



June 18, 2004

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

**Re: California Independent System Operator Corporation
Docket No. ER04-____-000
Amendment No. 61 to the ISO Tariff**

Dear Secretary Salas:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, and Sections 35.11 and 35.13 of the regulations of the Federal Energy Regulatory Commission ("Commission"), 18 C.F.R. §§ 35.11, 35.13, the California Independent System Operator Corporation ("ISO")¹ respectfully submits for filing an original and six copies of an amendment to the ISO Tariff ("Amendment No. 61"). 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.

Amendment No. 61 modifies ISO Tariff provisions related to the decremental reference price. Amendment No. 61 benefits the ISO and Market Participants by clarifying how the decremental reference price is calculated, how resources are shut off according to that price to manage Intra-Zonal Congestion, and how resources dispatched according to that price are settled, reducing the possibility of dispute. The ISO Governing Board approved the principles of this proposed ISO Tariff amendment on May 27, 2004.

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

I. BACKGROUND

On March 31, 2003, the ISO filed proposed Amendment No. 50 to the ISO Tariff ("Amendment No. 50") in Docket No. ER03-683. In order to address the growing problem of Intra-Zonal Congestion, the ISO proposed that:

- (1) Two days before the operating day, the ISO would publish advisory transfer capability limits to affected parties when it forecast Congestion on an Intra-Zonal Interface;
- (2) Scheduling Coordinators could voluntarily submit Day-Ahead or Hour-Ahead Schedules that complied with the advisory limits;
- (3) If Scheduling Coordinators did not submit schedules that complied with the advisory limits, the ISO would dispatch Generating Units to feasible operating levels based on cost-based proxy bids generated for each unit;
- (4) The ISO would pay Generating Units whose output was increased to manage Intra-Zonal Congestion the greater of 110 percent of their proxy bid price or the Market Clearing Price ("MCP"). The ISO would charge Generating Units whose output was decreased to manage Intra-Zonal Congestion the lesser of 90 percent of their proxy bid price or the MCP.

On May 30, 2003, the Commission issued an order on Amendment No. 50, *California Independent System Operator Corporation*, 103 FERC ¶ 61,265 ("Amendment No. 50 Order"). In that order, the Commission:

- (1) rejected publishing advisory scheduling limits;
- (2) limited bid mitigation for Intra-Zonal Congestion re-dispatch to only decremental redispatch;
- (3) rejected the use of cost-based proxy bids;
- (4) directed the ISO to enlist the services of an independent entity to calculate decremental reference prices.

The ISO submitted complying modifications to the ISO Tariff on June 30, 2003. In accordance with the Commission's rejection of cost-based proxy prices in favor of decremental reference prices, the ISO replaced the words "proxy Energy cost" with "decremental reference prices" in the last sentence of Section 7.2.6.1, so that the sentence now states:

If Congestion still exists after all Generating Units are Dispatched to their minimum operation levels, the ISO shall instruct Generating Units to shut off in merit order based on their decremental reference prices at minimum load, beginning with the most expensive unit.

In the June 30, 2003 compliance filing, the ISO did not include Tariff language that set forth how the decremental reference prices would be determined. To provide that language, the ISO, on July 18, 2003, filed an addendum to the June 30 compliance filing that contained new Section 7.2.6.1.1 of the ISO Tariff. The language in that section was modeled on language in Section 3.1.1.1 of Appendix A to the Market Monitoring and Information Protocol ("MMIP") setting forth how reference prices are determined for the Automated Mitigation Procedure. While Section 3.1.1.1 of Appendix A to the MMIP sets forth that reference prices are to be determined only for the range from the unit's minimum operating level to the unit's maximum operating level, however, the ISO did not reflect the language limiting the range of reference prices from minimum operating level to maximum operating level in the new Section 7.2.6.1.1.

