



December 23, 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. ER03-1221-____**

Dear Secretary Salas:

Enclosed for electronic filing please find the Answer of The California Independent System Operator Corporation to Comments and Motions to Intervene in the above-referenced docket.

Thank you for your assistance in this matter.

Respectfully submitted,

Anthony J. Ivancovich
Counsel for The California Independent
System Operator Corporation

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

**California Independent System) Docket No. ER03-1221-____
Operator Corporation)**

**ANSWER OF
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
TO COMMENTS AND MOTIONS TO INTERVENE**

I. INTRODUCTION AND SUMMARY

On August 18, 2003, the California Independent System Operator Corporation (“ISO”)¹ submitted Amendment No. 56 to the ISO Tariff (“Amendment No. 56”) in the above-referenced docket. On October 17, 2003, the Commission issued an order on Amendment No. 56² that directed the ISO to provide a means for forward scheduling RMR Contract Energy for which the RMR Owner could not find a buyer. The ISO submitted complying Tariff modifications on November 17, 2003. In response to that compliance filing, a number of parties submitted motions to intervene and comments.³

Pursuant to Rules 212 and 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. §§ 385.212 and 385.213, the ISO hereby requests leave to file an answer, and files its answer, to the comments and motions to intervene

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

² *California Independent System Operator Corporation*, 105 FERC ¶ 61,074 (2003).

³ Motions to intervene, and comments, concerning the ISO’s November 17, 2003 compliance filing were submitted by the following entities: Dynegy Power Marketing, Inc., El Segundo Power, LLC, Long Beach Generation LLC, Cabrillo Power I LLC and Cabrillo Power II LLC (collectively, “Dynegy”); Independent Energy Producers Association (“IEP”) and Pacific Gas and Electric Company (“PG&E”).

submitted in the above-referenced docket. The ISO does not oppose the intervention of any of the parties that have sought leave to intervene in this proceeding.

II. ANSWER

A. Demand submitted to special-purpose Demand IDs solely to balance Schedules in which RMR Contract Energy does not have a buyer should be exempt from Demand-based charges.

IEP seeks clarification that no Demand-based charges should apply to any “artificial” Demand submitted in forward schedules solely for the purpose of balancing RMR Contract Energy for which the RMR Owner or the Scheduling Coordinator for the RMR unit has been unable to find a buyer. IEP at 2-3. The ISO confirms that the Demand deviation that will result when the “artificial” Demand scheduled in the forward markets does not appear in real-time will incur some ISO charges.⁴ Because the ISO has already expended staff time and resources creating the process needed to allow this unsold RMR Contract Energy to be forward scheduled and will continue to expend staff resources to implement this process, the ISO believes it would be justified in assessing charges to this Demand deviation to recover these costs. Nevertheless, the ISO agrees that the Demand submitted to the special-purpose Demand IDs used in

⁴ Under the ISO’s current Grid Management Charge (“GMC”) rate, the Demand deviation would incur the following charges: Charge Type (“CT”) 524 ASREO GMC; CT 114 Replacement Reserve and, potentially, CT 487 Excess Cost Allocation (for net negative deviations). Under the proposed 2004 Grid Management Charge, the Demand deviation would incur the following charges: CT 534 GMC - Market Usage for Uninstructed portfolio deviations for the settlement interval; CT 573 GMC - GMC Forward Scheduling: a per unit charge for all Final hour ahead schedules; CT 532 GMC - Energy Transmission Services Uninstructed Deviations charge for portfolio deviations over the settlement interval; CT 407 Load Deviation payment/charge; and CT 114 Replacement Reserve and, potentially, CT 487 Excess Cost Allocation (for net negative deviations).

this process is not actual Demand. In that regard, the ISO conditionally supports IEP's position that the Demand deviations that result from scheduling artificial Demand solely to balance unsold RMR Contract Energy should be exempt from ISO charges. The ISO is very concerned, however, that providing such an exemption might encourage parties to balance RMR Contract Energy against "artificial" Demand rather than against real Demand. The ISO notes that only one party at the July 29 Technical Conference – Mirant – indicated it was having a problem finding real Demand against which to balance its RMR Contract Energy. Exempting "artificial" Demand from ISO charges can only serve to encourage other parties to use that mechanism to balance their RMR Contract Energy rather than finding a real sink for that Energy. Neither the use of "artificial" Demand to balance unsold RMR Contract Energy nor exempting the Demand deviations that result from the use of "artificial" Demand from ISO charges should be permitted to encourage parties to shirk their obligation to balance RMR Contract Energy against real Demand.

B. There will be no adverse consequences to the use of the forward scheduling mechanism contained in the November 17, 2003 compliance filing.

IEP seeks clarification that there will be no "adverse consequences" in the final settlement statement associated with the RMR Contract Energy Load Point or associated with any change in schedule from the forward markets into real-time when the "artificial" Demand does not appear. IEP at 2-3. There will be none, as long as the Demand scheduled at the RMR Contract Energy Load Point is scheduled there to match RMR Contract Energy. These points should be only used to sink unsold RMR Contract Energy, not to take a position in the real-time

market by over-scheduling Demand (*i.e.*, the so-called “Fat Boy” strategy employed by Enron). Demand scheduled in the forward markets that does not appear in real-time will be paid the uninstructed imbalance energy price prior to the implementation of the Phase 1B modifications and the single imbalance energy price after the implementation of the Phase 1B modifications. Per the ISO’s November 17, 2003 compliance filing, the imbalance energy price will be the price for the Scheduling Coordinator credit for that hour and unit on the RMR Invoice for Demand scheduled to the RMR Contract Energy Load Point.

