

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation)
Docket No. ER00-1239-001)
)
)

**ANSWER OF CALIFORNIA
INDEPENDENT SYSTEM OPERATOR CORPORATION
TO COMMENTS AND PROTEST**

On April 28, 2000, the California Independent System Operator Corporation ("ISO") submitted a compliance filing in the above-captioned docket which included a number of modifications to the revisions to the ISO Tariff proposed, and conditionally accepted, in Amendment No. 25 to the ISO Tariff.¹ These modifications included revisions the ISO Tariff submitted to comply with the Commission's March 29, 2000 Order in this proceeding.²

In accordance with the Notice of Filing issued on May 9, 2000, a number of parties submitted comments concerning this compliance filing on or before May 19, 2000. Pursuant to Rule 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213, the ISO now files its Answer to the Comments and Protest submitted in the above-captioned docket.

¹ Capitalized terms not otherwise defined herein are used in the sense given in the Master Definitions Supplement, Appendix A to the ISO Tariff.

² *California Independent System Operator Corp.*, 90 FERC ¶ 61,316 (2000) ("March 29 Order").

As explained below, the requests for modifications to the ISO's April 28 compliance filing are unnecessary and unsupported. The Commission should accordingly accept the April 28 compliance filing without modification.

I. BACKGROUND

On January 27, 2000, the ISO filed Amendment No. 25 to the ISO Tariff in the above-referenced docket. Among other things, Amendment No. 25 proposed modifications to the ISO Tariff to address the ISO's procedures for the cancellation or rescheduling of planned transmission outages. These modifications included revisions to Section 2.3.3.8 of the ISO Tariff and Section OCP 3.2.3 of the Outage Coordination Protocol which establish that the ISO is authorized to "direct the Operator of facilities forming part of the ISO Controlled Grid [*i.e.*, a Participating Transmission Owner] to cancel an Approved Maintenance Outage, when necessary to preserve or maintain System Reliability or to avoid unduly significant market impacts." In order to exercise this authority, the ISO must provide notice of the cancellation to the affected Participating TO by no later than 5:00 a.m. of the day prior to the day upon which the outage is to commence.

A number of parties submitted motions to intervene, comments, and protests concerning Amendment No. 25. On March 3, 2000, the ISO submitted its Answer to Motions to Intervene, Comments, and Protests ("Amendment No. 25 Answer"). In the Amendment No. 25 Answer, the ISO stated that, upon consideration of the Commission's direction in its Order No. 2000 and the concerns of intervenors regarding the Amendment No. 25 filing, the ISO would

agree that, if a transmission outage is canceled to avoid unduly significant market impacts under the authority added by Amendment No. 25, or for reliability reasons, "it would be reasonable that any direct, unavoidable, and demonstrated costs incurred by the Participating Transmission Owner in rescheduling the maintenance should be paid by the beneficiaries of that action, *i.e.*, participants in the ISO's markets during the period for which the outage has been scheduled." Amendment No. 25 Answer at 11-12. The ISO committed to propose, in the Amendment No. 25 compliance filing, appropriate modifications to the ISO Tariff to implement this concept. *Id.* at 12.

In the March 29 Order conditionally accepting Amendment No. 25 with certain modifications, the Commission approved the ISO's maintenance outage proposal, but directed the ISO to make certain modifications to that proposal in a compliance filing to be submitted within 30 days of the order. March 29 Order, 90 FERC at 62,051. On the issue of compensation for outages cancelled at the direction of the ISO, the Commission noted:

In recognition of the Commission statements in the RTO order, the ISO states that any direct, unavoidable, and demonstrated cost incurred by Participating Transmission Owners in rescheduling cancelled outages should be paid by the beneficiaries of the cancellation and commits to modify the tariff to implement this concept.

Id. The Commission went on to state that:

. . . the ISO's acknowledgement of the appropriateness of reimbursing transmission owners for costs associated with a cancelled maintenance outage, and its commitment to modify the tariff to provide for such a reimbursement, will provide an additional incentive for the ISO to carefully consider the consequences and costs of canceling a scheduled maintenance outage. Accordingly,

we will accept the revision, as modified in the ISO's answer and in the discussion above.

