary Services. The third modification eliminates an unnecessary and ambiguous restriction in one of the Protocols that has proven unwarranted in practice and that might be read to restrict the ISO's ability to procure sufficient Regulation capacity to satisfy applicable reliability criteria. The ISO's Board of Governors has approved the filing of the tariff modifications reflected in Amendment No. 11.

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

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The ISO respectfully requests that the Commission consider Amendment No. 11 on an expedited basis and permit it to take effect at the later of: (1) September 1, 1998; or (2) the date of a Commission Order accepting Amendment No. 11 for filing. To aid in that consideration and in accordance with 18 C.F.R. § 35.13, the ISO includes the following with this submittal::

- This transmittal letter;
- Revised tariff sheets reflecting Amendment No. 11 (**Attachment A**);
- The affected sections of the Tariff and Protocols blacklined to show changes from the ISO's June 1, 1998 tariff compliance filing pursuant to 18 C.F.R. § 35.10(c). (**Attachment B**); and
- A Notice suitable for publication in the Federal Register (in hard copy and diskette format) pursuant to 18 C.F.R. § 35.8 (**Attachment C**).

## I. NOTICES AND SERVICE

The ISO requests that all Commission orders and correspondence, as well as pleadings and correspondence from other persons concerning this filing, be served upon following individuals, whose names should be entered on the official Service List compiled by the Secretary:

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\*Designated for service pursuant to 18 C.F.R. § 385.203(b)(3).

The ISO is serving copies of this filing on all parties that have executed Scheduling Coordinator Agreements and so are authorized to take service under the ISO Tariff, on all members of the Governing Board of the ISO, on the Public Utilities Commission of California and on the California Electricity Oversight Board, and on all parties on the service list in Docket Nos. EC96-19, et al. In addition, the ISO is posting this transmittal letter and all attachments on the ISO's Home Page.

## II. REASONS FOR FILING

### A. The Treatment in Ancillary Service Markets of Capacity Accepted for Regulation

Pursuant to the ISO Tariff, the ISO is responsible for ensuring the availability of sufficient Ancillary Services to maintain the reliability of the ISO Control Area. Scheduling Coordinators may meet their own Ancillary Services requirements by self-providing the necessary capacity. The ISO competitively procures Ancillary Services for the benefit of Scheduling Coordinators that have not self-provided their needs. See ISO Tariff, § 2.5.1.

The ISO Tariff permits Scheduling Coordinators desiring to supply Ancillary Services to the ISO to bid the same generating capacity into the markets for Regulation, Spinning Reserve, Non-Spinning Reserve and Replacement Reserve, if they so desire. ISO Tariff, § 2.5.13. The ISO evaluates bids in the order listed in the preceding sentence and:

Any capacity accepted by the ISO in one of these markets shall not be passed on to another market; any losing bids in one market may be passed onto another market, if the Scheduling Coordinator so indicates to the ISO.

Id. Thus, any capacity for which a bid is submitted in the Regulation market and accepted by the ISO is not available for the Spinning Reserve, Non-Spinning Reserve and Replacement Reserve markets (collectively, the "Reserve markets").

A Generating Unit providing Regulation service must be capable of responding to the ISO's control signals to increase or decrease generation to match demand and resources on a real-time basis. Id., Master Definitions Supplement, "Regulation." A Scheduling Coordinator bidding to supply Regulation to the ISO accordingly must specify both an upward range of generating capacity and a downward range of generating capacity over which the resource's output will be adjusted in response to the ISO's direction. Id. § 2.5.14. The Regulation capacity accepted by the ISO equals the sum of the upward range and the downward range over which the ISO is entitled to adjust that resource's output. Pursuant to Section 2.5.13, that total capacity, including both the upward and downward components of the adjustment range, is excluded from availability in the remaining sequential markets.

Section 2.5.13 of the ISO Tariff appropriately excludes from later sequential markets for Ancillary Service capacity that has been accepted in an earlier market; capacity that is committed to be available for Spinning Reserve, for example, cannot also be relied upon to provide Non-Spinning Reserve. The ISO has concluded, however, that application of this principle to Regulation unnecessarily removes from later Ancillary Service markets an amount of capacity that could be used to supply those services (i.e., the capacity associated with downward Regulation). The portion of the generating capacity accepted in the Regulation market that is associated with downward regulating capacity could be made available in one of the later Reserve markets without degrading reliability.

Accepting downward Regulation capacity and Reserve capacity from the same generating unit during a single hour would not involve double payment by the ISO. The ISO would be procuring two distinct services from that capacity: the generator's commitment to reduce output in response to the ISO's Regulation signal and the generator's commitment to increase output when the ISO needs to call upon its unit for Reserves. Moreover, a Generating Unit could not simultaneously reduce output within its downward Regulation range and increase output when called upon to provide Reserve, but it could be directed to do both during different portions of a single hour. Accepting the capacity associated with downward Regulation thus would not involve the ISO's paying twice for the same service from the same capacity.

