

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation)
Docket No. ER99-1971-002)
)
)

**ANSWER OF CALIFORNIA
INDEPENDENT SYSTEM OPERATOR CORPORATION
TO MOTION TO INTERVENE, COMMENTS AND PROTESTS**

On July 2, 1999, 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 accepted in Amendment No. 14.¹ These modifications included the following: 1) revisions that clarify settlements under the "Rational Buyer" procedure; 2) revisions that correct certain formulae related to the effective price proposal and which clarify the definition of "Effective Price"; 3) the addition of separate formulae related to the downward component of Regulation service; 4) revisions that clarify that inter-Scheduling Coordinator trades of Ancillary Services are permitted for resources outside the ISO Control Area; and 5) a number of miscellaneous, non-substantive Tariff revisions the ISO committed to make in an earlier filing in this proceeding. These modifications to the

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

Amendment No. 14 Tariff revisions were submitted to comply with the Commission's May 26, 1999 Order in this proceeding.²

In accordance with the Notice of Filing issued on July 9, 1999, a number of parties submitted motions to intervene, comments and/or protests concerning this compliance filing by July 22, 1999. 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 Motion to Intervene, Comments and Protests submitted in the above captioned docket.

As explained below, in response to certain protests and to the Commission's July 26, 1999 order in this proceeding, the ISO also submits additional revised Tariff sheets to comply with an aspect of the May 26 Order on which the ISO had sought rehearing and partial stay. The ISO also submits revisions to a currently-effective "temporary" version of the ISO Tariff to reflect revisions to the corresponding "permanent" provision of the ISO Tariff submitted in the July 2 compliance filing. All requests for modifications to the ISO's July 2 compliance filing that are not addressed by these revisions are unnecessary and unsupported. The Commission should accordingly accept the July 2 compliance filing, including the additional revisions attached to this Answer.

I. BACKGROUND

On March 1, 1999, the ISO filed Amendment No. 14 to the ISO Tariff in Docket No. ER99-1971-000. Amendment No. 14 included a series of proposed revisions to the ISO Tariff that principally constitute Phase I of the ISO's comprehensive redesign of its Ancillary Service markets, in compliance with the

² *AES Redondo Beach, L.L.C. et al.*, 87 FERC ¶ 61,208 ("May 26 Order").

Commission's October 28, 1998 order in Docket Nos. ER98-2843 *et al.*³ The proposed revisions were products of an extensive process through which all interested stakeholders were involved in assessing the problems that had arisen in those markets during the first year of the ISO's operation and in developing proposals to address them. Amendment No. 14 also included several other proposed changes to the ISO Tariff.

Numerous parties submitted motions to intervene, comments and/or protests to Amendment No. 14. On April 12, 1999, the ISO submitted its Answer to Motions to Intervene, Request for Clarification, Comments and Protests in the above-captioned docket. In the April 12 answer, the ISO agreed, in response to various intervenor comments and questions on Amendment No. 14, to make a number of small non-substantive modifications to the ISO Tariff that would be submitted in a compliance filing.

On May 26, 1999, the Commission issued its order in Docket No. ER99-1971 and Docket Nos. ER98-2843 *et al.* which accepted Amendment No. 14 with certain modifications. In the May 26 Order, the Commission directed the ISO to make certain modifications to the Amendment No. 14 Tariff revisions, including those modifications which the ISO committed to make in the April 12 Answer. The Commission directed the ISO to submit a compliance filing containing those Tariff changes within 30 days of the May 26 Order.⁴

On June 25, 1999, the ISO filed a Motion for Extension of Time in this proceeding, requesting an additional week to finalize the compliance filing

³ *AES Redondo Beach, L.L.C., et al.*, 85 FERC ¶ 61,123 (1998).

⁴ May 26 Order, 87 FERC at 61,823.

required by the May 26 Order. On June 29, 1999, the Commission granted the requested extension.

The ISO also filed a Request for Rehearing, Motion for Clarification and Conditional Motion for Partial Stay in this proceeding on June 25. In that pleading, the ISO requested rehearing on an aspect of the May 26 Order related to a modification of the ISO's proposal to base charges for Ancillary Services on metered Demand. In the May 26 Order, the Commission approved this modification (referred to as the "buy-back" proposal) but rejected its application in circumstances where self-provided Ancillary Services are withdrawn at the instruction of the ISO. To the extent the Commission could not rule on the ISO's request for rehearing on this issue by July 20, 1999, the ISO moved for a stay of that aspect of the May 26 Order pending the Commission's consideration of the ISO's rehearing request.

