

Southeast California and in Arizona (which the ISO will refer to as the “Southwest Generation” or “SW Gen” problem²). Instances such as the SW Gen problem typify what the ISO terms “hybrid Congestion.”³ Accordingly, the ISO requested a technical conference as part of its A-50 filing to try to develop a solution to the Congestion typified by the SW Gen problem as quickly as possible. The conference was held on May 1, 2003, comments submitted by the ISO and other parties on May 6, 2003, and the instant reply comments submitted pursuant to FERC staff directions.

II. REPLY COMMENTS

The ISO replies to comments submitted by: Border Generation Group (“BGG”);⁴ California Municipal Utilities Association (“CMUA”); Dynegy Power Marketing, Inc., El Segundo Power, LLC, Long Beach Generation LLC, Cabrillo Power I LLC, and Cabrillo Power II LLC (“Dynegy”); State of California Electricity Oversight Board (“EOB”); the California Public Utilities Commission (“CPUC”); Independent Energy Producers Association (“IEP”); Reliant Energy Power Generation, Inc. and Reliant Energy Services, Inc. (“Reliant”); Southern California Edison Company (“Edison”); and Williams Energy Marketing & Trading

² The ISO acknowledges that the problem is caused both by new generation and by limited transfer capability through the 500/230 kV transformer bank at Miguel Substation. Some parties will likely refer to this problem as the “Limited Transfer Capability at Miguel Substation” problem, though the new generation creates congestion not only at Miguel but within the Imperial Irrigation District’s system. The ISO proposes to call this the SW Gen problem not to assign blame to any particular party but to use the shortest notation to describe the problem. The ISO also notes that while it cites to the SW Gen problem as an example of Intra-zonal Congestion not resolved fully by A-50, the SW Gen problem is not unique. Similar situations occur, and can occur regularly, elsewhere in the ISO Control Area.

³ The ISO uses the term “hybrid Congestion” to refer to instances of Congestion arising from generation within a single ISO Congestion Zone (*i.e.*, Intra-zonal Congestion) that is exacerbated by generation from resources external to the particular Congestion Zone. Thus hybrid Congestion includes both Inter-zonal and Intra-zonal Congestion considerations.

⁴ The BGG simultaneously filed a Motion For Leave To Intervene and Comments. The ISO does not object to the Motion and responds herein to BGG comments.

Company (“Williams”) (individually as defined and collectively, the “Commenters”).⁵

The ISO comments on Amendment Number 50 (“A-50”); the existence and importance of Intra-zonal Congestion and the Decremental Bidding Game (“DEC Game”); the utility of Reliability Must Run (“RMR”) generation in resolving the SW Gen problem; potential impacts of various scenarios upon scheduled implementation of MD02; scenarios 3b and 5; the role the Commission’s rules for interconnection plays in Congestion; and, continued work with Market Participants specifically associated with the SW Gen problem. The ISO reply comments on the afore-listed topics are set forth in seriatim below.

a. Amendment 50

As the ISO has detailed in A-50 and a series of stakeholder meetings over the past fifteen months, A-50 is needed for application throughout the Control Area. Moreover, A-50 makes clear that it is not designed to resolve hybrid Congestion, because A-50 expressly does not take into consideration external generation. Finally, as stated in A-50 and affirmed by the ISO at the technical conference, if timely approved by the Commission, the ISO believes it could implement A-50 during summer 2003. Thus A-50 is the single method under discussion at present that can be implemented relatively quickly and that will improve the ISO ability to resolve the majority of instances of Intra-zonal Congestion. Moreover, while not fully satisfactory, if the ISO has no better tool,

⁵ The ISO notes that at least several of the more vocal participants in the Technical Conference, including two State of California agencies, do not appear to have filed comments. To the extent that such entities have indeed supported their positions with written comments but such comments have not yet been posted on the Commission’s web site or served on the ISO, the ISO respectfully requests leave to reply to any such comments at an appropriate future date.

the ISO can and would apply A-50 to Congestion arising from the SW Gen and similar circumstances as well. The ISO cautions, however, that implementation of A-50 will, of necessity, require some re-deployment of ISO resources away from MD02, for at least some short period of time. That is, while the ISO already possesses some of the software required under A-50 (e.g., a program to generate proxy bids) the ISO still must develop other aspects of A-50. In balance, however, the ISO considers A-50 so important for reliable operations that a small diversion of MD02 resources to implement A-50 is reasonable even given a potential slight impact to MD02 progress.

