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June 7, 2004

Via Electronic Filing

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

**Re: California Independent System Operator Corporation
Docket No. ER04-793-___**

Dear Secretary Salas:

Enclosed please find the Motion for Leave to File Answer and Answer of the California Independent System Operator Corporation to Comments and Protest, submitted today in the above-captioned proceeding.

Thank you for your attention to this matter.

Respectfully submitted,

/s/ Bradley R. Miliauskas
Bradley R. Miliauskas

Counsel for the California Independent
System Operator Corporation

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

**California Independent System) Docket No. ER04-793-____
Operator Corporation)**

**MOTION FOR LEAVE TO FILE ANSWER AND ANSWER OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
TO COMMENTS AND PROTEST**

On April 30, 2004, the California Independent System Operator Corporation (“ISO”)¹ filed Amendment No. 59 to the ISO Tariff in the above-captioned proceeding. Amendment No. 59 provides standards for the dynamic scheduling of imports of Energy and Ancillary Services.

A number of parties submitted motions to intervene and comments concerning Amendment No. 59, and one party submitted a protest.² Pursuant to Rules 212 and 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. §§ 385.212, 385.213, the ISO hereby requests leave to file an answer, and files its answer, to the comments and protest submitted in the above-captioned proceeding.³

¹ Capitalized terms not otherwise defined herein have the meaning set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff.

² The following parties submitted motions to intervene and/or comments: the Bonneville Power Administration (“BPA”); Calpine Corporation; California Department of Water Resources State Water Project; California Electricity Oversight Board; Cities of Redding and Santa Clara, California, and the M-S-R Public Power Agency (“Cities/M-S-R”); The Metropolitan Water District of Southern California; Mirant Americas Energy Marketing, LP, Mirant California, LLC, Mirant Delta, LLC, Mirant Potrero, LLC, and Mirant Las Vegas, LLC (collectively, the “Mirant Parties”); Modesto Irrigation District; Northern California Power Agency (“NCPA”); PacifiCorp and PPM Energy, Inc.; Pinnacle West Companies; Southern California Edison Company (“SCE”); Transmission Agency of Northern California (“TANC”); and Williams Power Company, Inc. Powerex Corp. (“Powerex”) submitted a motion to intervene and a protest.

³ To the extent this answer responds to Powerex’s protest, the ISO requests waiver of Rule 213(a)(2) (18 C.F.R. § 385.213(a)(2)) to permit it to make this answer. Good cause for waiver exists here because the answer will aid the Commission in understanding the issues in the

The ISO does not oppose any of the motions to intervene. All of the comments support the ISO's facilitation of dynamic scheduling and none advocate rejection of Amendment No. 59. Several parties, however, seek clarification from the ISO with respect to the dynamic scheduling requirements or offer proposals to modify the ISO's submission. In this answer, the ISO provides certain additional clarification and responds to the revisions suggested by several intervenors. Amendment No. 59 should be accepted by the Commission, taking into account the discussion below.

I. ANSWER

A. It Would Be Inappropriate to Address the Application of the Uninstructed Deviation Penalty to System Resources in the Present Proceeding

Powerex argues that the ISO should revise its tariff to provide an exemption for dynamic schedules of System Resources from the Uninstructed Deviation Penalty ("UDP") if there is an outage, whether a transmission or generation outage, associated with those System Resources that is beyond the control of the Market Participant that is dynamically scheduling.⁴ The issue of the applicability of UDP to System Resources is being addressed in another proceeding where the ISO has already substantively addressed Powerex's stated concern.

proceeding, provide additional information to assist the Commission in the decision-making process, and help to ensure a complete and accurate record in this case. See, e.g., *Entergy Services, Inc.*, 101 FERC ¶ 61,289, at 62,163 (2002); *Duke Energy Corporation*, 100 FERC ¶ 61,2551, at 61,886 (2002); *Delmarva Power & Light Company*, 93 FERC ¶ 61,098, at 61,259 (2000).

⁴ Powerex at 3-4.

