

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

City of Vernon, California)	
)	
v.)	Docket No. EL01-75-000
)	
California Independent System Operator Corporation)	

**ANSWER OF THE CALIFORNIA INDEPENDENT
SYSTEM OPERATOR CORPORATION TO
COMPLAINT REQUESTING FAST TRACK PROCESSING
OF THE CITY OF VERNON, CALIFORNIA**

I. INTRODUCTION

Pursuant to Rule 213 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“Commission”), 18 C.F.R. § 385.213 (2000) and the Commission’s May 8, 2001 Notice of Complaint, the California Independent System Operator Corporation (“ISO”)¹ hereby submits its Answer to the Complaint Requesting Fast Track Processing (“Complaint”) filed by the City of Vernon, California (“Vernon”) on May 7, 2001. For the reasons described below, the Commission should find that the Complaint is unfounded and the relief it requests should be denied, without prejudice.

The Complaint represents a second attempt by Vernon to mix the unrelated issues of individual utilities’ Schedules and system-wide emergencies

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

necessitating rolling blackouts.² Vernon seeks single-handedly to dictate the path of rolling blackouts in the ISO Control Area, in derogation of the obligations it freely undertook when it executed a Utility Distribution Company (“UDC”) Operating Agreement. Because Vernon’s proposal is both unworkable and unfair to other utilities’ customers, the ISO requests that the Commission reject it, and deny the Complaint.

II. ANSWER

A. Mechanics of System Emergencies

Under the ISO Tariff, when there is insufficient supply to serve the demand for electricity in real time in California and satisfy the Operating Reserve requirements of the Western Systems Coordinating Council (“WSCC”), a System Emergency occurs. See ISO Operating Procedure Nos. E-504 and E-508 (included with this Answer as Attachment A). Under ISO Operating Procedures, a System Emergency condition occurs when an Operating Reserve shortfall exists or is unavoidable and available market and non-market resources will be insufficient to maintain Operating Reserves in compliance with the WSCC Minimum Operating Reliability Criteria (“MORC”). If Operating Reserves are currently or are forecast to be below 7 percent, a Stage 1 System Emergency is declared. When Operating Reserves fall below 5 percent or are projected to do so, a Stage 2 System Emergency is declared. A Stage 3 System Emergency, including the possibility of rolling blackouts, occurs when Operating Reserves are

² Vernon has made substantially the same arguments as it presents in its Complaint in its April 10, 2001 Protest of Amendment No. 38 to the ISO Tariff in Docket No. ER01-1579.

currently or forecast to be below 1.5 percent. The reserves measured in determining whether a Stage 1, 2, or 3 System Emergency is called are, consistent with applicable reliability standards, total reserves for the entire ISO Control Area, not those of individual UDCs. The ISO Tariff accordingly obligates the ISO to allocate responsibility for Load curtailments among UDCs in proportion to their Demands.³

When a Stage 3 System Emergency is declared and involuntary curtailment of firm Load is required to maintain system reliability, the ISO must follow the applicable Load Shedding procedures that previously have been developed, embodied in the utilities' Electrical Emergency Plans ("EEPs"), and filed with the Commission as an attachment to the UDC Operating Agreements executed between the ISO and the UDCs. For the investor-owned utilities ("IOUs"), the California Public Utilities Commission approves the EEP that includes Load Shedding procedures. Generally, for municipal utilities, their local regulatory authority approves the EEP. These procedures take into account the reliability requirements of the ISO Controlled Grid in implementing such blackouts.

A UDC Operating Agreement was executed by Vernon and filed with the Commission on January 3, 2001, and revised by a compliance filing on March 23, 2001. Schedules 6 and 8 of that agreement, governing underfrequency Load Shedding and manual Load Shedding respectively, require Vernon to operate in accordance with Vernon's Laguna Bell-Vernon Interconnection Service

³ See ISO Tariff Section 4.5.3.

Agreement with Southern California Edison Company ("SCE"), which requires Vernon to operate in accordance with SCE's plans for underfrequency Load Shedding and manual Load Shedding. Thus, Vernon's UDC Operating Agreement incorporates these existing procedures to determine when Vernon is required to shed firm Load following a declaration of a Stage 3 System Emergency and the issuance by the ISO of directives to UDCs to implement their EEPs. Vernon has yet to implement an EEP and therefore is required by the terms of its UDC Operating Agreement to follow the directions of SCE.

Vernon argues that when a utility's Schedules include sufficient generating resources and purchases to meet its actual Load, it should not be forced to share in the rolling blackouts instituted to preserve the reliability of the ISO Control Area. Vernon views such blackouts as cutting "service to its customers to accommodate the failure to schedule by others." Complaint at 3.

The linkage that Vernon asserts between an individual UDC's balanced Schedule and the allocation of responsibility to participate in Load curtailments to manage a System Emergency in the ISO Control Area does not exist. This is in part due to the fact that the ISO does not have access to Meter Data during real time operations.⁴ As a consequence, when the need to call for UDCs to curtail Loads in accordance with their EEPs or interconnection agreements, the ISO does not know which utilities have scheduled accurately and which have not. Neither does the ISO know which Load is being served by which Generation. Thus, the ISO is unable to circumvent the established procedures for dealing with

⁴ The ISO receives Meter Data from Scheduling Coordinators up to 45 days after the Trading Day.

