



May 27, 2003

The Honorable Magalie Roman Saïas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: California Independent System Operator Corporation
Docket No. ER03-____-000
Amendment No. 52 to the CAISO Tariff**

Dear Secretary Salas:

Pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d, and Sections 35.11 and 35.13 of the Federal Energy Regulatory Commission's ("Commission") rules and regulations, 18 C.F.R. §§ 35.11, 35.13, the California Independent System Operator Corporation ("CAISO")¹ respectfully submits for filing an original and six copies of an amendment ("Amendment No. 52") to the CAISO Tariff. As described below, Amendment No. 52 eliminates the requirement that System Resources² submitting Energy bids into the CAISO Real Time Markets limit such bids to \$0/MWh. The CAISO proposes that System Resources be permitted to submit bids above \$0/MWh in the CAISO Real Time Markets. This is the only Tariff revision that the CAISO proposes in the instant filing.

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

² System Resources are defined in the CAISO Tariff as "[a] group of resources located outside of the CAISO Control Area capable of providing Energy and/or Ancillary Services to the CAISO Controlled Grid." While the Commission at times refers to "imports," inasmuch as that is not a defined term in the CAISO Tariff, the CAISO will make reference to System Resources, with the understanding that this term encompasses all resources obligated under Commission orders directed at imports.

Prior conditions placed upon System Resources relating to bidding and settlement would continue to apply. Specifically, System Resources would continue to be settled at the applicable market clearing price ("MCP") and bids from such resources remain ineligible to set the MCP. In addition, System Resources continue to be exempt from application of the CAISO's Automatic Mitigation Procedures ("AMP"). Thus, the CAISO is only requesting that the Commission expedite implementation of permission for System Resources to submit bids of non-\$0/MWh in the CAISO Real Time Markets, as previously approved in a Commission order on January 17, 2003.³

Given the coming summer peak months, California's dependence on imported Energy to meet peak loads, and the enhanced incentives to System Resources to more fully participate in CAISO markets with the removal of the \$0/MWh bid requirement, the CAISO requests waiver of the Commission's sixty-day notice requirement. The CAISO respectfully requests that this amendment be made effective upon the date of its approval by the Commission.

I. BACKGROUND

On May 1, 2002, the CAISO filed its Comprehensive Market Design proposal ("MD02 Filing") with the Commission. As part of MD02 Phase I, the CAISO proposed a real-time economic dispatch system. At the time of the MD02 filing, the CAISO expected to implement real-time economic dispatch in Spring 2003. MD02 Filing, Attachment A at 113. As part of its MD02 Filing, the CAISO proposed that System Resources could bid above \$0/MWh, but could not set the MCP and would be subject to AMP.

On July 17, 2002, the Commission issued an "Order on the California Comprehensive Market Redesign Proposal" in which the Commission accepted, rejected, and modified parts of the CAISO's MD02 Filing.⁴ Among the elements the Commission approved was the real-time economic dispatch system. July 17 Order at P 128.

On August 16, 2002, the CAISO filed a request for rehearing of various aspects of the July 17 Order ("August 16 Request for Rehearing"). The CAISO requested that the Commission authorize it to implement the real-time economic dispatch proposal simultaneously with the penalties for uninstructed deviations (the "Phase 1B Modifications"). The basis for the request was the CAISO's concern that, if it were to implement economic dispatch prior to the penalties for uninstructed deviations, "unit owners would have no financial

³ *California Independent System Operator Corporation*, 102 FERC ¶ 61,050 at P 7 (2003) ("January 17 Order").

⁴ *California Independent System Operator Corporation*, 100 FERC ¶ 61,060 (2002) ("July 17 Order").

incentive to follow dispatch orders.” August 16 Request for Rehearing at 43. In addition, the CAISO requested that the Commission clarify that marketers and System Resources are not required to bid \$0/MWh and must be “price takers”.⁵ *Id.* at 52-53. The CAISO requested clarification of this issue in order to encourage System Resources to participate in CAISO markets and to prevent such resources from being paid \$0/MWh when the real-time economic dispatch system was implemented. *Id.* at 54.

On October 11, 2002, the Commission issued an “Order on Rehearing and Compliance Filing” in which the Commission addressed the CAISO’s August 16 Request for Rehearing. The Commission accepted the CAISO’s proposal to delay implementing clearing the price overlap using real time economic dispatch until the CAISO completed the software improvements necessary for implementation of the uninstructed deviation penalties.⁶ However, the Commission held that System Resources bidding into the CAISO Control Area must bid \$0/MWh and be “price takers”. *Id.* at P 20.