On March 2, 2004, the ISO filed Amendment No. 58 to the ISO Tariff (“Amendment No. 58”) in Docket No. ER04-609-000, proposing, *inter alia*, “to clarify how UDP will be applied to dynamically scheduled System Resources.”⁵ Reliant (rather than Powerex) requested that the ISO clarify if dynamically scheduled System Resources will have the ability to “make entries in the ISO’s computer-based logging system (‘SLIC’) to avoid incurring UDP.”⁶ (SLIC accepts electronically submitted transmission and generation outage requests.) In its response to the protest of Reliant, the ISO stated that it proposed that dynamically scheduled System Resources should be treated as Generating Units internal to the ISO Control Area for the purposes of assessing UDP. The ISO explained that Scheduling Coordinators for dynamically scheduled System Resources will have the ability to notify the ISO of outages for those resources through SLIC as if the resources were Generating Units in the ISO Control Area; should such a resource be unable to meet its Hour-Ahead Schedule due to a real-time outage, the Scheduling Coordinator will be able to avoid UDP that might be incurred as a result of that outage if it notifies the ISO of the outage via SLIC within 30 minutes of the onset of the outage. Additionally, dynamically scheduled System Resources will be able to report any real-time transmission curtailments that may affect their dynamic Energy schedules.⁷

⁵ See Transmittal Letter for Amendment No. 58 at 2.

⁶ Motion to Intervene and Protest of Reliant, Docket No ER04-609-000 (Mar. 23, 2004), at 5. “SLIC” is a short form for “scheduling and logging for the ISO in California.”

⁷ Motion for Leave to File Answer and Answer of the ISO to Motions to Intervene, Comments, and Protests, Docket No. ER04-609-000 (Apr. 7, 2004), at 14-15.

For these reasons, the ISO offered to further clarify Section 11.2.4.1.2(p) of the ISO Tariff as follows:

Generating units **or dynamically scheduled System Resources** with Uninstructed Imbalance Energy will be exempted from the Uninstructed Deviation Penalty if the Generating Unit **or dynamically scheduled System Resource** was physically incapable of delivering the expected Energy, provided that the Generating Unit **or dynamically scheduled System Resource** had notified the ISO within 30 minutes of the onset of an event that prevents the resource from performing its obligations. A Generating Unit **or dynamically scheduled System Resource** must notify ISO operations staff of its reasons for failing to deliver the expected Energy in accordance with Section 2.3.3.9.2 and must provide information to the ISO that verifies the reason the resource failed to comply with the Dispatch instruction within 48 hours of the operating hour in which the instruction is issued;⁸

Powerex did not address this issue in its intervention in Docket No. ER04-609, which was filed on April 9, 2004.

In Amendment No. 59, the ISO did not propose to further revise section 11.2.4.1.2(p), and thus Powerex's argument is an impermissible collateral attack on the pending Docket No. ER04-609. More significantly, the ISO has already addressed the substance of Powerex's complaint in the revisions to Section 11.2.4.1.2(p) quoted above, as proposed in the ISO's answer in Docket No. ER04-609 – when UDP is put into effect as part of the ISO's Market Redesign Phase 1B, the ISO will allow for appropriate UDP exemptions in the event dynamically scheduled resources and/or associated transmission capacity is forced out or curtailed after the close of the ISO's Hour-Ahead Market and that outage or curtailment is properly reported via the ISO's SLIC outage reporting application. As the ISO has already proposed in Docket No. ER04-609 to

⁸ *Id.* at 15.

address the substance of Powerex's protest in this proceeding, there is no relief left to grant Powerex in this proceeding in any event, and Powerex's protest should be dismissed as moot.

B. The Dynamic Scheduling Standards Fall Within the Commission's Rule of Reason and Therefore Do Not Need to Be Filed

Cities/M-S-R and TANC argue that the ISO should include its dynamic scheduling standards in the ISO Tariff rather than in its Operating Procedures, and should file modifications to the Operating Procedures for Commission approval.⁹ This request should be rejected. Consistent with the Commission's treatment of detailed operating procedures and manuals for the ISO and other independent transmission providers, the detailed standards should remain in the Operating Procedures and revisions need not be filed.

