

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

<b>California Independent System Operator Corporation</b>	) ) ) )	<b>Docket Nos. EC96-19-001 ER96-1663-001</b>
---	------------------	--

**MOTION FOR EXTENSION OF TIME  
TO FILE ANNUAL REPORT OF THE MARKET SURVEILLANCE UNIT AND  
REPORTS ON THE RESULTS OF CERTAIN STUDIES**

Pursuant to Rule 212 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (the "Commission"), 18 C.F.R. § 385.212 (1998), the California Independent System Operator Corporation ("ISO") respectfully submits this Motion for Extension of Time to file the annual report of the ISO Market Surveillance Unit and reports on the results of certain studies which the Commission directed the ISO to undertake in its October 30, 1997 Order in the above captioned dockets. Pacific Gas and Electric Co., et al., 81 FERC ¶ 61,122 (1997) ("October 30 Order"). In support of this motion, the ISO states as follows:

1. The Commission's October 30 Order addressed a filing submitted by the then-Trustee for the ISO and the California Power Exchange Corporation ("PX") on August 15, 1997 to implement Phase II of the California electric market restructuring. In the October 30 Order, the Commission conditionally authorized the ISO to commence operations, with a projected operations date of January 1, 1998. The Commission accepted, with certain modifications, the ISO's proposed monitoring plan, which included the establishment of both a Market Surveillance

Unit to serve as a compliance division within the ISO and a separate Market Surveillance Committee of independent experts to review information compiled by the Market Surveillance Unit and make recommendations to the ISO Board of Governors. October 30 Order, 81 FERC at 61,552-54. The Commission also accepted the ISO's proposal to prepare and submit annual reports on its activities and the state of competition in the California electric market to FERC as well as to the California Public Utilities Commission and the California Energy Commission. As noted in the October 30 Order, the ISO had originally proposed to submit such an annual report at the end of 1998, based on the first nine months of operational data, to be compiled from January 1998 through September 1998. Id. at 61, 553.

2. In the October 30 Order, the Commission also noted that the ISO Trustee's Phase II filing raised a number of issues which would be better addressed after operational data became available. The Commission therefore directed the ISO to conduct studies on three of these issues and to file reports on the results of these studies with the Commission by January 1, 1999, after one year of ISO operations. These issues and studies are described in further detail below.

3. Section 7.2.7 of the ISO Tariff allows for the creation of new Zones if, over the course of a 12-month period, the cost to alleviate Congestion on a path "is equivalent to at least 5 percent of the product of the rated capacity of the path and the weighted average Access Charge of the Participating TOs." In the October 30 Order, the Commission approved this 5 percent criterion for the consideration of new Zones, but directed the ISO to conduct a study to evaluate the effectiveness of the 5 percent criterion and report to the Commission on the results of this study by January 1, 1999. Specifically, the Commission directed that the study include the following information and analyses:

1) The total number of MWs and the associated redispatch costs of Intra-Zonal Congestion within each Active and Inactive Zone, for each hour in the Day-Ahead and Hour-Ahead Schedules, starting from the date the ISO commences operations.

2) The total number of MWs and the associated redispatch costs of Inter-Zonal Congestion between each Inactive and adjacent Zone, for each hour in the Day-Ahead and Hour-Ahead Schedules, starting from the date the ISO commences operations.

3) The effects of activating the Inactive Zones on Usage Charges, and the MWs and redispatch costs calculated in (1) and (2) above.

In addition, since an Inactive Zone is defined as not having "workable competition" on at least one side of the Inter-Zonal interface, the study should also include,

4) The effectiveness of all proposed mechanisms for mitigating market power within an Inactive Zone, including call contracts, divestiture, and transmission rights, and whether these mechanisms cause there to be workable competition in the Inactive Zone.

81 FERC at 61,484.

4. The Commission also noted in the October 30 Order that the ISO Phase II filings proposed "a novel method for assigning Transmission Losses." The Commission approved this methodology until the ISO could conduct a study and file a report, to be submitted by January 1, 1999, evaluating the ISO's proposal for calculating and assigning Transmission Losses:

The report should evaluate the effects of the ISO's proposal for calculating and assigning Transmission Losses to individual Scheduling Coordinators, compared to a method that assigned to each Scheduling Coordinator the full marginal Transmission Losses associated with its actual scheduled transactions. The report should include a comparison of loss assignments (and their monetary value at applicable energy prices) under the two methods for a variety of transactions that reflect differences in distance and direction between the generator and its load, as well as differences in line loadings.