On November 8, 2002, the CAISO filed a request for rehearing of the October 11 Order in which it requested, *inter alia*, that the Commission vacate the \$0/MWh bid requirement (“November 8 Request for Rehearing”). On January 17, 2003, the Commission issued its order on rehearing of the October 11 Order. In the January 17 Order, the Commission reversed its previous decision regarding the \$0/MWh bid requirement and found that “effective on the date of implementation of the new economic dispatch software discussed above, we will allow bidders outside the CAISO control area to submit a bid into CAISO markets other than \$0/MWh and be paid the market clearing price, but not allow that bid to set the market clearing price. Until such time, the \$0/MWh bid requirement will remain in effect.” January 17 Order at P 7. The Commission also found that “eliminating a strong disincentive to suppliers outside of the CAISO Control Area to bid into the CAISO markets through removal of the zero-bid requirement outweighs current concerns regarding the possibility of ‘mega-watt laundering’”. *Id.*

II. BASIS FOR PROPOSED TARIFF CHANGES

On February 18, 2003, the CAISO filed a request for rehearing and clarification of the January 17 Order in which the CAISO sought rehearing of one finding and clarification of another. The CAISO did not seek rehearing of

⁵ Although it was not a part of the CAISO’s MD02 proposal, in a separate proceeding the Commission had ordered that marketers and System Resources bid \$0/MWh and be price takers. See *San Diego Gas & Electric Company v. Sellers of Energy and Ancillary Services into Markets Operated By the California Independent System Operator and the California Power Exchange*, 97 FERC ¶ 61,275 (2001) at 62,192.

⁶ *Id.* at P 68. These two elements now comprise MD02 Phase 1B.

the Commission's decision to eliminate the \$0/MWh bid requirement upon implementation of the real-time economic dispatch software because that decision granted the relief the CAISO had sought in its November 8, 2002 request for rehearing, albeit conditioned upon the implementation of the real-time economic dispatch software.

When the CAISO filed its request for rehearing on February 18, 2003, both the Commission and the CAISO anticipated that the Phase 1B modifications would be operational prior to the peak summer months of 2003. Subsequent to the CAISO filing its request for rehearing, changed circumstances now compel the CAISO to petition the Commission to separate the linkage between implementation of the Phase 1B real-time economic dispatch software and the elimination of the \$0/MWh bid requirement. Specifically, the CAISO's vendor for the real-time economic dispatch software has now advised the CAISO that initial delivery of software code to the CAISO is not expected until the end of May 2003.⁷ This new delivery date has significantly impacted the implementation date of Phase 1B, and presently the CAISO cannot implement Phase 1B prior to late Fall 2003. Herein is the basis for the instant filing and request for expedited removal of the \$0/MWh limit on System Resources bids.

System Resources, the CAISO and Load in the CAISO Control Area should not be required to wait until Phase 1B is implemented in Fall 2003 to eliminate the \$0/MWh requirement. There is no market design or software functionality reason why elimination of the \$0/MWh bid requirement cannot occur prior to implementation of Phase 1B. On the other hand, immediate removal of this bid limit will encourage System Resources to participate in CAISO Markets during the critical summer peak periods when California depends on such imported Energy.

In support of this request, the CAISO notes that, as compared to the same period last year, data for this year show that System Resources have significantly reduced their participation in CAISO Real Time Markets. Staff of some System Resources has informed the CAISO that the decline in participation is due, at least in part, to the \$0/MWh bid requirement. One way that the \$0/MWh bid requirement acts to reduce System Resource participation is to introduce the significant risk that imported Energy will be settled at a price below the System Resource's cost as reflected in its bid price. Simply stated, System Resources confront a substantial risk of earning a price below production costs when participating in CAISO Real Time Markets if such resources are limited to \$0/MWh bids. Eliminating the \$0/MWh bid requirement would reduce this risk by giving suppliers of imported Energy the opportunity to specify price levels at which they are willing to be dispatched. Given a non-\$0/MWh bid, the CAISO will insert such

⁷ See the CAISO's April 7, 2003 Status Report, Docket No. ER02-1656, *et al.* at p. 3.

bids in merit order into the BEEP stack. Then, in accordance with existing procedures the CAISO will pre-dispatch, in economic merit order, those System Resource bids the CAISO forecasts will be needed to meet the next hour's real-time Imbalance Energy requirements. As is currently done, the marginal eligible in-Control Area bid Dispatched by the CAISO will set the applicable MCP, which will be used to settle the System Resources that were pre-dispatched. Although System Resources still would not be eligible to set the MCP and would not be guaranteed to be Dispatched at their bid price, by being pre-dispatched in economic merit order, System Resources are significantly more likely to be settled at an MCP that is close to, if not greater than, their non-\$0/MWh bid price.