C. The “artificial” Demand will have no operational or congestion effects.

IEP seeks clarification that the ISO will not consider the “artificial” Demand a Demand that must be met by denying Must-Offer Waiver. IEP at 3. Because this Demand is not real Demand and exists only to satisfy the balanced schedule requirement, the ISO will not consider this “artificial” Demand when evaluating Must-Offer Waiver requests. IEP also seeks clarification that scheduling “artificial” Demand at the RMR Contract Energy Load Point will not create additional congestion or transmission charges. The ISO also agrees with IEP that Demand scheduled to these special Demand IDs should not affect transmission or congestion charges. The ISO designated the particular unit-specific Demand IDs to be points at or near the associated RMR unit so as to avoid any affect on Inter-Zonal congestion.

D. The “artificial” Demand will have no operational or congestion effects.

IEP asserts that the artificial load points should be eliminated with the balanced schedule requirement disappears as part of the MD02 implementation.

IEP at 3. The ISO agrees. The use of these special-purpose Demand IDs should be discontinued when new systems are implemented as part of the MD02 modifications. The ISO has proposed that all RMR Energy be bid into the relevant market and cleared through that market, or, failing to clear in a forward market, be dispatched and priced as imbalance energy for the purpose of establishing the Scheduling Coordinator credit price on the RMR Invoice.

E. Allowing changes from Day-Ahead to Hour-Ahead Schedules

Dynergy expresses concern that the ISO's November 17, 2003 compliance filing could be interpreted to inappropriately limit the ability of RMR Owners to schedule RMR Contract Energy bilaterally. Dynergy at 1-2. Dynergy asserts that there is no reason why Market Participants have to submit a Day-Ahead schedule for RMR Energy that cannot later be changed in the Hour-Ahead Market, and that, in general, all parties are better off if an RMR Owner can seek out and enter bilateral transactions up through the Hour-Ahead market rather than submitting a Day-Ahead Schedule balancing RMR Contract Energy against "artificial" Demand and then being unable to change that Schedule in the Hour-Ahead time frame. The ISO agrees that balancing RMR Contract Energy against actual Demand is far preferable to balancing it against "artificial" Demand. RMR Contract Energy "balanced" against "artificial" Demand shows up as an imbalance in real-time and will effect the amount of imbalance energy the ISO would have otherwise procured, all other things being equal. However, the ISO is concerned that an enhanced ability to schedule RMR Contract Energy bilaterally does not necessarily foster price discovery – especially price discovery key to the ISO and to Participating Transmission Owners responsible for costs of

Reliability Must-Run Contracts - despite Dynegey's assertions to the contrary. Under the principles of RMR pre-dispatch, when the California Power Exchange ("PX") was in operation, RMR Contract Energy was bid into the PX Day-Ahead Market at zero dollars per MWh. This accomplished two things. First, it all but ensured that the RMR Contract Energy would be matched with real Demand from California's Investor Owned Utilities. Second, the RMR Contract Energy would be paid the transparent PX Day-Ahead price, allowing the ISO to easily verify the amount of market payment the RMR Owners were crediting back on the RMR Invoices (the "SC Credit")⁵. When the PX ceased operations, and the transparent credit back price was lost, the amount of SC Credit on the RMR invoices plummeted even though the volume of RMR Contract Energy stayed almost the same. For these reasons, while the ISO supports scheduling RMR Contract Energy against real Demand, the ISO is concerned that RMR Owners have an incentive to under-report the SC Credit received for RMR Contract Energy in bilateral transaction because the ISO cannot easily verify the amount of SC Credit for bilateral transactions.

Moreover, while it seems reasonable that an RMR Owner should have a chance to change a Schedule that may have balanced RMR Contract Energy against "artificial" Demand in the Day-Ahead if they are then able to balance that

⁵ When an RMR Owner elects payment under the RMR Contract for Energy dispatched under the RMR Contract (*i.e.*, RMR Contract Energy), the Owner receives the RMR Contract payment from the ISO and a payment from the market for the same amount of Energy. The RMR Owner is then required to credit back the amount paid from the market on the RMR Invoice, so that ultimately the RMR Owner keeps the RMR Contract payment, Load in the market pays for Energy it received when the unit operated according to its instruction from the ISO under the RMR Contract, and the Responsible Utility pays the difference between the RMR Contract price and the imbalance energy market price for that Energy.

RMR Contract Energy against real Demand in a bilateral transaction entered into between the Day-Ahead and Hour-Ahead time frames, there seems little reason for an RMR Owner to have the opportunity to rescind a Day-Ahead bilateral transaction in favor of balancing the RMR Contract Energy against “artificial” Demand in Hour-Ahead schedules. If an RMR Owner has entered into a bilateral transaction for the RMR Contract Energy in the Day-Ahead, they should be required to maintain that transaction in the Hour-Ahead. The timeliness of cash flows aside, if the RMR Owner is accurately crediting the amount of money received in the bilateral transaction, it should be indifferent to whether the energy is sold in a bilateral transaction or scheduled as “artificial” Demand because it is required to credit back whatever payment they receive for that energy on the RMR Invoice.

III. CONCLUSION

For the foregoing reasons, the ISO respectfully requests that the Commission accept the ISO's November 17, 2003 compliance filing in the above-referenced dockets as submitted to the Commission, except as described herein.

Respectfully submitted,

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Date: December 23, 2003

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 23rd day of December, 2003.

Anthony J. Ivancovich