Id. The Commission also directed the ISO to define the triggering term "unduly significant market impacts" in the Tariff, in order to "give all parties sufficient assurance as to the necessity for the cancellation of an approved maintenance outage." *Id.*

On April 28, 2000, the ISO submitted a compliance filing in this proceeding which included the modifications ordered by the Commission. A number of parties submitted comments concerning the compliance filing.³ The ISO does not believe that the further modifications to the Amendment No. 25 Tariff revisions proposed in these comments are necessary or appropriate.

II. ANSWER TO COMMENTS AND PROTEST⁴

A. The Compliance Filing Properly Provides for Compensation of the Direct Costs Incurred By a Participating TO As the Result of the ISO's Cancellation of an Approved Maintenance Outage.

A number of parties commenting on the April 28 compliance filing argue that the compensation provisions added in Sections 2.3.3.6.3 and OCP 3.2.3 should be applicable to all transmission owners, regardless of whether or not

³ Comments and/or Protests were filed by the Cities of Redding and Santa Clara, California, and the M-S-R Public Power Agency ("Cities/M-S-R"); Metropolitan Water District of Southern California ("MWD"); Modesto Irrigation District ("Modesto"); Transmission Agency of Northern California ("TANC"); and the Western Area Power Administration ("WAPA").

⁴ Most of the parties responding to the compliance filing did so in pleadings titled "Comments." Only one party, WAPA filed a pleading titled a "Protest," and even that pleading consisted only of requested modifications to the compliance filing. There is no prohibition on the ISO's responding to the comments in these pleadings. The ISO is entitled to respond to these pleadings and requests notwithstanding the label applied to them. *Florida Power & Light Company*, 67 FERC ¶ 61,315 (1994). In the event that any portion of this answer is deemed an answer to protests, the ISO requests waiver of Rule 213 (18 C.F.R. §385.213) to permit it to make this answer. Good cause for this waiver exists here given the usefulness of this answer in ensuring the development of a complete record. *See, e.g., Enron Corporation*, 78 FERC ¶ 61,179 at 61,733, 61,741 (1997); *El Paso Electric Company*, 68 FERC ¶ 61,181 at 61,899 & n.57 (1994).

they are Participating TOs, and to all outages, whether or not those outages are Approved Maintenance Outages. See, e.g., TANC at 2-3 and WAPA at 2-4. Not only do these comments demand changes beyond those ordered by the Commission in the March 29 Order, they ignore the fact that the proposed revisions in Amendment No. 25 are limited to the ISO's authority to cancel the Approved Maintenance Outage of a Participating TO.⁵ The ISO's authority to direct outage cancellations under these provisions does not apply to transmission owners of facilities that are not a part of the ISO Controlled Grid, *i.e.*, non-Participating TOs, and does not apply to outages that are not Approved Maintenance Outages. Because Amendment No. 25 only gives the ISO authority to cancel an Approved Maintenance Outage of a Participating TO, the compensation provisions in Sections 2.3.3.6.3 and OCP 3.2.3, as revised by the ISO's compliance filing, quite properly provide for compensation only with respect to the cancellation of an Approved Maintenance Outage of a Participating TO. To the extent that some parties seek compensation for maintenance outages that are not, or cannot be, approved by the ISO and that are voluntarily cancelled by non-Participating TOs, these parties are raising issues that go beyond the scope of the ISO's proposals in Amendment No. 25.