System Emergencies. More importantly, the established procedures appropriately and equitably assign to *all* UDCs and *all* Load the responsibility to participate in unavoidable rolling blackouts; this approach is consistent with the principle of interconnected utility operations and the joint obligations and responsibilities of Control Area participants. Load Shedding procedures are not and should not be based on the accuracy or inaccuracy of a UDC's Schedules, or the sufficiency or insufficiency of an individual UDC's Operating Reserves. Vernon's suggestion (Complaint at 10-11) that when UDCs that represent that they have scheduled sufficient resources to meet their real time Load should not be subject to rolling blackouts, at the risk of incurring a \$5,000/MWh penalty for false reports, is unworkable.

First, UDCs do not submit Schedules -- Scheduling Coordinators do -- and there is not a one-to-one correspondence between UDC Service Areas and Scheduling Coordinators representing UDC customers. Vernon's proposal would require the ISO to allocate responsibility among UDCs for Load curtailments to manage System Emergencies based on the scheduling practices of Scheduling Coordinators, which may be different entities.

Second, the ISO does not obtain the Meter Data required to verify such claims for up to 45 days after actual operations (see n. 4, above). The only data the ISO has in real time is telemetry from the Generators and the tie points. This gives the ISO information on the total flow of Generation, imports, and exports for the ISO Control Area, enabling the ISO to calculate Load and the Operating Reserves required to meet WSCC MORC. These data do not enable the ISO to

make the same calculation for each UDC and each Scheduling Coordinator. Thus, no evidence is available in real time to enable the ISO to determine which Scheduling Coordinator's Schedule is being met and which Scheduling Coordinator's Schedule is not being met.

Third, even assuming that a UDC, in good faith, schedules enough resources to meet its anticipated Load and its Operating Reserve obligations, the fact that a UDC has scheduled enough resources to serve its Load does not ensure that its Loads and resources will be in balance in real time. Actual Load could be higher than forecast; a scheduled Generating Unit could suffer a Forced Outage; or a transmission line curtailment or outage could prevent the delivery of Energy or Operating Reserve from a scheduled resource. Any or all of these events could cause a UDC's resources to be insufficient to meet its real time Load and reserve obligations.

Finally, the penalty that Vernon proposes is insufficient to deter false reporting or gaming in light of the extremely high costs that Load curtailments impose on some customers, and especially in light of the delay that the ISO would necessarily experience in policing compliance with Vernon's proposal.

B. The Requirements of the ISO Tariff and Operating Procedures With Regard to System Emergencies are Unrelated to Individual Utilities' Schedules

In Vernon's view, utilities that schedule their Load accurately, and provide sufficient resources to meet their Load, should not be included in rolling blackouts the ISO is forced to impose when insufficient resources are available to serve all Load in California. Vernon believes such blackouts should fall only on

those entities that do not cover their Load through adequate Schedules. Complaint at 10. Vernon contends that procedures that fail to take scheduling status into account in determining which areas are to be blacked out “are not just and reasonable, are unduly discriminatory, and constitute bad policy that sends counterproductive signals to the market.” Complaint at 3.

Further, Vernon contends that what the ISO has experienced in recent times are not true System Emergencies, as the term was intended to be used under the UDC Operating Agreement. Complaint at 8.

Vernon is incorrect in characterizing the recent rolling blackouts as resulting from a “predictable, chronic shortage of supply by certain utilities” and thus not constituting System Emergencies. Complaint at 8. While it is true that there is a chronic shortage of supply in the ISO Control Area, the ISO cannot predict with any precision when it will be necessary to call for Load curtailments. Indeed, ISO personnel work until the very last minute to avert a rolling blackout, and the reserve shortages that necessitate them. The ISO has explained this procedure in response to Vernon’s previous pleadings. Indeed, Vernon quotes passages from the ISO’s previous filings in its Complaint. *See, e.g.*, Complaint at 7. Moreover, a significantly large shortage of supply does, in fact, constitute a System Emergency. The ISO Tariff defines a System Emergency as

Conditions beyond the normal control of the ISO that affect the ability of the ISO Control Area to function normally including any abnormal system condition which requires immediate manual or automatic action to prevent loss of Load, equipment damage, or tripping of system elements which might result in cascading outages or to restore system operation to meet the minimum operating reliability criteria.

ISO Tariff Appendix A, Master Definitions Supplement. As a UDC, Vernon is bound to adhere to the ISO Tariff.