Of the nine Commenters, five urge the Commission to reject Amendment 50 in its entirety (CMUA, Dynegy, IEP, Reliant, Williams) while BGG suggests that the Commission direct the ISO to create a “hybrid Amendment 50 devise” for application in parts of the ISO Control Area suffering hybrid Congestion. The ISO addresses below the comments presented by these parties. The EOB, CPUC and Edison urge the Commission to approve Amendment 50. The ISO appreciates their support and understanding of the ISO transmission grid and operational challenges to ensure grid reliability. Inasmuch as the Commission requests all parties to forebear from repetition of arguments previously filed, the ISO so complies and merely respectfully joins the EOB, CPUC and Edison in requesting the Commission to consider the record and accordingly approve A-50.

b. Existence and Relevance of Congestion and the DEC Game

The ISO believes the record over the years since start-up at the ISO believe some Commenters⁶ assertions that the problem of Intra-zonal Congestion has not been documented and therefore the ISO has “not made its case” that it needs tools, beyond those presently authorized, to resolve such Congestion. Indeed, numerous reports, analyses and papers from the ISO document the serious and growing problem of Intra-zonal Congestion and the attendant strains on the ISO ability to ensure grid reliability. Thus the need for an improved method to resolve Intra-zonal Congestion is abundantly clear. Similarly, the ISO considers the threat to reliability arising from resolution of Congestion in real time more than adequate justification for approval of A-50, and the local market power mitigation provisions are equally important to safeguard against consumer harm, particularly mitigation against the “DEC game”. Not addressing the DEC game until there is an egregious and sustained demonstration that it is harming consumers is akin to an auto maker refusing to recall defective cars until these defects result in deadly accidents. Both would be irresponsible.

c. Reliability Must Run Generation

Both IEP and Williams⁷ suggest that Reliability Must Run (“RMR”) Generation could play a role in resolving the SW Gen problem. The ISO believes

⁶ CMUA at 2-4 (addressing a perceived failure of the ISO to convince CMUA of the importance of the “DEC Game” as a necessary precondition to fixing Intra-zonal Congestion and questioning the existence of Intra-zonal Congestion in other parts of the ISO Control Area); Dynegy at 2-4 (questioning the importance of the money paid by California consumers for the DEC game in 2002); Reliant at 4-5; Williams at 3,4 (concern the DEC Game is a “Red-Herring”).

⁷ IEP at 4; Williams at 9.

these Commenters are confused either concerning the role of RMR Generation or the nature of the SW Gen problem. Specifically, while there are indeed local RMR Generation units that could be Dispatched to help serve local Load with generation that did not have to travel across the congested external connections, the congestion at the external connections would be unaffected by such RMR Generation. Simply stated, even if all RMR Generation was Dispatched the ISO would still confront serious threats to transmission system reliability from the excessive amounts of generation competing for capability at the external interconnections points. Using RMR in the immediate Load pocket, *i.e.*, that specific portion of Congestion Zone SP15, can be effective in resolving one of the two sides of Imbalance Energy equation – the side requiring an increase in Generation. The other side of the Imbalance Energy equation, *i.e.*, wherein severe over-generation occurs, still must be solved with a concomitant decrease in generation through curtailments remains.

d. Impacts of Additional Tools to Mitigate Congestion on MD02 Implementation

Some Commenters⁸ express concern that any deployment of the ISO's already strained resources to work on A-50, or other methods to solve Congestion, will delay implementation of MD02. In the converse Edison, at pages 7-8, and CPUC at 2, 4, notes that implementation of MD02 should not stand in the way of granting to the ISO badly needed interim tools for resolution of Congestion. In reply, and as detailed above, the ISO notes that it already possesses the necessary software to create proxy bids, and that the further

⁸ Dynegy at 2,3; IEP, *passim*; Reliant at 3,4; Williams at 2, 8, 9.

modifications needed for implementation of A-50 can be accomplished relatively quickly within approximately two months after Commission approval of the amendment. On the other hand, of necessity, some temporary re-assignment of resources from MD02 to A-50 will be required. Similarly, should the Commission approve scenario 5, or any other interim tool, the ISO will be forced to assign staff to implement such tools and thus there will be some unavoidable impact on MD02. The ISO stresses the need to ensure that the ISO has adequate tools for problem resolution regardless of future plans for improved market design.

e. Scenarios 3b and 5

Five Commenters support implementation of scenario 3b.⁹ The ISO notes that this scenario is not yet finalized and key details of software changes, timing for bidding, and impacts upon other ISO Markets and software remain unknown at this time. For example, scenario 3b would require an off-line bid evaluation tool, which the ISO would have to develop. Also, the ISO must develop a price screen requirement tool, which is not a simple task and one that of necessity would require Market Participant coordination. Finally, the ISO would have to develop some sort of solution to an obvious shortcoming in scenario 3b: under the terms of the current ISO Tariff regarding Schedule changes and timing, Schedules submitted by external resources Hour-Ahead Schedules from external resources using the Palo Verde interconnection can undo the Congestion solution implemented after the close of the Day-Ahead Market. In light of these significant design details that must be developed, the ISO cannot even reliably suggest when it might be able to implement scenario 3b. Therefore, support