On July 2, 1999, the ISO submitted its compliance filing in this proceeding. The compliance filing did not address the May 26 Order's limitation on the buy-back proposal due to the pending request for rehearing and conditional motion for partial stay.

On July 22, 1999, the Sacramento Municipal Utility District ("SMUD") filed a motion to intervene in this proceeding. On the same date, the Metropolitan Water District of Southern California ("MWD"), the Modesto Irrigation District ("Modesto"), and the Transmission Agency of Northern California ("TANC") filed Comments on and/or Protests to portions of the July 2 compliance filing.

The ISO does not oppose the intervention of SMUD. TANC, Modesto and MWD submitted comments and protests on the July 2 compliance filing concerning the ISO's compliance obligation with respect to the portion of the May 26 Order addressing the buy-back proposal. As explained below, these comments and protests are addressed by the revisions to the ISO's compliance filing submitted herein. Only one party, MWD, submitted comments on other portions of the July 2 compliance filing. That party proposed a number of modifications to the compliance filing. The ISO does not believe that these modifications are necessary or appropriate.

II. ANSWER TO COMMENTS AND PROTESTS⁵

A. The ISO's Revisions to its Compliance Filing Address Concerns Related to the May 26 Order's Limitation on the Buy-Back Proposal and Fully Effectuate Another Portion of the Compliance Filing

1. Limitation on the ISO's Buy-Back Proposal

In Amendment No. 14, the ISO proposed to modify its proposal to allocate Ancillary Service obligations and costs on the basis of metered Demand, which had been approved as part of Amendment No. 13.⁶ Part of the modifications addressed the opportunity created by the initial proposal for a Scheduling

⁵ MWD submits a pleading entitled "Protest and Comments," while TANC and Modesto submit "Protests" wherein they contend that the ISO erred by failing to include revisions to Section 2.5.21 of the ISO Tariff in its 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 nature and complexity of this proceeding and 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).

⁶ *California Independent System Operator Corp.*, 86 FERC ¶ 61,122 (1999).

Coordinator to withdraw in the Hour-Ahead Market, self-supplied Ancillary Service capacity that was committed in the Day-Ahead Market. The example included in the ISO's transmittal letter to Amendment No. 14 postulated a Scheduling Coordinator voluntarily withdrawing its self-supply commitment, in the hope of reselling at higher Hour-Ahead prices.

The May 26 Order accepted the ISO's proposal to charge Scheduling Coordinators the Hour-Ahead Market price for Ancillary Services capacity scheduled in the Day-Ahead Market but voluntarily withdrawn before the Hour-Ahead Market.⁷ The Commission, however, rejected the buy-back proposal "as it applies to self-provided capacity that is withdrawn involuntarily by the [Scheduling Coordinator] on instruction from the ISO", as in the case of a transmission line derating or a change in generation schedules.⁸

As noted above, the ISO sought rehearing of the May 26 Order's limitation on the buy-back proposal. In the ISO's June 25 request for rehearing in this proceeding, the ISO asserted that this limitation would result in inappropriate shifting of costs to other Market Participants and would be inconsistent with the obligations of suppliers in the ISO's Ancillary Service and Imbalance Energy markets. In all of those markets, a supplier bears the risk that it will be unable to live up to its supply obligations, whether or not the cause of a failure to do so is subject to its control. Moreover, the ISO explained that, in order to comply with the Commission's ruling limiting the application of the buy-back proposal, the ISO would have to engage in burdensome manual work-arounds until next year,

⁷ May 26 Order, 87 FERC at 61,814.

⁸ *Id.*

which is the earliest it could modify its software for the allocation of Ancillary Service costs on the basis of Scheduling Coordinators' actual Demands to reflect the Commission's ruling. The ISO also moved for a stay of that portion of the May 26 Order pending the Commission's consideration of the ISO's rehearing request.