81 FERC at 61,522.

5. Lastly, the Commission accepted the ISO's proposed method for evaluating Ancillary Services bids based on the capacity component of the two-part bid, but directed the ISO to "file a report by January 1, 1999 that explores the issue of bid evaluation further." 81 FERC at 61,494.

6. After the Commission issued the October 30 Order, a variety of factors prevented the ISO from commencing operations until March 31, 1998. See 82 FERC ¶ 61,327 (1998). The first year of ISO operations was therefore not completed until March 31, 1999, the date of the instant filing.

7. On January 4, 1999, the ISO submitted in the above-captioned dockets a Motion for Extension of Time to file the reports on the results of these studies. Citing a number of factors, including the time and effort committed to various projects critical to ISO operations, the ISO requested that the time permitted for filing reports on the 5 percent Zone creation criterion and on the methodology for assignment of Transmission Losses be extended until at least March 31, 1999. The ISO also requested that it be permitted to address the Ancillary Service bid evaluation issue as part of its comprehensive filing on the redesign of the Ancillary Services markets, to be filed on March 1, 1999.<sup>1</sup> For similar reasons, on January 19, 1999, the ISO filed a Motion to Extend the time permitted for filing the annual report of the Market Surveillance Unit until at least March 31, 1999.

8. Although the Commission has not, to date, acted on the January 4 or January 19 motions, a number of parties submitted answers to or comments on these filings. No party opposed the motion, although several expressed concern that further extensions for filing the reports on Transmission Losses and the 5 percent Zone creation criterion could delay the Commission's reevaluation

---

<sup>1</sup> The ISO did address the ISO's approach to Ancillary Service bid evaluation in its March 1, 1999 filing of Amendment No. 14 in Docket No. ER99-1971. The ISO intends to address any further issues relating to Ancillary Service bid evaluation in that proceeding.

of those issues.<sup>2</sup> Several parties also noted that the study on Transmission Losses could impact on a number of issues of significant importance to California market participants.<sup>3</sup>

9. Since the ISO Operations Date, the ISO has devoted extensive resources to addressing a number of issues arising from the restructuring of the California electricity market which are critical to ISO operations. For over a year, the ISO has been actively involved in negotiations to achieve settlement of the rates and terms and conditions for the provision of Reliability Must-Run ("RMR") service at issue in Docket Nos. ER98-495 et al. The ISO has also devoted substantial effort to developing a proposed redesign of the ISO's Ancillary Services markets, pursuant to the Commission's order in AES Redondo Beach, L.L.C., 85 FERC ¶ 61,123 (1998), and to implement the elements of the proposed redesign by Summer 1999. Like the rest of the industry, the ISO is also heavily focused on ensuring that its critical systems are Y2K compliant, a task which has been complicated by the fact that the vendor of the ISO's operating system has introduced a revised version of that system and is unwilling to undertake the effort necessary to certify that the superseded system is compliant. In addition, the ISO has invested significant resources towards the development of a proposal for Firm Transmission Rights ("FTRs") and currently has resources committed to implementation of FTRs over the next several months, pending Commission action on the FTR proposal submitted in Docket No. ER98-3594. Lastly, the ISO has devoted a great deal of time to the negotiations with various stakeholders and market participants to address hundreds of unresolved issues, as ordered by the Commission in California

---

<sup>2</sup> Sacramento Municipal Utility District Answer at 4; Metropolitan Water District of Southern California Answer at 5.

<sup>3</sup> Metropolitan Water District of Southern California Answer at 3-5; Comments of Pacific Gas and Electric Company at 2-3.

Independent System Operator Corp., 84 FERC ¶ 61,217 (1998). The ISO is working with these parties to develop and file an offer of settlement on many of these unresolved issues by June 1, 1999.