⁹ BGG at 6-7; Dynegy at 4; IEP at 4-5; Reliant at 4; Williams at 7.

notwithstanding, scenario 3b is not viable and the ISO can neither support it nor commit to implementation of it at this time. The ISO cautions that the lack of viability at present does not suggest that scenario 3b may not indeed be a viable tool at some appropriate point in the future. To that end, the ISO reminds the Commission that all of the scenarios that the ISO set forth in its white paper and as were discussed at the technical conference were suggestions and presented for discussion and “brain-storming” purposes only. The ISO expressly noted in its white paper and at the technical conference that it does not endorse any of the scenarios and that each present certain benefits but are accompanied with implementation or other design drawbacks as well.

Some Commenters stated opposition to scenario 5. As indicated in its initial comments, the ISO recognizes that scenario 5 is not a market-based solution and, like other potential interim tools, requires additional design and implementation detail and commitment of ISO staff for development. Nonetheless, the ISO believes that scenario 5 offers the single best interim solution identified to date. The ISO notes that successful implementation of scenario 5 critically depends upon the Commission providing to the ISO express and specific guidance on how to allocate limited transmission capability amongst the in-Control Area Generating Units based upon availability after external resources schedule in the Day-Ahead Market. Similarly, successful implementation of the best interim tool, scenario 5, requires collaboration between the ISO and relevant parties to the SW Gen problem, including BGG. As detailed in section g below, the ISO is committed to working with BGG and

other groups.

f. Commission Interconnection Rules

The ISO appreciates that several Commenters correctly recognize the nexus between the problem of SW Gen and the Commission's generation interconnection rules and its denial of ISO Tariff amendments that otherwise would have enabled the ISO to take into consideration Congestion when commenting on and approving new generation interconnection.¹⁰ In reply, the ISO agrees with gist of such comments, and urges the Commission to engage in a targeted and comprehensive review of its interconnection policies with a view to permitting, indeed requiring, mitigation of Congestion impacts on existing transmission facilities as a condition precedent to interconnection by new generation.

g. Work with BGG and Other Special Interest Groups

The ISO remains committed to continued work with all Market Participants to resolve the problems of Congestion, both as typified by SW Gen and as evidenced in other parts of the ISO Control Area. Thus the ISO concurs with the suggestions of several Commenters¹¹ to engage in targeted cooperative development of mitigation and prevention methods. On the other hand, denial of patently useful and urgently needed methods to resolve Intra-zonal Congestion before real-time, as proposed under A-50, would be detrimental to the ISO transmission grid reliability, and so the ISO urges the Commission, at a

¹⁰ CMUA at 4-5; Reliant at 2; Edison at 6.

¹¹ BGG, *passim*; IEP at 3; Edison at 4-5.

minimum, approve A-50 while the ISO continues to seek resolution of the hybrid Congestion problems arising from SW Gen.

III. SUMMARY

For the reasons detailed above and set forth in the record before the Commission, the ISO urges timely approval of A-50 as filed. Even were the Commission to deny any additional relief to the ISO, A-50 will allow the ISO both to deal with Intra-Zonal Congestion throughout the ISO Control Area and, while not optimally, provide for solution of the SW Gen problem as well. A-50 is also needed to complement any approach that manages Congestion in the Day-Ahead time frame, because no forward market Congestion Management system can fully mitigate all Congestion. The ISO specifically states that scenario 3b is neither fully formed, vetted, nor understood and as such the ISO cannot implement it nor provide an estimate when such a method could be viable. To the extent the Commission is inclined to provide additional tools to the ISO, scenario 5 is the single best currently identified option to solve the SW Gen problem until a stable long-term approach can be implemented.

The ISO joins Commenters in urging the Commission to consider delivery issues in the rulemaking on generator interconnection policy.

The ISO again thanks Commission Staff for facilitating the Technical Conference and allowing additional input.

Respectfully submitted,

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Dated: May 9, 2003



May 9, 2003

The Honorable Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

**Re: California Independent System Operator Corporation
Docket No. ER03-683-000**

Dear Secretary Salas:

Enclosed for electronic filing please find Reply Comments of the California Independent System Operator Corporation to Comments on the May 1, 2003 Technical Conference in the above-referenced docket.

Thank you for your assistance in this matter.

Respectfully submitted,

Margaret A. Rostker
Counsel for The California Independent
System Operator Corporation

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 docket.

Dated at Folsom, California, on this 9th day of May, 2003.

Margaret A. Rostker