The ISO applies Section 7.2.6.1.1 as follows. First, the ISO uses the price calculated for the first segment of the decremental reference price curve (the segment which begins with the unit's minimum load operating point) to determine which unit the ISO will shut off to manage Intra-Zonal Congestion in those situations in which the ISO has to shut a unit or units off and has to choose which unit(s) to shut off. When the ISO shuts off a Generating Unit to manage Intra-Zonal Congestion, the ISO charges the Scheduling Coordinator for that unit the lesser of the MCP or the unit's Minimum Load Costs. It is appropriate to charge a unit shut down to manage Intra-Zonal Congestion its Minimum Load Costs because the costs that a Generating Unit avoids by not operating once its output has been reduced as far as possible (i.e., to its minimum operating level) to manage Intra-Zonal Congestion are the unit's Minimum Load Costs. A unit's decremental bid, which can be thought of as a bid to buy energy from the Real Time Market rather than generate it, should reasonably reflect the avoided cost of producing the energy. While the Minimum Load Costs reasonably reflect the costs saved by not operating at minimum load, these costs are not the same as the costs represented at the beginning of the first segment of the decremental reference price curve. That segment reflects the marginal cost savings at the minimum load operating level. In other words, the decremental reference price determined by the independent entity represents the theoretical savings that

would result by reducing the unit's output 1 MW at the minimum load operating level, though such savings are only theoretical because the minimum load operating point is the lowest stable operating point the unit can achieve. A unit cannot operate below its minimum operating level; it must instead be shut off. Apart from the Minimum Load Costs, there is currently no standard for the avoided cost of shutting the unit off.

A certain Market Participant contended that the ISO has no authority to charge a unit shut off to manage Intra-Zonal Congestion its Minimum Load Costs. That Market Participant argued instead that only the independent entity calculating decremental reference prices should determine what the "shut-down" reference price – i.e., the reference price between 0 MW output and the unit's minimum operating level – should be. The Market Participant contacted Commission Enforcement Staff with its protest. Commission Enforcement Staff then set up a conference call with the Market Participant, the ISO, and the independent entity calculating decremental reference prices.

During that conference call, the ISO explained why it had been charging a Generating Unit shut down the lesser of the Minimum Load Costs or the MCP. The ISO noted that it would be inequitable to pay a Generating Unit operating at its minimum operating level, pursuant to a must-offer waiver denial, its Minimum Load Costs but then charge that unit a lesser value if the unit that would otherwise be operating at its minimum operating level was shut off. The Market Participant responded that it was reasonable to charge a different value for that amount and that only the independent entity calculating decremental reference prices should be able to determine what that amount should be. Commission Enforcement Staff noted that they were unaware of any other instance in which a unit was dispatched (i.e., shut off) based on one price (the decremental reference price at minimum load) but charged a potentially different price (the lesser of the Minimum Load Costs or the MCP).

On the conference call, the ISO agreed to recommend amending its tariff to:

- (1) Authorize the independent entity calculating reference prices to determine the "shut-down" reference price, i.e., the reference price between 0 MW and the unit's minimum operating level;
- (2) Set forth that when a unit is shut down to manage Intra-Zonal Congestion, the ISO will charge the Market Participant the lesser of the unit's "shut-down" reference price established by the independent entity or the MCP.

II. PROPOSED CHANGES

The ISO proposes to modify Section 7.2.6.1 to (1) indicate that the price used to determine which resources should be shut off to manage Intra-Zonal Congestion will be the decremental reference price for the range between zero (0) MW and the unit's minimum operating level, as determined by the independent entity calculating decremental reference prices; and (2) charge a resource thus shut off the lesser of the MCP or the decremental reference price for the range between zero (0) MW and the unit's minimum operating level, as determined by the independent entity calculating decremental reference prices. In addition, the ISO proposes to modify Section 7.2.6.1.1 to recognize that the decremental reference level for the range from zero MW to the minimum operating level does not need to be monotonically non-decreasing.

III. EFFECT ON METERED SUBSYSTEMS

The changes proposed in the instant amendment do not conflict with the principles of the Metered Subsystem ("MSS") Agreement. In a compliance filing submitted in the Amendment No. 50 proceeding on May 17, 2004, the ISO agreed that MSS resources would not be dispatched according to the provisions of Section 7.2.6.1 in advance of real time to manage Intra-Zonal Congestion. While the MSS Agreement allows the ISO to Dispatch MSS resources to address a System Emergency, the ISO acknowledges that the ISO is expected to prevent Intra-Zonal Congestion from becoming a System Emergency by re-dispatching other non-MSS resources prior to real time. If MSS Operators or Aggregators believe that the provisions of the instant filing conflict with MSS principles, the ISO is willing to work with those entities to try to address their concerns.

