CALIFORNIA ISO

California Independent
System Operator

December 29, 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 ER03-1046-___

Dear Secretary Salas:

Enclosed for electronic filing please find Motion for Leave to File Answer and Answer of the California Independent System Operator Corporation to Protests Concerning Compliance Filing 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 Operator Corporation	))	**Docket No. ER03-1046-___**

MOTION FOR LEAVE TO FILE ANSWER AND ANSWER OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION TO PROTESTS CONCERNING COMPLIANCE FILING

I. INTRODUCTION AND SUMMARY

On July 8, 2003, the California Independent System Operator Corporation ("ISO")[1] submitted Amendment No. 54 to the ISO Tariff ("Amendment No. 54") in the above-referenced docket. On October 22, 2003, the Commission issued an order on Amendment No 54 and directed the ISO to submit complying Tariff modifications *California Independent System Operator*, 105 FERC ¶ 61,091 (2003) ("Amendment No 54 Order"). The ISO submitted those complying Tariff modifications on November 21, 2003 ("November 21 Compliance Filing"). Two parties submitted protests to the November 21 Compliance Filing.[2]

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 protests submitted in the above-

---

[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] Protests of the November 21, 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") and Williams Power Company, Inc (together, "Dynegy/Williams"), and Powerex Corp ("Powerex")

referenced docket [3] The ISO requests that the Commission should deny the protests, except as noted below, and accept its November 21 Compliance Filing as submitted

II. ANSWER

A. The ISO's Proposed Aggregation Protocol is Just and Reasonable

When the ISO proposed Uninstructed Deviation Penalties ("UDP") in its May 1, 2002 MD02 filing in Docket No ER02-1656 ("May 1, 2002 MD02 Filing"), it proposed to allow Scheduling Coordinators to aggregate generators not connected at a single ISO grid bus point for the purpose of applying UDP See Transmittal Letter for May 1, 2002 MD02 Filing at 37. The Commission approved the ISO's commitment to develop a process to allow market participants to propose aggregations of generating units not at the same grid location, a commitment that was not required by prior orders, if such units are interchangeable, function as a single entity, and will not affect grid reliability.

The ISO worked with market participants through the extensive pre-Amendment No 54 stakeholder Joint Application Development ("JAD") sessions to develop reasonable criteria and a reasonable process for reviewing requests to aggregate generating units, including units not at the same grid location, for the purpose of applying UDP. The ISO understands that generators would like to be able to aggregate every unit in their portfolio for the purpose of applying UDP

---

[3] The ISO requests waiver of Rule 213 (a)(2) (18 C F R § 385 213 (a)(2)) 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 Corp* ,78 FERC ¶ 61,179, at 61,733, 61,741 (1997), *El Paso Electric Co* , 68 FERC ¶ 61,181, at 61,899 & n 57 (1994)

Such flexibility would, to the greatest extent possible, mitigate the risk of individual units (call them, for purposes of the following discussion, unit A and unit B) not following ISO Dispatch Instructions by allowing unit B to cover unit A's uninstructed deviation But unless the change in unit B's output has exactly the same effect on power flows and voltages as the same change in unit A's output would have, unit A and unit B are not interchangeable. The difference in effect may be material, or it may not be material, but it is the ISO's responsibility to determine what is and is not a material difference in effect on grid operations. Furthermore, it is possible that a change in output for unit A may have the same or materially similar effect on power flows and voltages as a change in output for unit B under some conditions (e g , with a certain configuration of lines in service) and not under other conditions (with a different configuration of lines in service) Consequently, it is appropriate for the ISO to put some reasonable conditions on the ability to aggregate units. More importantly, the ISO has already provided what the generators seek through aggregation -- a means to mitigate the risk of UDP if a unit cannot respond to an ISO dispatch instruction due to an outage. In fact, the ISO will not apply UDP to a deviation if a generator notifies the ISO up to thirty minutes after a unit outage. An exemption from UDP already exists if the unit is not capable of responding to an ISO Dispatch Instruction. If a unit can respond to an ISO Dispatch Instruction, especially an instruction given in accordance with a submitted bid, it should The ISO, having worked with stakeholders to develop a reasonable approach to aggregation, now urges the Commission to approve the proposed UDP Aggregation Protocol ("UAP")

Aggregations should be permitted where they make sense – where units feed the same grid point and voltage If they do not, aggregations should be permitted in limited circumstances only where the aggregation still works under all but the most unlikely sets of circumstances.