The Commission has applied a "rule of reason" in determining whether operating procedures needed to be filed. It has found that such operating procedures need not be filed where the rates, terms, and conditions applicable to the regional transmission entity are already set forth in the entity's tariff and the operating procedures are available for public inspection on a permanent basis on the entity's web site.¹⁰ The dynamic scheduling standards satisfy these terms of the Commission's rule of reason. Therefore, they do not need to be filed and changes to them do not require Commission approval.

⁹ Cities/M-S-R at 8-9; TANC at 8.

¹⁰ See, e.g., *New England Power Pool*, 95 FERC ¶ 61,253, at 61,877 (2001) (rejecting proposed requirement that the New England Power Pool file its operating procedures); *Pennsylvania-New Jersey-Maryland Interconnection, et al.*, 81 FERC ¶ 61,257, at 62,267 (1997) (rejecting proposed requirement that PJM file its operating procedures).

In Amendment No. 59, the ISO included in the ISO Tariff the general requirements for dynamic scheduling, including provisions covering the broad programmatic requirements that dynamic scheduling: (1) be technically feasible and comply with all applicable NERC and WECC criteria; (2) satisfy published ISO operating, technical, and business requirements; and (3) be in accordance with agreements applicable to each System Resource, as well as the System Resource's host Control Area and any intermediary Control Areas.¹¹

The ISO's standards provide an additional level of detail and do not fundamentally define the rates, terms, and conditions of transmission service. The Commission has permitted PJM and the New York ISO to include such operational requirements in non-filed manuals.¹²

Cities/M-S-R and TANC raise no objections to the contents of the ISO's proposed standards. Requiring formal filings under Section 205 of the Federal Power Act ("FPA") for minor changes in these Operating Procedures would be an unnecessary waste of scarce ISO, Commission, and Market Participant resources. If Cities/M-S-R, TANC, or another entity believes a change to the procedures renders the program unduly discriminatory, it may always file a complaint pursuant to Section 206 of the FPA.¹³

¹¹ See proposed Section 2.2.7.6 of the ISO Tariff, and the other proposed changes contained in Attachments C and D to Amendment No. 59.

¹² See *Pennsylvania-New Jersey-Maryland Interconnection, et al.*, 81 FERC at 62,267; *Central Hudson Gas & Electric Corporation*, 88 FERC ¶ 61,138, at 61,403 (1999).

¹³ See *California Independent System Operator Corporation*, 105 FERC ¶ 61,314, at P 22 (2003) (providing that to the extent an entity believes and can demonstrate that the ISO's Operating Procedures are detrimental to the entity's rights under existing transmission contracts, it may file a complaint with the Commission).

C. BPA's Transmission Business Line Need Only Sign One or the Other of the Interconnected Control Area Operating Agreement or the Dynamic Scheduling Host Control Area Operating Agreement

BPA's Transmission Business Line ("TBL") seeks clarification whether the ISO will require TBL to enter into an Interconnected Control Area Operating Agreement as well as the Dynamic Scheduling Host Control Area Operating Agreement found in Attachment H to Amendment No. 59.¹⁴ The ISO clarifies that TBL need only sign one or the other of these agreements.

D. The Only Host Control Area Data Telemetry Requirements for the Non-Regulation Dynamic Functionality Are the Actual Dynamic Schedule Signal and the Hourly Integrated MWh to Be Sent Electronically from the Host Control Area to the ISO

BPA's TBL requests clarification of what data are being referred to in Section 5 (Telemetry) of the Dynamic Scheduling Host Control Area Operating Agreement found in Attachment H to Amendment No. 59.¹⁵ The ISO clarifies that the only data required to be telemetered from the host Control Area to the ISO for the non-Regulation dynamic functionality are the actual dynamic schedule signal (in MW) and, once per hour, the calculated (by integrating over time) amount of MWh delivered by the host Control Area to the ISO during the last operating hour to be sent electronically from the host Control Area to the ISO.

¹⁴ BPA at 4-5.

¹⁵ *Id.* at 5. Although BPA cites to Section 5 of the agreement, the provision at issue is actually in Section 3 of the agreement.