Amendment No. 11 accordingly proposes to modify Section 2.5.13 to specify that capacity accepted in the Regulation market that is associated with a Generating Unit's downward range of adjustment will not be excluded from later Reserve markets. This would have the effect of increasing the amount of capacity available for those markets, reducing the likelihood that the ISO will experience shortages in those markets.

## **B. Amount of Capacity That May Be Bid as Regulation**

Under the ISO Tariff, the amount of capacity that a generator may bid into the Regulation market is limited to the product of the unit's ramp rate and 10 minutes. See ISO Tariff, § 2.5.14. For example, if a Generating Unit has a ramp rate of 3 MW per minute, it could bid no more than 30 MW into the Regulation market, even if it has more capacity available. This provision serves as a constraint on the ISO's evaluation of bids as it seeks to minimize the cost of Regulation service. Id.

While the 10-minute limitation provides a high level of assurance that capacity accepted for Regulation will be able to respond rapidly to the ISO's direction to continuously balance load and generation, the ISO has determined that it is

unnecessarily restrictive when applied uniformly. The ISO's requirement for Regulation is not a fixed value from one hour to the next. In many hours, the ISO believes that Regulation capacity will be sufficiently responsive to meet the ISO's reliability needs if a generator can modify its output during the hour, in response to the ISO's signal, by the product of its ramp rate and 30 minutes. This would enable more capacity to be bid into the Regulation market during such hours. At the same time, in recognition of the fact that more rapid response must be assured in some hours, Amendment No. 11 would modify Section 2.5.14 of the Tariff to permit the ISO to specify, with advance notice to Scheduling Coordinators, a time within the range of 10 to 30 minutes for calculation of the maximum capacity a generator may bid in the Regulation market and the ISO's evaluation of Regulation bids.

### **C. Clarification of the Amount of Regulation Capacity To Be Procured**

Under the Ancillary Services Requirements Protocol ("ASRP"), the ISO determines the quantity of Regulation capacity required for each hour, as a percentage of the aggregate demand for the hour, "based upon its need to meet the WSCC and NERC control performance criteria." ASRP § 4.1.3. Another provision of the ASRP specifies that the quantity of Regulation capacity shall range between one and five percent of the aggregate scheduled demand. ASRP, § 4.1.2.

The ISO has determined that Regulation capacity equal to five percent of the aggregate demand is, in many hours, insufficient to enable the ISO to meet WSCC and NERC control performance standards. To the extent the range specified in ASRP § 4.1.2 may be viewed as a limitation on the ISO's authorization in ASRP § 4.1.3 to procure sufficient Regulation capacity for that purpose, it is an inappropriate restriction. To remove any ambiguity and to confirm the ISO's ability to procure the Regulation capacity needed to meet reliability requirements, Amendment No. 11 removes the range from ASRP § 4.1.2.

### **III. DESCRIPTION OF AMENDMENT NO. 11**

First, Amendment No. 11 modifies Section 2.5.13 of the ISO Tariff by creating an exception to the provision excluding from later Ancillary Service markets capacity accepted in an earlier market. That exception would apply only to the portion of capacity accepted in the Regulation market that represents the downward range of generating capacity accepted by the ISO. A conforming change is made to section 9.2(b) of the Scheduling Protocol ("SP").

Second, Amendment No. 11 modifies Section 2.5.14 of the ISO Tariff to permit bidders to submit bids in the Regulation market up to the product of the Generating Unit's ramp rate and a period specified by the ISO in advance that is no

lower than 10 minutes and no higher than 30 minutes. Conforming changes are made to SP 9.5.1.

Third and finally, Amendment No. 11 deletes the one to five percent range from ASRP § 4.1.2 to confirm the ISO's authority to procure the Regulation capacity it needs to meet applicable reliability criteria.

#### **IV. PROPOSED EFFECTIVE DATE AND REQUEST FOR WAIVER AND FOR EXPEDITED CONSIDERATION**

The ISO proposes an effective date for Amendment No. 11 of the later of: (1) September 1, 1998; or (2) the date of a Commission order accepting Amendment No. 11 for filing. Pursuant to Section 35.11 of the Commission's regulations,<sup>2</sup> respectfully moves for waiver of the 60-day prior notice requirement to permit the amendment to take effect on that date. Additionally, the ISO respectfully requests that the Commission take expedited action on Amendment No. 11.<sup>3</sup>

Good cause exists for the Commission to grant the ISO a waiver of the 60-day notice requirement and to consider the amendment on an expedited basis. As the Commission is aware, there is a shortage of capacity being bid into the ISO's Ancillary Service markets. Amendment No. 11 is one element of the ISO's efforts to alleviate that shortfall. As such, its prompt implementation is in the public interest.

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<sup>2</sup> 18 C.F.R. § 35.11 (1997).

<sup>3</sup> The ISO also respectfully moves for waiver of any other applicable provision of part 35 of the Commission's regulations pursuant to 18 C.F.R. § 385.101(e) of the Commission's regulations.

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An additional copy of this filing is enclosed to be marked with your filing stamp and returned to our messenger.

Respectfully submitted,

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Roger E. Smith, Regulatory Counsel  
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System Operator Corporation

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