It is clear that there are other barriers to System Resource participation in the CAISO Real Time Markets beyond any party's control, including, for example, dramatic growth of native Loads in the Pacific Northwest and the Southwest, resulting in less Energy available for export into California. Nonetheless, removing the \$0/MWh bid requirement is important and something that is within the Commission's control. To that end, the CAISO believes that removing this requirement is critical to encourage System Resources' participation in CAISO markets during the Summer of 2003. The Commission recognized at its April 30, 2003 meeting that California relies on imported Energy to serve its Load, especially during the peak Summer season. It follows that the CAISO should have market rules in place that encourage the participation of System Resources in the CAISO's markets to the fullest extent possible.⁸

In sum, the CAISO expected that the \$0/MWh bid requirement would be eliminated prior to Summer 2003 but, because of the delays in Phase 1B, it will not be unless the Commission approves the instant Tariff Amendment. While, as discussed above, there are a number of other factors that also contribute to the reduction in System Resources' participation in the CAISO Markets, the \$0/MWh bid requirement consistently has been identified as a significant contributing factor to an unwillingness to bid. The CAISO knows that eliminating the \$0/MWh bid requirement prior to Summer 2003 will not be a panacea, and additional measures are needed to maximize the participation of System Resources in the CAISO's markets.⁹ However, eliminating the

⁸ The CAISO desires, to the maximum extent possible, to accommodate out-of-state suppliers' reasonable expectations that they should earn a price no lower than their bid, which, in the real-time market, should represent their marginal costs.

⁹ The CAISO currently has an internal team addressing the various reasons for reduced System Resources participation in CAISO markets. This team held meetings in Portland, Oregon on May 19, 2003 and in Phoenix, Arizona on May 21, 2003, to discuss barriers to System Resource participation in CAISO markets and to identify other measures, beyond elimination of the \$0/MWh bid requirement that might be undertaken to stimulate Energy imports. At both meetings System Resources' staff indicated support for removal of the \$0/MWh bid limit and informed the CAISO that removal of this bid limit would help

\$0/MWh bid requirement prior to the summer of 2003 should provide the CAISO with an additional, necessary tool to encourage the supplies on which California always has depended to participate in CAISO markets.¹⁰ Because the Commission has already approved elimination of the \$0/MWh bid requirement and there is no valid reason for delay, the Commission should eliminate this bidding requirement prior to Summer 2003.

Attachment A to this filing contains the revised tariff sheets to remove the \$0/MWh bid requirement. Attachment B is a redline showing the anticipated tariff modifications.

III. EFFECTIVE DATE

For the reasons described above, the CAISO respectfully requests that the Commission expeditiously issue an order concerning the present filing and make the single modification proposed in the filing effective as of the date such order is issued. The CAISO submits that good cause exists, in accordance with Section 35.11 of the Commission's regulations, 18 C.F.R. § 35.11, for the Commission to approve the requested effective date and grant any necessary waivers to effectuate the authorizations requested herein.

IV. COMMUNICATIONS

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:

Charles F. Robinson
Margaret A. Rostker
The California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400
Fax: (916) 608-7296

facilitate their business decisions to start, resume or increase their participation in the CAISO Real Time Markets.

¹⁰ Permitting System Resources to bid prices other than \$0/MWh will provide to them a greater incentive to participate in the CAISO's markets because they are more likely, although not guaranteed, to be paid an MCP that is at least as high as their bid price.

V. SERVICE

The CAISO 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 CAISO Tariff. In addition, the CAISO is posting this transmittal letter and all attachments on the CAISO Home Page.

VI. ATTACHMENTS

The following documents, in addition to this letter, support this filing:

- | | |
|--------------|---|
| Attachment A | Revised Tariff sheets to implement Amendment No. 52 to the CAISO Tariff as described above. |
| Attachment B | Black-lined Tariff provisions showing the proposed changes contained in Amendment No. 52. |
| Attachment C | Notice of this filing, suitable for publication in the Federal Register (also provided in electronic format). |

Two extra copies of this filing are also enclosed. Please stamp these copies with the date and time filed and return them to the messenger.

Please feel free to contact the undersigned if you have any questions concerning this matter.

Respectfully submitted,

Charles F. Robinson
Margaret A. Rostker
The California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630

Counsel for the California Independent
System Operator Corporation

Enclosures

ATTACHMENT A

the ISO. The ISO's obligation to pay Start-Up Fuel Costs is limited to the obligation to pay Start-Up Fuel Cost Charges received. All disputes concerning payment of Start-Up Fuel Cost Invoices shall be subject to ISO ADR Procedures, in accordance with Section 13 of this ISO Tariff.

2.5.23.3.8 [Not Used]

2.5.23.3.8.1 Hydro-Electric Resources within the ISO Control Area.

Hydro-electric resources within the ISO Control Area are not required to submit \$0/MWh or other price-taker bids and are eligible to set a market clearing price.

ATTACHMENT B

2.5.23.3.8 [Not Used] Requirement for System Resources to bid \$0/MWh.

All Energy bids to the ISO from System Resources must be for \$0/MWh.

ATTACHMENT C