IV. EFFECTIVE DATE

The ISO respectfully requests that the provisions of this Amendment be made effective 60 days after the date of the present filing, i.e., on August 18, 2004.

V. 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:

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Anthony J. Ivancovich	Swidler Berlin Shereff Friedman, LLP
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VI. SERVICE

The ISO has served copies of this letter, and all attachments, on the California Public Utilities Commission, the California Energy Commission, the California Electricity Oversight Board, all parties with effective Scheduling Coordinator Service Agreements under the ISO Tariff, and all parties listed on the official service list for the Amendment No. 50 proceeding (Docket No. ER03-683). In addition, the ISO is posting this transmittal letter and all attachments on the ISO Home Page.

VII. ATTACHMENTS

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

Attachment A	Revised Tariff Sheets
Attachment B	Black-lined Tariff provisions
Attachment C	Notice of this filing, suitable for publication in the Federal Register (also provided in electronic format).

The Honorable Magalie Roman Salas
June 18, 2004
Page 7

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

Respectfully submitted,

Anthony J. Ivancovich ^{BRM}

Charles F. Robinson
Anthony J. Ivancovich

Counsel for The California Independent
System Operator Corporation

Enclosures

ATTACHMENT A

7.2.6.1 Decremental Bids. With regard to decremental bids, if Final Hour-Ahead Schedules cause Congestion on the Intra-Zonal interface, the ISO shall, after Dispatching available and effective Reliability Must-Run Units to manage the Congestion, apply the decremental reference prices determined by the independent entity that determines the reference prices for the Automatic Mitigation Procedure (AMP) as described in Appendix A to the Market Monitoring and Information Protocol. The ISO shall Dispatch Generating Units according to the decremental reference prices thus established, the resource's effectiveness on the Congestion, and other relevant factors such as Energy limitations, existing contractual restrictions, and Regulatory Must-Run or Regulatory Must-Take status, to alleviate the Congestion after Final Hour-Ahead Schedules are issued. Where the ISO must reduce a Generating Unit's output, the ISO shall Dispatch Generating Units according to the decremental reference prices and not according to Adjustment Bids or Supplemental Energy Bids to alleviate Intra-Zonal Congestion. No Generating Unit shall be Dispatched below its minimum operating level or above its maximum operating level. No Reliability Must-Run Unit shall be Dispatched below the operating level determined by the ISO as necessary to maintain reliability. If Congestion still exists after all Generating Units are Dispatched to their minimum operating levels, the ISO shall instruct Generating Units to shut off in merit order based on their decremental reference prices for the operating range between zero MW output and the unit's minimum operating level, as determined by the independent entity calculating decremental reference prices, beginning with the most expensive unit. Units shut off due to Intra-Zonal Congestion as set forth in this Section 7.2.6.1 shall be charged the lesser of the decremental reference price for the operating range between zero MW output and the unit's minimum operating level or the relevant Market Clearing Price.

The ISO shall apply the decremental reference prices to thermal Generating Units and to non-thermal Generating Units. If a Generating Unit is instructed by the ISO to shut down to manage Intra-Zonal Congestion, and is subsequently re-started, the Owner of that Generating Unit may invoice the ISO for the Start-Up Costs incurred as set forth in Section 2.5.23.3.7.6.

If the ISO Dispatches System Resources or Dispatchable Loads to alleviate Intra-Zonal Congestion, the ISO shall Dispatch those resources in merit order according to the resource's Day-Ahead or Hour-Ahead Adjustment Bid or Imbalance Energy bid.

The ISO shall only Redispatch Regulatory Must-Take or Regulatory Must-Run Generation,

- cost, and appropriate input from the Market Participant, and the best information available to the independent entity; or
- ii. an appropriate average of competitive bids of one or more similar electric Facilities.

(b) Monotonicity.