Dynegy/Williams assert the ISO failed to comply with the Commission's directive by filing a UDP aggregation protocol, instead of including the "final aggregation operating procedure" in its November 21 Compliance Filing. Dynegy/Williams at 8 After the ISO filed the draft aggregation procedure for information, not for approval, as part of Amendment No 54, the ISO added detailed information about internal review and communication processes, including employees' title and detailed instructions on filling out electronic forms, to that procedure. Such was the state of that procedure when the Commission directed the ISO to file the "final aggregation operating procedure" in its Amendment No, 54 Order. Amendment No. 54 Order at P 36. It would not have been appropriate for the ISO to file that procedure, which then contained detail regarding internal ISO staff processes that the ISO would have had to re-file under Section 205 of the Federal Power Act should a staff member change titles, or should the instructions for filling out a form change, for approval as part of the ISO Tariff. Instead, the ISO selected the appropriate, substantive parts from that evolving procedure and filed those provisions as the UAP. By filing the UAP rather than an unfinished, unnecessarily detailed procedure as part of the November 21 Compliance Filing, the ISO was submitting for Commission approval language relevant and appropriate to the Commission's request

Dynegy/Williams recommend that the ISO be directed to respond to a request for a Basic Aggregation request in one week, and to respond to a Custom Aggregation request in three weeks. Dynegy/Williams at 10. In the proposed UAP, the ISO indicated it would undertake best efforts to review and act on aggregation requests within three weeks. The ISO may well act on a Basic Aggregation request in less than three weeks In any case, the ISO has pledged to notify the requestor of the expected time the review will be complete if the review will take longer than three weeks. The ISO has proposed a reasonable approach and timeline to processing these requests, given that it has to direct staff resources away from their primary focus – supporting reliable grid operations – to evaluating these aggregations, which ultimately are financial insurance tools that insulate a Market Participant from risk for failing to follow Dispatch Instructions The Commission should reject Dynegy/Williams' recommendation in this regard.

Dynegy/Williams also request that the ISO be directed to list all of the intra-zonal constraints the ISO will evaluate when reviewing an aggregation request Dynegy/Williams at 11. The ISO proposes instead that, should it deny an aggregation request, it will notify the Scheduling Coordinator requesting the aggregation which constraint caused the ISO to deny the request Notifying the Scheduling Coordinator of every constraint that the ISO evaluates is unnecessarily burdensome If Dynegy/Williams' request is approved, then the ISO has determined that no constraint would unduly affect the aggregation. If the

request is denied, the Scheduling Coordinator should be notified which constraint created the conditions which disallowed the aggregation.

Further, Dynegy/Williams request the ISO be directed to define "local transmission." Dynegy/Williams at 11. The ISO considers "local transmission" to be transmission typically within a unit's respective geographic area, whereby a generating unit has a recognized effect on the amount of power that flows across that transmission, or transmission on which a generating unit contributes to the control of voltage on that transmission As a general rule, a line would be considered "local transmission" if a generating unit exhibited an effectiveness factor of five percent or more on that line, *i.e.*, the power flow on that line changed five or more percent of the change in output of a generating unit.

Dynegy/Williams also recommend that the ISO be permitted to suspend only Custom Aggregations, not Basic Aggregations Dynegy/Williams at 11-12. In their protest, Dynegy/Williams recognized the circumstances in which the ISO may have to suspend a Basic Aggregation – when a bus section at a station is split, usually because a bus-tie circuit breaker is out of service Though the number of stations with bus-tie breakers may be small, and the likelihood of an outage of a bus-tie breaker also small, that such a possibility exists requires the ISO to be able to suspend a Basic Aggregation.

Dynegy/Williams question the provision in Section 4 1 of the UAP that allows the ISO to "temporarily restrict the schedules of aggregated units". Dynegy/Williams at 12. The ISO agrees that this provision should not be part of

the UAP and agrees to delete it The ISO has other authority under its Tariff to restrict Schedules as necessary to maintain grid reliability.[4]

Dynegy/Williams also recommend that the ISO (1) identify the criteria used to suspend an Aggregation; (2) provide for the ISO to notify the affected Scheduling Coordinator before the aggregation will be suspended; (3) require the ISO to state the reasons for the suspensions and provide an opportunity for the affected Scheduling Coordinator "to be heard"; and (4) require the ISO to advise the affected Scheduling Coordinator of the expected duration of the suspension Dynegy/Williams at 12. The ISO will suspend an Aggregation when the Aggregation, due to the outage of a generating unit, transmission line or other grid component, or other modification (such as the sale of a unit) fails to meet the criteria set forth in Section 3.1.1 and 3 1.2 of the UAP. The ISO agrees to notify the Scheduling Coordinator as far in advance of the suspension as reasonably practical. Should the ISO be required to permanently suspend an approved Aggregation, due e g., to the reconfiguration of the transmission grid, the ISO expects to provide notice well in advance of the suspension once the ISO becomes aware of the reconfiguration proposal. However, the ISO notes that in many cases notice of a suspension may not be made until real-time, if the outage that causes the need to suspend the aggregation occurs in real-time To the issue of allowing a Scheduling Coordinator to "be heard", the ISO cannot engage in ongoing negotiations or discussions with market participants about operational issues. The ISO has proposed aggregation criteria in the UAP. As FERC noted in its July 17, 2002 order concerning the May 1, 2002 MD02 Filing, if a Market