The ISO Tariff and its Operating Procedures require that if the Control Area is short of resources, all UDCs take a *pro rata* reduction. Currently, the ISO has seven entities that have executed the UDC Operating Agreement – Pacific Gas and Electric Company (“PG&E”), San Diego Gas & Electric Company, SCE, the Cities of Anaheim, Pasadena, and Vernon, and Lassen Municipal Utility District. In both Vernon and Anaheim's UDC Operating Agreement, Load Shedding is determined in accordance with agreements the two entities have with SCE. It is then up to each UDC to determine what customers have their firm Load curtailed in its Service Area and to fulfill any contractual obligations to another UDC.⁵

Thus, just as the trigger of a rolling blackout may not be UDC-specific, the ISO's reaction cannot be UDC-specific.

B. Applying Rolling Blackouts to Vernon is Not Discriminatory

1. Rolling Blackouts Are Unavoidable, Not a Result of “Bad Utility Practice”

Vernon characterizes utilities that have failed to secure sufficient supplies to balance their Loads as having “chosen” not to do so. Complaint at 1. This implies a cavalier attitude on the part of the State and IOUs with regard to their duty to serve. Nothing could be further from the truth. Indeed, one IOU currently

⁵ The ISO briefly described this process in its April 25 Answer to the protests of Amendment No. 38 at 9-10. The above description provides a more complete picture of the process.

is in bankruptcy proceedings for having chosen to serve Load. A second is in precarious financial straits. The State of California passed legislation in January 2001 tasking the California Department of Water Resources ("CDWR") with procuring power to attempt to satisfy the net short position (with regard to resources to serve Load) for the IOUs. With the onset of summer and higher temperatures in California, however, it already has been demonstrated that often there is insufficient supply to meet Load at any reasonable price. This condition is likely only to get worse.

2. Blackouts are not Appropriate Incentive Mechanisms

Vernon describes in detail the efforts it has made to secure sufficient supplies to meet its peak Load requirements. Complaint at 4-6. Despite having undertaken such efforts, Vernon complains, its "customers are still punished with rotating blackouts."⁶ Vernon misconstrues the ISO's role in System Emergencies. The ISO does not impose blackouts to "punish" the customers of recalcitrant UDCs, or to incent certain behavior. Indeed, the ISO does everything in its power to prevent blackouts from occurring to any part of the ISO Control Area. When they are required, blackouts are imposed evenhandedly.⁷

⁶ Complaint at 9. Vernon views blackouts as appropriate mechanisms to punish others, however. Vernon previously has argued that the ISO should stop providing real time Imbalance Energy to uncreditworthy entities, and that the resultant blackouts should be viewed as "implementation [of] creditworthiness standards in circumstances where there are large underschedules." Protest of Amendment No. 38, Docket No. ER01-1579 at 9.

⁷ The Commission recognized that blackouts were not proper tools to incent desired outcomes in its April 26 Order (*San Diego Gas & Electric Co. v. Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator and the California Power Exchange, et al.*, 95 FERC ¶ 61,115 (2001), describing rolling blackouts as an "arbitrary and inefficient" means to allocate short supplies of electricity).

Moreover, many times a System Emergency is the result of several factors – e.g., the weather, Generating Unit failure, derated transmission lines, downed wires – that are not the fault of any particular UDC or Scheduling Coordinator. Vernon acknowledges that when there is a sudden physical failure, such as a Generating Unit outage, the UDC Operating Agreement and the other agreements to which Vernon is a party, “as a reflection of good utility practice and mutual support require a sharing of supply.” Complaint at 8.

As well, punishing customers of particular UDCs would not obviate need for blackouts; instead, it would have the effect of blacking out the same individuals repeatedly – a discriminatory, unjust result, with serious impacts on public health and safety in the areas continuously being blacked out.

As noted above, while it is true that reserves in the California market remain dangerously low during the current crisis, the ISO makes every effort to keep the lights on every hour of every day. Indeed, ISO personnel fight for every megawatt, and only declare System Emergencies of any type when there is no alternative. This being the case, System Emergencies often are not foreseeable and avoidable, as Vernon would have it.

III. THE ISO DOES NOT OPPOSE FAST TRACK PROCESSING OF THIS MATTER

The ISO would like to see this issue resolved promptly, as well. With the summer peak season upon us, the likelihood that blackouts will occur is increasing. That being the case, the ISO must be certain of the proper procedures to follow.

IV. COMMUNICATIONS

Communications regarding this docket should be sent to the following individuals, whose names should be entered on the official service list established by the Secretary for this proceeding:

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V. CONCLUSION

For the foregoing reasons, the ISO respectfully requests that the Commission summarily to dismiss the Complaint filed by Vernon in this proceeding.

Respectfully submitted,

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Dated: May 18, 2001

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, DC this 18th day of May, 2001.

Julia Moore
(202) 295-8357

May 18, 2001

The Honorable David P. Boergers
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Re: ***City of Vernon, California v. California Independent System Operator Corporation***
Docket No. EL01-75-000

Dear Secretary Boergers:

Enclosed please find an original and fourteen copies of the Answer of the California Independent System Operator Corporation to the Complaint Requesting Fast Track Processing of the City of Vernon, California in the above-captioned matter. Also enclosed are two extra copies of the filing to be time/date stamped and returned to us by the messenger. Thank you for your assistance.

Respectfully submitted,

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Counsel for the California Independent System
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