Due to the pendency of the ISO's motion for stay and request for rehearing on the buy-back limitation, the ISO did not propose Tariff revisions relating to that portion of the May 26 Order in its July 2 compliance filing.⁹ The comments and protests filed by TANC, Modesto and MWD on July 22 contend that the ISO erred by failing to include revisions to Section 2.5.21 and related provisions of the ISO Tariff in its July 2 compliance filings.¹⁰ These pleadings did not address the ISO's request for rehearing and motion for partial stay.

On July 26, 1999, the Commission issued its Order Granting Rehearing for Purpose of Further Consideration, Denying Rehearing in Part, and Denying Stay in this proceeding.¹¹ In the July 26 Order, the Commission denied the ISO's request for rehearing on the buy-back limitation, denied the ISO's motion for partial stay of this portion of the May 26 Order, and directed the ISO to perform manual work-arounds to implement the buy-back limitation as necessary.¹²

⁹ Although the May 26 Order did not specifically direct the ISO to revise the Tariff to implement the limitation on the buy-back proposal for involuntary withdrawals of self-provided Ancillary Services capacity, the ISO recognized that, but for the ISO's then-pending motion for stay of this portion of the May 26 Order, such revisions are necessary to reflect the Commission's order on this issue.

¹⁰ TANC at 4-5, Modesto at 4-5, MWD at 2-5.

¹¹ *AES Redondo Beach, L.L.C., et al.*, 88 FERC ¶ 61,096 ("July 26 Order").

¹² July 26 Order, 88 FERC ¶ 61,096, slip op. at 4-5. The Commission deferred action on the ISO's request for rehearing and motion for clarification on other issues.

In light of the Commission's actions in the July 26 Order and in response to the comments and protests on this issue, the ISO acknowledges that it is now appropriate to revise the ISO Tariff to reflect the May 26 Order's directive that the buy-back proposal not apply to involuntary withdrawals of self-provided Ancillary Services capacity by a Scheduling Coordinator on the instruction of the ISO. This is accomplished through revisions to Section 2.5.21 and certain related Protocol provisions: SBP 5.3, SP 9.1(e), and SP 9.3(e). These revisions are included in revised Tariff sheets submitted in Attachment A to this filing and are shown in blacklined format in Attachment B to this filing.

The ISO believes that the proposed revisions address all concerns raised by TANC and Modesto as well as MWD's comments on the buy-back proposal. The ISO notes that MWD has suggested revisions to the same Tariff provisions to effectuate this portion of the May 26 Order. The ISO believes that the proposed revisions shown in Attachment B are preferable to those offered by MWD because they more closely follow the Commission's language from the May 26 Order.

The ISO also notes that the proposed revisions set forth in Attachment B are submitted to go into effect at the same time the software necessary to implement billing based on metered Demand is scheduled to be implemented later this month, with seven days notice to Market Participants.¹³ Accordingly, there has been no delay in effectuating this portion of the May 26 Order.

¹³ Consistent with the July 26 Order, the ISO will perform any necessary manual work-arounds to implement the limitation on the buy-back proposal until the necessary software modifications can be made.

2. Separate Pricing of Regulation Up and Down

In the July 2 filing, the ISO submitted Tariff revisions to add separate formulae for the upward and downward components of Regulation service, a revision which the ISO had committed to make in response to a request from TANC.¹⁴ These revisions included the addition of separate formulae in Section 2.5.27.1 of the ISO Tariff. Corresponding revisions to the currently effective "temporary" version of Section 2.5.27.1 found in Section 29.2.1 of the Tariff were inadvertently omitted from the July 2 compliance filing.¹⁵

The ISO now submits these corresponding revisions to Section 29.2.1, as reflected in blacklined format in Attachment C to this filing. The ISO also includes revised Tariff sheets incorporating these changes in Attachment A. These revisions merely reflect the ISO's proposal to establish separate pricing for upward and downward components of Regulation as approved by the Commission in the May 26 Order.¹⁶

B. Other Proposed Modifications to the Compliance Filing Are Neither Justified Nor Appropriate

MWD proposes a number of additional modifications to the Tariff revisions included in the ISO's July 2 compliance filing in this proceeding. As discussed below, the ISO does not believe any of the proposed revisions are necessary or appropriate.

¹⁴ See July 2 compliance filing at 5 and Attachment D.