[4] *See, e g* , Dispatch Protocol Section 6 9 1

Participant believes the ISO has improperly rejected its request for aggregation – or, as could be reasonably inferred, improperly suspended an aggregation – the market participant may request dispute resolution under the provisions of the ISO's Tariff[5]. If a Market Participant's generating unit is complying with ISO Dispatch Instructions, or providing notice of the unit's inability to do so as the result of a forced outage, that Market Participant will incur no UDP, and the need for an aggregation is moot Because aggregations are a financial convenience (limiting the Scheduling Coordinator's exposure to UDP), not an operational requirement, advance or real-time disputes over aggregations should not be permitted to interfere with ISO grid operations.

B. The proposed treatment of minimum load energy does not constitute "netting."

Dynegy/Williams protest that the ISO included Section 2.9 of Appendix D of the Settlements and Billing Protocol ("SABP") in the November 21 Compliance Filing to define Minimum Load Cost Compensation as "the market revenue deficit below its Minimum Load Costs." Dynegy/Williams suggest this language contravenes the Commission's prohibition against netting market revenues against minimum load costs. Dynegy/Williams are incorrect. Section 2.9 of Appendix D of the SABP is the mathematical equivalent of the tariff language within Section 5 11 6 1.1 of the ISO Tariff that was approved by the Commission in Amendment No 54 Order. Consistent with Section 5.11.6.1.1, the formula located in Section 2.9 of Appendix D of the SABP defines "Minimum Load Cost Compensation" as any shortfall that may arise from paying the minimum load

[5] *California Independent System Operator Corporation*, 100 FERC 61,060 (2002) at P 145

energy the imbalance energy price. Section 5.11.6.1 1 explains in relevant part that "...[t]o the extent the instructed Imbalance Energy payments are not sufficient to cover the generator's Minimum Load Cost for the hour . [,] the generator will also receive an uplift payment for its Minimum Load Cost Compensation..." (*i.e* , the shortfall determined in Section 2.9 of Appendix D to the SABP. Section 2.9 of Appendix D to the SABP describes an uplift amount to be added to the imbalance energy payment made to minimum load energy, not an amount to be netted from any payment for minimum load energy Netting would occur only if the ISO was using revenues to offset Minimum Load Costs. In fact, if the generator receives moneys for its minimum load energy in excess of its unit's Minimum Load Costs, the generator is free to keep those excess revenues To the extent the ISO failed to clearly describe the meaning and effect of this section in its November 21 Compliance Filing, the ISO regrets any confusion that may have arisen as a result. Despite Dynegy/Williams assertions that this section violates the Commission's "no netting" directive, this section merely defines the uplift to be paid to ensure a generator is paid its unit's Minimum Load Costs

C. The ISO modified Tariff Section 5.11.6.1.1 in its December 15, 2003 compliance filing in EL00-95.

Dynegy/Williams recommended that the Commission direct the ISO to delete the words "subject to performance within its relevant Tolerance Band" from the end of Section 5.11.6 1.1. Dynegy/Williams at 15. The ISO agrees that these words should be deleted and deleted them in the December 15, 2003

compliance filing the ISO submitted to comply with the order issued November 14, 2003 in Docket Nos. EL00-95-082 and EL00-98[6].

D. The ISO does not oppose the proposed modification to Section 11.2.4.1.2 (o).

Dynegy/Williams propose that the ISO modify Section 11.2 4 1 2 (o) to clarify that UDP do not apply to an Out-Of-Market ("OOM") transaction unless the amount of energy requested is accurately reflected in the ISO's Dispatch Instruction. Dynegy/Williams at 16-17. Dynegy/Williams' proposed modification is shown in bold underlined language as follows:

> The Uninstructed Deviation Penalty shall not apply to any excess Energy delivered from or any shortfall of Energy not delivered from an Out Of Market (OOM) transaction unless the ISO and the supplier have agreed upon the time of, duration of, and the amount of Energy to be delivered in the OOM transaction, **and the ISO reflects the OOM transaction in its real-time Expected Energy calculations**

The ISO does not oppose Dynegy/Williams' proposed modification to this section and will include it if directed to do so by the Commission.

