



April 24, 2002

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. ER02-____-000
Amendment No. 43**

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 and 35.13, the California Independent System Operator Corporation ("ISO")¹ respectfully submits for filing an original and six copies of an amendment ("Amendment No. 43") to the ISO Tariff. Amendment No. 43 would modify Section 11.2.4.1 of the ISO Tariff in the following respect:

?? Through September 30, 2002, the ISO will settle Energy imported into the ISO Control Area by Scheduling Coordinators for each BEEP interval during the operating hour at the ISO Instructed Imbalance Energy Market Clearing Price.

Revised Tariff sheets reflecting the changes proposed herein are contained in Attachments A and B.

The proposed modification to the ISO Tariff received general consensus at an April 11, 2002 ISO-Stakeholder meeting. It is undisputed that during summer the ISO relies upon imported Energy, especially hydroelectric generation and other portfolio-based generation,² to serve California's Load, meet the ISO's operating reserve criteria, and ensure reliable operation of the transmission grid. For the reasons detailed below, imports have declined and the ISO potentially confronts serious operational problems if imported Energy does not increase in the near future. The proposed modification will make participation in the ISO Real Time Market more attractive for importers of Energy. To that

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.

² These are "System Resources" and are defined in the Master Definitions Supplement, ISO Tariff Appendix A as "a group of resources located outside of the ISO Control Area capable of providing Energy and/or Ancillary Services to the ISO Controlled Grid."

end, the ISO requests this proposed Tariff amendment become effective immediately upon Commission approval. In that regard, concurrently herewith, the ISO is filing a motion for expedited consideration of this Amendment No. 43.

I. BACKGROUND

System Resources confront at least two important disincentives to participate in the ISO Real Time Markets: (1) the Commission's requirement that imported Energy must be bid into the BEEP stack at \$0/MWh and (2) the ISO's ten-minute Dispatch and Settlement process. As discussed below, the ISO already has requested the Commission to rescind the requirement that Scheduling Coordinators for System Resources must bid imported Energy at \$0/MWh. Through this Amendment No. 43 the ISO now proposes a temporary solution to the ten-minute Dispatch and Settlement problem.

A. The Requirement That Imported Energy Must Be Bid At \$0/MWh Has Reduced Participation in ISO Markets

Beginning with its June 19, 2001 order,³ the Commission imposed increasingly restrictive requirements on marketers bidding into the ISO Real Time markets. In the June 19 Order, the Commission required that all marketers, including System Resources, unless otherwise eligible to set the MCP, must be price-takers, *i.e.*, not eligible to set the MCP and, regardless of the bid they placed into the ISO BEEP stack, they will be settled at the applicable MCP only. Subsequently, in its December 19, 2001 order,⁴ the Commission directed that marketers, including System Resources, unless otherwise eligible to set the MCP, are limited to bids of \$0/MWh into the ISO Real Time Markets for Imbalance Energy. As a result of these orders, System Resources face a real risk that, during any given BEEP interval, they will be settled at a price that maybe well below their bid price. Immediately upon the ISO's implementation of the \$0/MWh bid requirement, System Resources withdrew from participation in ISO markets. Recently, there have been times where no System Resources have bid into the Real Time Market.

As the Commission is aware, the ISO, on January 18, 2002, filed a request for rehearing of the December 19 Order's requirement that marketers and System Resources must bid at \$0/MWh. Moreover, since filing the request for rehearing, the ISO has made two informational filings with the Commission documenting the reduction of imported Energy.⁵

At a Commission-sponsored technical conference on April 4 and 5, 2002, and a subsequent stakeholder-sponsored technical conference on April 11, 2002,

³ 95 FERC ¶ 61,418 (2001), req. for reh'g. pending, ("June 19 Order").

⁴ 97 FERC ¶ 61,275 (2001), req. for reh'g. pending, ("December 19 Order").