Moreover, the proposed revisions to Sections 2.3.3.6.3 and OCP 3.2.3 in the ISO's compliance filing are wholly consistent with the Commission's statements in Order No. 2000 concerning compensation for maintenance

⁵ As noted above, the revisions to Sections 2.3.3.8 and OCP 3.2.3 address the ISO's authority to "direct the Operator of facilities forming part of the ISO Controlled Grid [*i.e.*, a Participating TO] to cancel an Approved Maintenance Outage."

outages cancelled or rescheduled by a Regional Transmission Organization ("RTO"):

We conclude that, if the RTO *requires* a transmission owner to reschedule planned maintenance, the transmission owners should be compensated for any costs created by the required rescheduling *only if the previously scheduled outage had already been approved by the RTO.*⁶

Both the commitment in the ISO's Amendment No. 25 Answer and the direction in the Commission's March 29 Order indicate that the ISO's compensation for costs resulting from the cancellation of an outage should take into account the Commission's statements in Order No. 2000. Those statements support an approach that provides for compensation of costs incurred by a transmission owner as a direct result of the cancellation of an outage for which the ISO requires prior approval and then requires to be cancelled.⁷ That is exactly the approach reflected in the ISO's compliance filing.

Some commenters suggest that the Commission's use of the general term "transmission owner" in parts of the March 29 Order is evidence that it had directed the ISO to extend compensation for cancelled maintenance outages to non-Participating TOs. TANC at 2 and WAPA at 3. These comments conveniently ignore the fact that the order specifically refers to the ISO's commitment in its Answer to compensate "any direct, unavoidable, and demonstrated cost incurred by *Participating Transmission Owners* in

⁶ *Regional Transmission Organizations*, Order No. 2000, *FERC Stats. & Regs.* ¶ 31,089 at 31,105 (1999) (emphasis added).

⁷ The applicable provisions of the ISO Tariff refer to "cancellations" of a maintenance outage, while Order No. 2000 refers to "rescheduling" of an outage. The ISO assumes that the affected Participating TO will reschedule any maintenance outage that is cancelled at the direction of the ISO. The ISO Outage Coordination Office will, of course, work with such an affected Participating TO to facilitate such rescheduling.

rescheduling cancelled outages" and then states that the Commission will "accept the revision, as modified in the ISO's answer and in the discussion above." March 29 Order, 90 FERC at 62,051 (emphasis added). Nothing in the May 29 Order suggests that the modifications directed by the Commission should go beyond the ISO's commitment in the Amendment No. 25 Answer. The fact that the March 29 Order occasionally uses the generic term "transmission owners" in place of "Participating Transmission Owners" cannot and should not be read to impose a new requirement with respect to compensation of non-Participating TOs that goes beyond the scope of the ISO's proposal in Amendment No. 25.⁸ The commenters have obviously been functioning too long in the California environment of ISO "defined terms" and fail to recognize that the Commission is not bound to use the same defined terms in its own orders.

WAPA suggests that it would be "unduly discriminatory" to treat Participating TOs differently from non-Participating TOs in these circumstances. WAPA at 3-4. Any differences in treatment, however, are fully justified by the difference in the scope of the ISO's authority over Participating TOs versus non-Participating TOs. The ISO has the authority to approve the maintenance outages of a Participating TO and to cancel such Approved Maintenance Outages pursuant to the terms of Section 2.3.3.6 and OCP 3.2.3; the ISO has no similar authority with respect to non-Participating TOs such as WAPA. It is true that certain non-Participating TOs do voluntarily coordinate with the ISO on

⁸ One commenter suggests that the ISO committed in its Answer to provide compensation for cancelled outages to all transmission owners. WAPA at 3. This is incorrect. The ISO Answer refers specifically to compensation of "Participating Transmission Owners." Amendment No. 25 Answer at 11-12.

outage scheduling for reliability purposes. The ISO appreciates and supports these efforts. Such voluntary arrangements, however, are not reflected in the ISO Tariff. In particular, such non-Participating TOs do not have the obligations under the ISO Tariff to obtain ISO approval of a maintenance outage or to cancel the outage when directed by the ISO to do so. It would be inappropriate to add provisions to the ISO Tariff which treat non-Participating TOs the same as Participating TOs when those non-Participating TOs are not otherwise subject to the obligations of a Participating TO. To do so would allow those entities to reap a key benefit of participation in the ISO without bearing any of the associated obligations, which would be contrary to Commission policy.⁹

B. The Compliance Filing Properly Provides That the Costs To Be Compensated By the ISO for Cancellation of an Approved Maintenance Outage Will Be the "Direct and Verifiable Costs" Incurred By a Participating TO As the Result of the Cancellation.