A unit's decremental bid reference levels will be kept monotonically non-decreasing for the dispatchable range of the unit (Pmin to Pmax). The decremental reference level for the range of the unit from zero MW output to the unit's minimum operating level is not subject to the monotonicity requirement. The decremental bid reference levels (\$/MWh bid price) for the different bid segments of each resource between Pmin and Pmax shall be made monotonically non-decreasing by the independent entity responsible for determining reference prices by proceeding from the highest MW bid segment moving through each lower MW bid segment. The reference level of each succeeding bid segment, moving from right to left in order of decreasing operating level, shall be the lower of the reference level of the preceding bid segment or the reference level determined according to paragraph (a) above.

7.2.6.1.2 [Not Used]

ATTACHMENT B

7.2.6.1 Decremental Bids. With regard to decremental bids, if Final Hour-Ahead Schedules cause Congestion on the Intra-Zonal interface, the ISO shall, after Dispatching available and effective Reliability Must-Run Units to manage the Congestion, apply the decremental reference prices determined by the independent entity that determines the reference prices for the Automatic Mitigation Procedure (AMP) as described in Appendix A to the Market Monitoring and Information Protocol. The ISO shall Dispatch Generating Units according to the decremental reference prices thus established, the resource's effectiveness on the Congestion, and other relevant factors such as Energy limitations, existing contractual restrictions, and Regulatory Must-Run or Regulatory Must-Take status, to alleviate the Congestion after Final Hour-Ahead Schedules are issued. Where the ISO must reduce a Generating Unit's output, the ISO shall Dispatch Generating Units according to the decremental reference prices and not according to Adjustment Bids or Supplemental Energy Bids to alleviate Intra-Zonal Congestion. No Generating Unit shall be Dispatched below its minimum operating level or above its maximum operating level. No Reliability Must-Run Unit shall be Dispatched below the operating level determined by the ISO as necessary to maintain reliability. If Congestion still exists after all Generating Units are Dispatched to their minimum operating levels, the ISO shall instruct Generating Units to shut off in merit order based on their decremental reference prices for the operating range between zero MW output and the unit's minimum operating level, as determined by the independent entity calculating decremental reference prices at minimum load, beginning with the most expensive unit. Units shut off due to Intra-Zonal Congestion as set forth in this Section 7.2.6.1 shall be charged the lesser of the decremental reference price for the operating range between zero MW output and the unit's minimum operating level or the relevant Market Clearing Price.

The ISO shall apply the decremental reference prices to thermal Generating Units and to non-thermal Generating Units. If a Generating Unit is instructed by the ISO to shut down to manage

Intra-Zonal Congestion, and is subsequently re-started, the Owner of that Generating Unit may invoice the ISO for the Start-Up Costs incurred as set forth in Section 2.5.23.3.7.6.

If the ISO Dispatches System Resources or Dispatchable Loads to alleviate Intra-Zonal Congestion, the ISO shall Dispatch those resources in merit order according to the resource's Day-Ahead or Hour-Ahead Adjustment Bid or Imbalance Energy bid.

The ISO shall only Redispatch Regulatory Must-Take or Regulatory Must-Run Generation, Intermittent Resources, or Qualifying Facilities to manage Intra-Zonal Congestion after Redispatching all other available and effective generating resources, including Reliability Must-Run Units.

7.2.6.1.1 Decremental Bid Reference Levels. Decremental bid reference levels shall be determined for use in managing Intra-Zonal Congestion as set forth above in Section 7.2.6.1.

(a) Determination. Decremental bid reference levels shall be determined by applying the following steps in order as needed:

1. Excluding proxy bids, mitigated bids, and bids used out of merit order for managing Intra-Zonal Congestion, the accepted decremental bid, or the lower of the mean or the median of a resource's accepted decremental bids if such a resource has more than one accepted decremental bid in competitive periods over the previous 90 days for peak and off-peak periods, adjusted for monthly changes in fuel prices using the proxy figure for natural gas prices posted on the ISO Home Page. For the purposes of this Section 7.2.6.1.1, to determine whether accepted decremental bids over the previous 90 days were accepted during competitive periods, the independent entity responsible for determining reference prices will apply a test to the prior 90-day period. The test will require that the ratio of a unit's accepted out-of-sequence decremental bids (MWh) for the prior 90 days to its total accepted decremental bids (MWh) for the prior 90 days be less than