E. The ISO has complied with the Commission's direction regarding self-provision of transmission losses.

In the July 8, 2003Amendment No. 54 filing, the ISO proposed to amend Section 7 4.1 of the ISO Tariff to limit the ability of Scheduling Coordinators representing resources outside the ISO Control Area to self-provide transmission losses. In its protest concerning that filing, Powerex objected, stating that the "revised tariff unduly discriminates against SCs representing System Resources and is inconsistent with Commission Policy Motion to Intervene and Protest of

---

[6] *California Independent System Operator Corporation*, 105 FERC ¶ 61,196 (2003)

Powerex Corp., Docket No ER03-1046-000 (filed August 12, 2003) at 8. Powerex asked that the Commission reject the revision. Id at page 9. In the Amendment No. 54 Order, the Commission agreed with Powerex and directed the ISO to "continue to permit all SCs, including System Resources, the option of self-providing Transmission Losses " Amendment No. 54 Order at P 58.

In accordance with the Commission's requirement, the November 21 Compliance Filing removes the proposed changes to Section 7.4.1 and restored the provision to the previously-approved language that existed prior to the filing of Amendment No. 54 Thus, consistent with Powerex's initial protest and the Commission's order the ISO's proposed change was "rejected" and the prior version of Section 7.4.1 was restored

Powerex, however, now protests the November 21 Compliance filing on the grounds that "the ISO has failed to fully comply with the Commission's October 22 Order" and has purportedly "continued to limit the ability to self-provide [loses] in the final Hour-Ahead market to SCs representing Generators or System Units." Powerex at 1-2. Powerex's protest goes beyond the scope of the November 21 Compliance Filing and is misplaced To the extent that Powerex objects to the previously-approved Tariff provisions, it must proceed by means of a complaint under Section 206 of the Federal Power Act, not by attacking a compliance filing that merely restores the previously-approved provision. Accordingly, Powerex's the Commission should changes proposed to Section 7.4 1 as proposed in the November 21 Compliance Filing

System Resources can self-provide transmission losses the same way they could prior to Amendment No. 54 Because the ISO uses unity Generator Meter Multipliers ("GMMs") for forward market schedules,[7] a System Resource can self-provide transmission losses by scheduling an additional amount of "artificial" Demand equal to its expected transmission losses, so that its balanced schedule would consist of a source import and an equal sink (either Demand, including "artificial" Demand equal to the expected transmission losses or an Inter-Scheduling Coordinator trade). This is exactly the same way a Scheduling Coordinator for a Generating Unit within the ISO Control Area would self-provide transmission losses for a forward schedule until the Amendment No. 54 modifications are implemented After Amendment No 54 is implemented, the ISO will include the transmission losses associated with the Generating Unit's forward schedule in the real-time Dispatch Instruction, unless the Scheduling Coordinator signals its intent not to self-provide those losses, in which case the Generating Unit will not be expected to over-deliver its real-time Dispatch Instruction by the amount of losses equal to its forward schedule.[8] No Market Participant may self-provide losses associated with a real-time ISO Dispatch Instruction, all such losses will be determined and provided by the ISO

[7] The ISO uses unity GMMs in the forward markets at the request of Market Participants, who indicated they had difficulties with balancing Schedules when using non-unity GMMs

[8] Should a Scheduling Coordinator self-provide the transmission losses for a Generating Unit in this way, the ISO will account for the self-provision when applying UDP

III. CONCLUSION

For the foregoing reasons, the ISO respectfully requests that the Commission accept the ISO's November 21 Compliance Filing in the above-referenced dockets as submitted to the Commission, except as described above.

Respectfully submitted,

Charles F. Robinson
General Counsel
Anthony Ivancovich
Senior Regulatory Counsel
The California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630

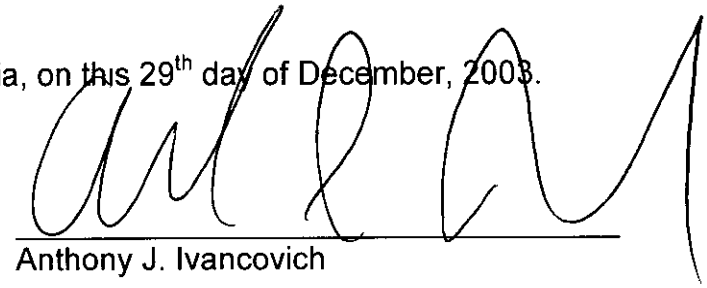
David B. Rubin
Bradley R. Miliauskas
Swidler Berlin Shereff Friedman, LLP
3000 K Street, NW
Suite 300
Washington, DC 20007

Date: December 29, 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 29th day of December, 2003.



Anthony J. Ivancovich