E. The Use of *Pro Forma* Contracts Is Favored, Though the Use of Three-Party Agreements Would Be Permissible in Appropriate Circumstances

BPA's TBL states that it believes the ISO should develop one operating agreement template to govern the relationship of all entities involved in the dynamic scheduling relationship, and that it would support the use of a three-party agreement executed by the ISO, the Scheduling Coordinator, and the host or intermediary Control Area.¹⁶ The ISO believes that its *pro forma* contracts are preferable, because the terms of those contracts are standardized. Moreover, only TBL has indicated a preference for the use of a three-party agreement. Nevertheless, the ISO would be willing to consider executing a three-party agreement with TBL or other entities where that is the preferred means of coordination.

F. The ISO Does Not Seek Operational Control Over Any System Resources Located Outside of the ISO Control Area

BPA's TBL states that it seeks clarification of the scope of control the ISO would have over System Resources located outside of its Control Area.¹⁷ The ISO appreciates the concern and clarifies that it does not seek operational control over any resources located within TBL's Control Area or for that matter over any other Control Areas hosting dynamically scheduled System Resources. What the ISO's proposed dynamic scheduling standards provide for is an ability for the ISO to issue non-market-related operating instructions to dynamically scheduled System Resources in cases of operational duress (System Emergency, operating contingency, loop flow mitigation, etc). Moreover, as TBL

¹⁶ BPA at 5-6.

¹⁷ *Id.* at 6-7.

has stated, such potential (and highly unlikely) duress-related instructions would pertain only to the System Resource's capacity that was scheduled/committed through the ISO's markets for the given operating hour.

G. BPA's TBL Has the Right to Interrupt Any Service or Schedule Into or Out of TBL's Control Area if Necessary to Maintain the Reliability of TBL's Transmission System

BPA's TBL requests clarification whether TBL has the right as the responsible Control Area Operator to interrupt any service or schedule into or out of TBL's Control Area if necessary to maintain the reliability of TBL's transmission system.¹⁸ The ISO clarifies that TBL has such a right. The ISO absolutely understands and agrees that a host or intermediary Control Area may curtail the transmission allocation reserved for a dynamically scheduled System Resource in cases when System Reliability is threatened. The ISO does not believe that any of the provisions of Amendment No. 59 or its proposed standards include any provisions to the contrary.

H. No Tariff Modification Concerning Simultaneous Schedules Is Necessary

Mirant argues that the Commission should direct the ISO clarify in new Tariff language that a dynamically scheduled System Resource may simultaneously schedule in another Control Area; Mirant states that the requested clarification "should be intuitively obvious."¹⁹ The ISO agrees that the point is obvious and therefore believes no modification to the ISO Tariff is necessary to reflect it.

¹⁸ *Id.* at 7.

¹⁹ Mirant at 4-5.

I. Clarification Concerning How the Tolerance Band Will Apply if Capacity Is Sold in Two Separate Markets

Mirant asserts that the Commission should require the ISO to clarify how the Tolerance Band will apply if capacity is sold in two separate markets, and requests that the ISO provide its clarification with regard to an example posed by Mirant.²⁰

As Mirant suggests in its comments, the ISO's intent is for the dynamic scheduling standards to allow a Scheduling Coordinator to utilize any portion of the dynamically scheduled System Resource's generating capacity that is not committed to the ISO for the given operating hour for other (non-ISO) commercial activities. The following example further clarifies the matter. Assume that the net dependable capacity of a generating plant in a neighboring Control Area is 500 MW and that a dynamically scheduled System Resource is defined in the ISO's systems based on that plant with the Pmax of 300 MW. Further assume that for a particular operating hour the responsible Scheduling Coordinator submitted to the ISO a 200 MW dynamic energy schedule and successfully bid 50 MW of Spinning Reserve from the System Resource. Accordingly, the remaining 250 MW of unencumbered capacity of the "underlying" generating plant (500 MW – 200 MW – 50MW = 250 MW) for that operating hour can be committed to other markets. The 250 MW of the unencumbered capacity that may be committed to "other markets" is comprised of the 200 MW that is outside the System Resource Pmax (500 MW – 300 MW) and the 50 MW of the uncommitted System

²⁰ *Id.* at 5.

Resource capacity for the particular operating hour (300 MW – 200 MW – 50 MW).