¹⁵ As the ISO has explained elsewhere, certain provisions of the ISO Tariff are currently superseded by "temporary" versions of those provisions in other portions of the Tariff. The ISO has committed to eliminate all such "temporary" sections of the Tariff and incorporate the necessary changes into the "permanent" provisions of the ISO Tariff as part of a negotiated settlement addressing hundreds of unresolved issues being finalized for submission in Docket Nos. ER98-3760 *et al.*

¹⁶ May 26 Order, 87 FERC at 61,812.

1. Rational Buyer

In the July 2 compliance filing, the ISO submitted revisions to Sections 2.5.28 *et seq.* of the Tariff and Appendix C to the ISO's Settlement and Billing Protocol which clarify how the ISO will implement settlements under the Rational Buyer approach. MWD, the only party commenting on these revisions, does not oppose the majority of those revisions. MWD does suggest, however that Sections 2.5.28(c) and SABP Appendix C 2.2.4(b) require additional clarification with respect to the calculation for "proportionate shares" and as to whether ISO Ancillary Service purchases are "summed across all Zones."¹⁷ MWD offers proposed revisions to these provisions.

The ISO believes that these provisions, as revised by the July 2 compliance filing, are amply clear on both these points. Under the Rational Buyer approach approved by the ISO Governing Board, the ISO will bill the purchasers of Ancillary Service capacity based on the product of the Market Clearing Price ("MCP") and the original quantities or the original MW obligations for each Ancillary Service. The ISO will pay the suppliers of Ancillary Service capacity the product of the MCP and the new, Rational Buyer quantities or MW obligations for each Ancillary Service. These provisions are not revenue neutral, *i.e.*, it is likely that the dollars paid to the suppliers will not match the dollars charged to the purchasers. The provisions that MWD proposes to change describe how the ISO will settle with Scheduling Coordinators when there is an imbalance between the dollars the ISO has charged to the purchasers and the

¹⁷ MWD at 5-6.

dollars the ISO has paid to the suppliers. These provisions state that under the approved Rational Buyer approach, a Scheduling Coordinator will be subject to additional charges:

equal to its proportionate share, based on total purchases by Scheduling Coordinators of Regulation, Spinning Reserve, Non-Spinning Reserve and Replacement Reserve of the amount, if any, by which (i) the total payments to Scheduling Coordinators pursuant to Section 2.5.27.1 through 2.5.27.4, for the Day-Ahead Market and Hour-Ahead Market and all Zones, exceed (ii) the total amounts charged to Scheduling Coordinators pursuant to Section 2.5.28.1 through 2.5.28.4, for the Day-Ahead Market and Hour-Ahead Market and all Zones.

This language establishes the basis for the "proportionate share" and makes clear that the additional charges, if any, will be based on a comparison of payments to Scheduling Coordinators for all Zones to the amounts charged to Scheduling Coordinators for all Zones.

In addition, the ISO notes that many of the revisions proposed by MWD are completely non-substantive changes such as the replacement of "payments" with "amounts paid." MWD has not demonstrated that its proposed revisions are justified. The Commission should accept Sections 2.5.28(c) and SABP Appendix C 2.2.4(b) as revised by the July 2 compliance filing.

MWD raises another issue concerning Section 2.5.28 which is unrelated to the ISO's July 2 compliance filing. In its April 12 answer to comments on Amendment No. 14, the ISO responded to a request from MWD that the ISO explain a reference to "non-negative" quantities of Ancillary Services and "negative" obligations for Ancillary Services in Section 2.5.3.6 of the ISO Tariff,

as revised by Amendment No. 14. The Commission accepted the relevant revisions to Section 2.5.3.6 in the May 26 Order.

MWD now proposes revisions to Section 2.5.28(a) which it suggests will "clarify" an additional reference to negative obligations for Ancillary Services.¹⁸ As an initial matter, the ISO notes that the proposed revisions go beyond the scope of the instant proceeding. The May 26 Order did not direct the ISO to make any revisions related to negative Ancillary Services obligations, and the ISO proposed no changes to the relevant portion of Section 2.5.28(a) in the July 2 compliance filing. In addition, numerous intervenors have commented on the Amendment No. 14 Tariff changes, but only one has expressed confusion about this term, even before the ISO provided an additional explanation. In these circumstances, further clarification is not necessary. MWD's proposed revisions, which refer to excess self-provision in the Day-Ahead Market, would also improperly limit the circumstances under which negative Ancillary Service obligations may result in a credit to Scheduling Coordinators. As explained in the ISO's April 12 answer in this proceeding, there may be circumstances where incremental self-provision by certified resources in the Hour-Ahead Market can result in credits for excess self-provision. The proposed revisions are neither accurate nor necessary, and they should not be accepted by the Commission.