⁵ See, Third Quarterly Report, dated March 26, 2002; ISO Investigation of Reduced Volume of Intertie Bids, dated April 1, 2002.

general consensus was reached among Market Participants, California State entities, investor-owned utilities, publicly-owned utilities and the ISO that, for the summer of 2002, marketers seeking to bid imported Energy into the ISO Real Time Market should be permitted to place non-\$0/MWh bids such that their bids can be inserted into the ISO BEEP stack in economic merit order for Dispatch. The practical effect is that the imported Energy bid will only be Dispatched when the MCP has reached a level at or near the bid. Marketers and System Resources would continue to be price-takers and would be settled at the applicable MCP.

On April 10, 2002, the ISO filed a motion for expedited consideration of the requirement that marketers must bid at \$0/MWh as previously was requested in the ISO's January 18, 2002 motion for clarification and request for rehearing of the December 19 Order. The motion for expedited consideration and the underlying request for rehearing are pending.

B. System Resources Can Not Comply With Ten-Minute Dispatch Instructions

On May 2, 2000, as amended May 3, 2000, the ISO submitted for filing Tariff Amendment No. 29 containing, among other things, a proposed revision to the ISO Tariff that would settle Scheduling Coordinators' obligations in the ISO Real Time Market on a ten-minute rather than hourly basis.⁶ The Commission approved Tariff Amendment No. 29 by order dated June 29, 2000.⁷ As a result, both Instructed Imbalance Energy and uninstructed deviations now are priced on the basis of the Market Clearing Price ("MCP") during BEEP intervals (currently set at ten minutes) during which Energy is delivered or the uninstructed deviations occur. This revision changed the prior rules for Settlement of Imbalance Energy wherein different resources were Dispatched over different intervals, but the Settlement of market obligations was not always tied to the Dispatch period. Specifically, the prior rules determined that the Settlement period for Instructed Imbalance Energy was ten minutes but the Settlement period for Uninstructed Imbalance Energy (or uninstructed deviations) was hourly.⁸

⁶ Tariff Amendment No. 29 also proposed implementation of a dual pricing scheme, with separate prices for incremental and decremental Imbalance Energy.

⁷ "Order Conditionally Accepting Proposed Tariff Revisions," 91 FERC ¶ 61,324 (2000), req. for reh'g. pending.

⁸ In its Amendment No. 29 filing the ISO explained that the different Settlement periods led to inefficient and unintended operational consequences, including: (1) inefficient price signals that result in the ISO's inability to rely on Imbalance Energy for Load following which in turn led to excessive use of Regulation service; (2) decreased incentive for Scheduling Coordinators to submit bids in the Imbalance Energy market; (3) a "stuck" hourly price for incremental Energy imports; and (4) poor compliance with ISO Dispatch instructions. Indeed, the original design of the ISO Imbalance Market provided for ISO Dispatch instructions for each interval and Settlement of all obligations based upon the Dispatch interval, but because of software development problems, implementation of this design was deferred.

In response to the filing of Amendment No. 29, Market Participants expressed concerns that the ten-minute market Dispatch and Settlement design inadvertently could limit the ability of System Resources to participate in California markets. Specifically, concerns were raised that (1) ten-minute Dispatch and Settlement moved away from the practices of the rest of the Western Interconnection and (2) generation resources located outside the ISO Control Area are subject both to technical limitations and regulations of their respective control areas and, therefore, are scheduled on an hourly basis only. The ISO's position at the time was that operators of other control areas could accommodate intra-hour schedule adjustments and that System Resources that are unable or unwilling to adjust their import schedules in accordance with ISO Dispatch instructions either are making economic decisions or can employ bidding strategies to accommodate the risk that they might be paid the less favorable Uninstructed Imbalance Energy price for some portion of the operating hour.

Additionally, the ISO considered that a ten-minute market was critical to avoid the "stuck price" problem caused by pre-dispatching System Resources. The stuck price problem is caused when System Resources, pre-dispatched for an entire hour, set the price for that hour. However, circumstances today are significantly changed. Specifically, System Resources now are price-takers and thus cannot create the stuck price problem.