A number of commenters express concern that the language in Section 2.3.3.6.3 will limit the direct costs for which compensation is available if the ISO directs a Participating TO to cancel an Approved Maintenance Outage. See, e.g., TANC at 3, MWD at 4-6, and WAPA at 4-5. These concerns are based on the second sentence of Section 2.3.3.6.3, which states: "For purposes of this section, direct costs include verifiable labor and equipment rental costs that have been incurred by the applicable Participating TO solely as a result of the ISO's cancellation of an Approved Maintenance Outage." The apparent concern is that the ISO is attempting to limit the costs for which compensation is available to only labor and equipment rental costs. This is not the case. The first sentence of

⁹ See Order No. 2000, *FERC Stats. & Regs.* ¶ 31,089 at 31,180.

Section 2.3.3.6.3, as submitted in the ISO's compliance filing, provides that "[t]he ISO will compensate the applicable Participating TO for *any* direct and verifiable costs that such Participating TO incurs as a result of the ISO's cancellation of an Approved Maintenance Outage" (emphasis added). The second sentence of Section 2.3.3.6.3 merely identifies examples of the types of direct costs for which compensation may be available -- the use of the word "includes" make it clear that this is not supposed to be an exclusive list of the direct and verifiable costs referenced in the first sentence.

In light of this, there is no justification for the proposal of various parties that the words "labor and equipment rental costs" be eliminated from Section 2.3.3.6.3. Since the examples identified are not intended to be exclusive, there is also no reason to add a more extensive list of potential costs to be compensated. Any "direct and verifiable costs" incurred as a result of an ISO-directed outage cancellation can be addressed on a case-by-case basis.

MWD proposes replacing the word "verifiable" in the first sentence of Section 2.3.3.6.3 with the word "unavoidable," while retaining the word "verifiable" in the second sentence of Section 2.3.3.6.3. MWD at 6. This change is unnecessary and does nothing to clarify this provision. As proposed in the ISO's compliance filing, Section 2.3.3.6.3 already states that "[e]ach Participating TO must make a reasonable effort to avoid incurring any such direct costs"

Overall, the various proposed revisions do nothing to improve Section 2.3.3.6.3 as submitted in the ISO's compliance filing. Neither do the commenters identify any respect with which the ISO did not comply with the March 29 Order.

They simply tinker with the existing language without providing any substantive improvement. As such, there is no need for the Commission to do anything but approve Section 2.3.3.6.3 as proposed by the ISO.

C. The ISO's Proposed Allocation of Costs Under Section 2.3.3.6.4 Is Appropriate.

Only one commenter raises concerns about the provision for allocating costs incurred by the ISO to compensate Participating TOs for direct and verifiable outage cancellation costs. MWD at 6-7. MWD raises no objection to the basic approach set forth in Section 2.3.3.6.4, *i.e.*, allocating such costs to Scheduling Coordinators in proportion to their metered Demand (including exports), but does request two modifications to this provision. First, MWD contends that additional language should be added to this provision to make it clear that the ISO will allocate such costs based on the metered Demand "during the Settlement Periods) of the originally scheduled transmission outage." MWD also contends that the ISO may cancel an outage due to a locational problem in one of the Zones. To address this possibility, MWD requests that the Tariff language be altered such that the allocation of all outage cancellation costs under Section 2.3.3.6.4 be only to those Scheduling Coordinators that are in the Zone where the transmission outage was to occur.

The ISO believes that it is both fair and appropriate to assess all Scheduling Coordinators, based on their metered Demand and exports during the applicable period, for the direct and verifiable costs of a cancelled outage. The Tariff language approved in the March 29 Order provides that the ISO will cancel an Approved Maintenance Outage no later than 5:00 a.m. on the day prior

to the day the outage was scheduled to have occurred. Therefore, because the outage has been cancelled, the system will operate in its normal configuration and all Scheduling Coordinators will submit their Preferred Day-Ahead Schedules based on that expectation.¹⁰ The entire system and all Scheduling Coordinators will benefit by maintaining the transmission system and avoiding unduly significant market impacts.