In accordance with provisions contained in Amendment No. 58, the Tolerance Band for Generating Units and dynamically scheduling System Resources will be based on the associated Pmax regardless of any Forced Outage or curtailment of any portion of the capacity of the Generating Unit or System Resource. For example, a dynamically scheduled System Resource with Pmax of 300 MW would have its “allowable performance band” (Tolerance Band) defined as +/- 9 MW (3% of 300 MW). Assume that System Resource has a 300 MW dynamic energy schedule submitted for a particular operating hour. Based on the submitted 300 MW schedule, if the dynamic schedule varies (on a 10-minute interval basis) between 309 MW (300 MW + 9 MW) and 291 MW (300 MW – 9 MW), the System Resource would be not be subject to UDP.

Alternatively, assume that System Resource is curtailed in real time by 50 MW such that the curtailed dynamic schedule is reduced to 250 MW (and that the Scheduling Coordinator reports that curtailment via the ISO’s SLIC outage reporting application, as discussed in Section I.A above), in which case the associated “allowable performance band” (Tolerance Band) will be between 259 MW (250 MW + 9 MW) and 241 MW (250 MW – 9 MW). It should be noted that, although the 309 MW upper “allowable performance band” (Tolerance Band) would be calculated in the example, the ISO’s standards would explicitly *not* allow for such a real-time amount in excess of the commensurate transmission reservation (i.e. 300 MW) for that operating hour on the associated ISO intertie.

J. The Commission Should Reject SCE's Proposed Change to Section 5.12 of the Dynamic Scheduling Standards

SCE asserts that the language of Section 5.12 of the Standards for Dynamic Scheduling of Energy, Supplemental Energy, and Energy Associated with Non-Regulation Ancillary Services contained in Attachment E to Amendment No. 59 ("Dynamic Scheduling Standards") should be modified, and provides a suggested change in the wording of the section.²¹ SCE's suggested approach does not meet the ISO's intent, which is clear on its face. Therefore, language contained in Section 5.12 should remain unchanged and SCE's proposed change should be rejected.

The ISO's proposed wording is intended to rule out any prospect of implementing multiple dynamic schedules based on any one single physical generating plant. By definition a System Resource is permitted to encompass only a portion of the capacity of the generating plant, rather than being required to encompass the entire plant (i.e., the Pmax of a System Resource may be less than the maximum net dependable capacity of the physical plant.) The ISO's proposed wording of the standards – that only one dynamically scheduled System Resource may be associated with any one physical generating resource – is clear in not allowing for "splitting" a generating plant into two or more dynamically scheduled System Resources. In contrast, SCE's proposed wording could be read to permit a separate dynamic schedule for each of two or more portions of the capacity of a generating plant, since each portion could by definition be considered to be a separate System Resource.

²¹ SCE at 2-3.

The ISO's wording does not create the ambiguity and confusion claimed by SCE. While the ISO's wording clearly limits a single generating resource to a single dynamic schedule, it in no way limits the number of generating resources that may be aggregated for purposes of a single dynamic schedule. SCE attempts to cure a problem that does not exist and in doing so would fail to preclude the very result that is the primary focus of the provision.

K. The Pre-Existing "Inherited" Dynamic Scheduling Arrangements Will Be Exempted from the Requirements of Amendment No. 59 to the Extent Necessary

SCE argues that the pre-existing "inherited" dynamic scheduling arrangements described on page 2 of the transmittal letter for Amendment No. 59 should be exempted from the requirements of Amendment No. 59.²² The ISO wishes to clarify that, in response to a written request from the responsible Scheduling Coordinator, the ISO will grant exemptions from specific provisions of Amendment No. 59 and the associated ISO standards to the extent particular aspects of dynamic scheduling functionality for System Resources in existence prior to the ISO Operations Date are inconsistent with those provisions and standards.

²² *Id.* at 3-4.

II. CONCLUSION

Wherefore, for the foregoing reasons, the ISO respectfully requests that the Commission accept Amendment No. 59, taking into account the discussion above.

Respectfully submitted,

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Date: June 7, 2004

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list for the captioned proceeding, in accordance with Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California, on this 7th day of June, 2004.

/s/ Anthony Ivancovich
Anthony Ivancovich