The ISO has observed that some System Resources have reduced their participation in ISO markets as a result of the ten-minute Dispatch and Settlement requirements. The reason for the reduced participation is that System Resources are subject to the direct operational control of their respective control area and not that of the ISO and so cannot respond to intra-hour ISO Dispatch instructions to change Schedules. Consequently, many System Resources are reluctant to accept the risk of receiving the Uninstructed Imbalance Energy price rather than the Instructed Imbalance Energy price for BEEP intervals within an hour in which the ISO does not require their Energy. Accordingly, System Resources have chosen to mitigate this risk by not participating in the ISO's Real Time Market.

II. THE LACK OF IMPORTED ENERGY PRESENTS AN URGENT PROBLEM FOR THE ISO AS HOT WEATHER BEGINS

Unfortunately, reduced participation by System Resources in recent months has become extreme and poses a real threat to ISO Control Area reliability because the ISO depends upon imported Energy, especially hydroelectric generation, to meet seasonal peak Demand and operating reserve criteria. As detailed above, the ISO already has requested the Commission to allow System Resources to offer bids at non-zero prices, while remaining price-takers in the ISO Real Time Markets.

In the instant filing, the ISO seeks relief from the existing provisions of Section 11.2.4.1 of the ISO Tariff requirement so that System Resources, unable to comply with ten-minute Dispatch instructions or make mid-hour Schedule adjustments, will not be subject to Settlement at the uninstructed deviation price for ten-minute intervals when the ISO has issued to these resources decremental or "reverse" Dispatch instructions to which the resources either can not or have restricted ability to comply. As set forth in Section IV, the urgency of the ISO's need for System Resource participation in the Real Time Markets is such that the ISO is seeking expedited consideration of the instant filing and requests that the proposed Tariff modification become effective upon issuance of a Commission order approving the temporary Tariff change.

III. THE PROPOSED AMENDMENT

The ISO proposes to modify ISO Tariff Section 11.2.4.1 to change the way Uninstructed Imbalance Energy attributable to System Resources is settled. Currently the ISO settles Uninstructed Imbalance Energy at the uninstructed deviation price. Under Tariff Amendment No. 43, System Resources will be paid the Instructed Imbalance Energy MCP throughout the operating hour. This proposed modification addresses the problem that System Resources cannot make intra-hour Schedule changes in response to ISO ten-minute Dispatch instructions and so are always at risk of being paid the lower uninstructed deviation price whenever the ISO issues intra-hour instructions to change Schedules. Consistent with existing Commission requirements, System Resources remain price-takers, and, unless otherwise eligible, are not permitted to set the MCP in ISO markets. The ISO believes that approval of Tariff Amendment No. 43 will encourage increased participation in the ISO Real Time Market by System Resources, and thus help the ISO ensure grid reliability this summer.

IV. EFFECTIVE DATE

Given that the purpose of Amendment No. 43 is to forestall operational problems this summer, the ISO respectfully requests that the proposed modification to the ISO Tariff Section 11.2.4.1 become effective upon the date the Commission issues an order approving the instant filing. Moreover, in accordance with the general consensus reached with ISO Stakeholders and the critical need for imported Energy in the summer, the ISO proposes the modification be in effect only through September 30, 2002. On October 1, 2002, the existing Section 11.2.4.1 would go back into effect.

To the extent necessary, the ISO requests waiver of the prior notice provisions of Section 205(d) of the FPA, 16 U.S.C. § 824d(d), and Section 35.3 of the Commission's regulations, 18 C.F.R. § 35.3, to permit this Tariff revision to be made effective upon the date of the Commission's issuance of an order approving Tariff Amendment No. 43.

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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VI. SERVICE

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

VII. ATTACHMENTS

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

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

An extra copy of this filing is enclosed. Please stamp this copy with the date and time filed and return it to the messenger.

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

Yours truly,

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Enclosures