The ISO agrees that the allocation of outage cancellation costs should be to all Scheduling Coordinators in proportion to their metered Demand in the Settlement Period(s) that the outage was expected to have occurred. This concept is already adequately reflected in the ISO's filings in this proceeding,¹¹ and the ISO does not believe that further clarification or modification of the applicable Tariff provisions is necessary. The ISO does not agree, however, that the allocation of outage cancellation costs should be limited to only those Scheduling Coordinators in the Zone where the transmission outage was to occur. It may be difficult to determine if the reliability needs or unduly significant market impacts necessitating the cancellation of an outage were due to factors limited to a particular Zone. Moreover, as noted above, the entire system, and not just the Scheduling Coordinators for a single Zone, is likely to benefit from a cancellation if a situation arises where the ISO must direct that an Approved

¹⁰ The 5:00 a.m. cancellation deadline is before the deadline for Market Participants to submit their bids to the California Power Exchange (7:00 a.m.) and Preferred Schedules to the ISO (10:00 a.m.).

¹¹ In the ISO's Amendment No. 25 Answer, it explained that such costs would be allocated to "participants in the ISO's markets during the period for which the outage has been scheduled."

Maintenance Outage be cancelled. For these reasons, Section 2.3.3.6.4 should be accepted without modification.

D. The Definition of "Unduly Significant Market Impacts" Is Consistent With the March 29 Order.

In response to comments by a number of parties, the Commission directed the ISO to include a definition of the triggering term "unduly significant market impacts" in the ISO Tariff. March 29 Order, 90 FERC at 62,051. Only one commenter suggests that the definition proposed in the ISO's compliance filing does not provide the "assurance as to the necessity for the cancellation of an approved maintenance outage" which the Commission directed be included in the Tariff. MWD at 2-4. MWD takes issue with the fact that the ISO's definition includes a list of occurrences that might result in such an impact. MWD at 4. This list of occurrences is based on a list provided by the ISO at p. 7 of its Answer in this proceeding. MWD's position is difficult to understand because the Commission explicitly suggested that such a list be included in the definition: "We would expect that the definition contain specific criteria, *e.g.*, using the examples enumerated in the ISO's answer, p. 7." March 29 Order 90 FERC at 62,051 n.20.

MWD also suggests that the ISO has made no attempt to define the impact itself. MWD at 3. This suggestion ignores the fact that the ISO does include a standard for the impact in its definition, *i.e.*, "an unplanned event or circumstance . . . that adversely affects the competitive nature and efficient workings of the ISO markets, and is of such severity that a prudent transmission operator would not have scheduled a transmission maintenance outage of its

facility if the unplanned event or circumstance could have been anticipated." Again, this is the standard that was described in the ISO's Answer, which the Commission specifically referenced in the March 29 Order. This standard both responds to the March 29 Order's directive and reasonably describes the market impact that would be a prerequisite to the ISO's exercise of its authority.¹²

It is noteworthy that a number of parties that sought a definition for "good utility practice" in their initial comments on Amendment No. 25, such as TANC, Cities/M-S-R, and Modesto, submitted comments on the ISO's compliance filing without objection to the ISO's proposed definition for that term. The definition should be accepted both because it provides sufficient guidance on the standard to be applied by the ISO and because it is specifically responsive to the direction provided by the Commission in the March 29 Order.

¹² The ISO also notes that this standard is consistent with the existing standard in the ISO Tariff requiring the ISO to act in accordance with "Good Utility Practice."

III. CONCLUSION

For the foregoing reasons, the Commission should accept the ISO's April 28 compliance filing in this proceeding without modification.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all parties on the official service list compiled by the Secretary in the above-captioned proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Washington, D.C. this 5th day of June, 2000.

Sean A. Atkins