2. Effective Price

MWD also suggests certain revisions related to the parallel provisions in Section 11.2.4.1 and SABP Appendix D 2.1.1 which implement the ISO's

¹⁸ MWD at 7-8.

"effective price" proposal approved the Commission in the May 26 Order.¹⁹ In the July 2 compliance filing, the ISO submitted revisions to certain formulae in these provisions and to the definition of "Effective Price" in response to certain comments on Amendment No. 14.²⁰ MWD observes that there are slight non-substantive differences in the titles of Section 11.2.4.1 and SABP Appendix D 2.1.1 and the descriptive sentences preceding the formulae in these provisions.²¹ MWD suggests that the language in Section 11.2.4.1 be revised to exactly track the language in SABP Appendix D.

Again, these comments go beyond the scope of this proceeding. The revisions to these provisions in the July 2 compliance filing did not change the titles of these provisions or the sentences in question. In addition, MWD does not explain why these changes are necessary. MWD does not claim that the existing version of these provisions is in any way confusing, it just vaguely claims that the language in Appendix D is "less ambiguous." Section 11.2.4.1 and SABP Appendix D 2.1.1 are consistent in all substantive respects. Insofar as MWD proposes revisions to the titles of these two provisions, such a change is also unnecessary. Section 20.6 of the ISO Tariff establishes that "the titles and headings in this ISO Tariff are inserted solely to facilitate reference and shall have no bearing upon the interpretation of any of the rates, terms, and

¹⁹ May 26 Order, 87 FERC at 61,811.

²⁰ As explained at p. 4 of the transmittal letter, the July 2 compliance filing revised the currently effective "temporary" versions of Section 11.2.4.1 and SABP Appendix D 2.1.1 found in Section 23 of the ISO Tariff. See n.16 *supra*.

²¹ MWD at 7.

conditions, of the ISO Tariff." There is therefore no need to make the proposed revisions to Section 11.2.4.1.

3. Miscellaneous Tariff Revisions

Lastly, MWD proposes certain revisions to Section 2.5.20.1 and ASRP 5.5.1.²² The ISO included small non-substantive revisions to these provisions in the July 2 compliance filing in response to a number of intervenor comments. The ISO first notes that it has already made most of the revisions to Section 2.5.20.1 which MWD proposes. These revisions were included as part of Amendment No. 14 and were approved by the Commission in its May 26 Order. These revisions can be seen on Sheet No. 82 of the Tariff, included in Attachment A to the July 2 compliance filing. MWD's confusion in this instance is understandable, however, because the blacklined version of Section 2.5.20.1 included in Attachment F to the compliance filing does not reflect certain of these changes. The ISO apologizes for any confusion it may have inadvertently created and believes that MWD's concerns with respect to Section 2.5.20.1 will be resolved by a review of the Tariff sheets filed with July 2 compliance filing.

MWD also proposes a revision to ASRP 5.5.1 to add the following language at the end of that provision: ". . . plus 100% of any Interruptible Imports and on-demand obligations which it schedules."²³ MWD's proposed revisions are not necessary. ASRP 5.5 refers to a Scheduling Coordinator's obligation for Operating Reserves. The first sentence of ASRP 5.5.1 indicates that there is an additional requirement for Non-Spinning Reserves referred to in paragraph ASRP

²² MWD at 8-9.

²³ *Id.* at 9.

5.5.2 beyond what is required in ASRP 5.5.1. ASRP 5.5.2, in turn, cross-references ASRP 5.2, which makes clear Interruptible Imports and on-demand obligations are included in a Scheduling Coordinator's Operating Reserve obligations. MWD's stated justification for the proposed revisions, the claim that the ASRP has no provision concerning Scheduling Coordinator obligations with respect to Interruptible Imports and on-demand obligations, is therefore incorrect.

III. CONCLUSION

For the foregoing reasons, the Commission should accept the ISO's July 2 compliance filing in this proceeding without modification other than the modifications described above and submitted in the instant filing.

Respectfully submitted,

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Dated: August 6, 1999

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 6th day of August, 1999.

Sean A. Atkins