50 percent. If this ratio is greater or equal to 50%, accepted decremental bids will be deemed to have been accepted in non-competitive periods and cannot be used to determine the decremental reference price. This test would be applied each day on a rolling 90-day basis. One ratio would be calculated for each unit with no differentiation for various output segments on the unit. Accepted and justified decremental bids below the applicable soft cap, as set forth in Section 28.1.3 of this Tariff, will be included in the calculation of reference prices;

2. A level determined in consultation with the Market Participant submitting the bid or bids at issue, provided such consultation has occurred prior to the occurrence of the conduct being examined, and provided the Market Participant has provided sufficient data in accordance with specifications provided by the independent entity responsible for determining reference prices;
3. 90 percent of the unit's default Energy Bid determined monthly as set forth in Section 5.11.5 (based on the incremental heat rate submitted to the independent entity responsible for determining reference prices, adjusted for gas prices, and the variable O&M cost on file with the independent entity responsible for determining reference prices, or the default O&M cost of \$6/MWh);
4. 90 percent of the mean of the economic Market Clearing Prices for the units' relevant location during the lowest-priced 25 percent of the hours that the unit was dispatched or scheduled over the previous 90 days for peak and off-peak periods, adjusted for changes in fuel prices; or
5. If sufficient data do not exist to calculate a reference level on the basis of the first, second, or fourth methods and the third method is not applicable or an attempt to determine a reference level in consultation with a Market

Participant has not been successful, the independent entity responsible for determining reference prices shall determine a reference level on the basis of:

- i. the independent entity's estimated costs of an electric facility, taking into account available operating costs data, opportunity cost, and appropriate input from the Market Participant, and the best information available to the independent entity; or
- ii. an appropriate average of competitive bids of one or more similar electric Facilities.

(b) Monotonicity.

A unit's decremental bid reference levels will be kept monotonically non-decreasing for the dispatchable range of the unit (Pmin to Pmax). The decremental reference level for the range of the unit from zero MW output to the unit's minimum operating level is not subject to the monotonicity requirement. The decremental bid reference levels (\$/MWh bid price) for the different bid segments of each resource between Pmin and Pmax shall be made monotonically non-decreasing by the independent entity responsible for determining reference prices by proceeding from the highest MW bid segment moving through each lower MW bid segment. The reference level of each succeeding bid segment, moving from right to left in order of decreasing operating level, shall be the lower of the reference level of the preceding bid segment or the reference level determined according to paragraph (a) above.

ATTACHMENT C

NOTICE SUITABLE FOR PUBLICATION
IN THE FEDERAL REGISTER

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System) Docket No. ER04-____-000
Operator Corporation)

Notice of Filing

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Take notice that on June 18, 2004, the California Independent System Operator Corporation (ISO) tendered for filing an amendment to the ISO Tariff (Amendment No. 61), for acceptance by the Commission. The ISO states that the purpose of Amendment No. 61 is to clarify how the decremental reference price is calculated, how resources are shut off according to that price to manage Intra-Zonal Congestion, and how resources dispatched according to that price are settled. The ISO is requesting that the provisions of Amendment No. 61 be made effective sixty days after the date of the present filing, i.e., on August 18, 2004.

The ISO states that this filing has been served upon the Public Utilities Commission, the California Energy Commission, the California Electricity Oversight Board, all parties with effective Scheduling Coordinator Agreements under the ISO Tariff, and all parties listed on the official service list for Docket No. ER03-683.

Any person desiring to intervene or to protest this filing should file with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 CFR 385.211 and 385.214). Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party must file a motion to intervene. All such motions or protests should be filed on or before the comment date, and, to the extent applicable, must be served on the applicant and on any other person designated on the official service list. This filing is available for review at the Commission or may be viewed on the Commission's web site at <http://www.ferc.gov>, using the eLibrary (FERRIS) link. Enter the docket number excluding the last three digits in the docket number field to access the document. For assistance, please contact FERC Online Support at FERCOnlineSupport@ferc.gov or toll-free at (866)208-3676, or for TTY, contact (202)502-8659. Protests and interventions

may be filed electronically via the Internet in lieu of paper; see 18 C.F.R. § 385.2001(a)(1)(iii) and the instructions on the Commission's web site under the "e-Filing" link. The Commission strongly encourages electronic filings.

Comment Date: _____