10. Although the staff of the ISO has commenced the analyses necessary to complete the annual report and the studies on Transmission Losses and Zone creation, most of the ISO's available resources have been needed to address the other matters described above. For example, the Market Surveillance Unit has provided ongoing and extensive support to the RMR settlement negotiations, an undertaking which has gone on for longer than anyone in the ISO could have anticipated. The Market Surveillance Unit also compiled data and studies utilized by the ISO's Market Surveillance Committee in preparing its Report on Redesign of Markets for Ancillary Services and Real-Time Energy, submitted to the Commission on March 25, 1999. The Market Surveillance Unit has begun summarizing data on 12 months of market performance for inclusion in its annual report, but given the resources it must continue to devote to other matters, believes it will take well over a month to complete this process.

11. Similarly, the ISO's Operations staff has devoted the bulk of its efforts to ensuring that the ISO is Y2K compliant, to developing and testing the framework and software necessary to implement components of the proposed Ancillary Services redesign by Summer of 1999, and to preparing for implementation of FTRs. The Operations staff has conducted an initial evaluation of the Transmission Loss and Zone creation criterion issues. In doing so, it determined that completion of the studies directed by the Commission will require a significantly greater level of effort than originally anticipated. ISO Operations estimates that it will require substantial effort just to input a year's worth of operational data and conduct the analyses necessary to complete these

studies consistent with the Commission's guidelines described above. Given the high priority, and potentially high dollar impact of the ISO's Y2K compliance, Ancillary Services redesign, and FTR implementation initiatives, the ISO believes that it is appropriate to focus its efforts and resources on these initiatives.

12. The ISO, as well as the Commission, is very interested in the outcome of these studies and recognizes the importance of such studies in formulating Commission policy on these matters. The ISO is committed to complete these studies and reports as soon as it reasonably can. The ISO has therefore obtained authorization from its Board of Governors to hire consultants to work exclusively on these studies in a coordinated effort with the ISO staff. However, even with this additional commitment of resources, the ISO has determined that it will take well over a month to complete the analyses necessary to prepare the annual report of the Market Surveillance Unit and several months to complete the studies on Transmission Losses and the Zone creation criterion. The ISO therefore respectfully requests that it be permitted to file the annual report of the Market Surveillance Unit by May 31, 1999 and that it be permitted to file the reports on the results of the studies on Transmission Losses and the Zone creation criterion by November 30, 1999.<sup>4</sup>

13. The ISO sincerely regrets the further delay, but believes that the requested extensions are necessary for the ISO to complete the studies and reports with the level of thorough analysis directed by the Commission and without a reduction of ISO resources devoted to other matters of critical import to the restructured California electric market. The ISO recognizes that a number of parties have raised concerns about important issues related to the Transmission Losses study. To the extent prioritization of available resources is feasible, the

---

<sup>4</sup> The ISO notes that the California Power Exchange recently requested an extension of time to file the annual report of the PX compliance unit until May 31, 1999.

ISO therefore commits to completing the Transmission Losses study first and will make every effort to submit the results of this study to the Commission and market participants prior to November 30. The ISO will also endeavor to address the various issues raised by the parties commenting on the Transmission Losses study in this proceeding.

WHEREFORE, the ISO respectfully requests that the Commission extend the time permitted to file the annual report of the Market Surveillance Unit until May 31, 1999 and the time permitted to file the reports on Transmission Losses and the Zone creation criterion described above until November 30, 1999.

Respectfully submitted,

---

N. Beth Emery, General Counsel  
and Executive Vice President  
The California Independent  
System Operator Corporation  
151 Blue Ravine Road  
Folsom, CA 95630  
(916) 351-2207

---

Kenneth G. Jaffe  
David B. Rubin  
Sean A. Atkins  
Swidler Berlin Shereff Friedman, LLP  
3000 K Street, NW  
Washington, D.C. 20007  
(202) 424-7500

Counsel for the California Independent System Operator Corporation

Dated: March 31, 1999



## **CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in the above-captioned dockets.

Dated at Washington, DC, this 31<sup>st</sup> day of March, 1999.

---

Sean A. Atkins  
Counsel for the California Independent  
System Operator Corporation