

December 1, 1999

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

**Re: California Independent System Operator Corporation
Docket No. ER00-_____**

Dear Secretary Boergers:

Enclosed please find an original and fourteen copies of a report on the results of certain studies ("Report") which the Commission directed the California Independent System Operator Corporation ("ISO") to undertake in its October 30, 1997 Order conditionally authorizing ISO operations. *Pacific Gas and Electric Co., et al.*, 81 FERC ¶ 61,122 (1997) ("October 30 Order").¹

The Commission's October 30 Order addressed a filing submitted by the then-Trustee for the ISO and the California Power Exchange Corporation ("PX") on August 15, 1997 to implement Phase II of the California electric market restructuring. In the October 30 Order, the Commission conditionally authorized the ISO to commence operations, with a projected operations date of January 1, 1998. The Commission noted that the Phase II filing raised a number of issues which would be better addressed after operational data became available. The Commission therefore directed the ISO to conduct studies on three of these issues and to file reports on the results of these studies with the Commission by January 1, 1999, one year after the projected start of ISO operations. These studies include the following:

¹ Capitalized terms not otherwise defined herein are defined in the Master Definitions Supplement, ISO Tariff Appendix A, as filed August 15, 1997, and subsequently revised.

- 1) A study that evaluates the effectiveness of the ISO's "5 percent criterion" for the creation or modification of Congestion Management Zones (81 FERC at 61,484);
- 2) A study that evaluates the ISO's methodology for calculating and assigning Transmission Losses to individual Scheduling Coordinators, compared to a method that assigned to each Scheduling Coordinator the full marginal Transmission Losses associated with its actual scheduled transactions (81 FERC at 61,522); and
- 3) A study that evaluates the ISO's one-part approach to Ancillary Services bid evaluation as compared to a two-part bid evaluation that takes into account both the capacity and energy components of an Ancillary Services bid (81 FERC at 61,494).

After the Commission issued the October 30 Order, a variety of factors prevented the ISO from commencing operations until March 31, 1998. See 82 FERC ¶ 61,327 (1998). The first year of ISO operations was therefore not completed until March 31, 1999. On January 4, 1999, the ISO submitted a Motion for Extension of Time to file the reports on the results of these studies. Citing a number of factors, including the time and effort committed to various projects critical to ISO operations and the delay in the start of ISO operations, the ISO requested that the time permitted for filing the report on these studies be extended until at least March 31, 1999.²

On March 31, 1999, the ISO submitted a further Motion for Extension of Time to file the reports on the result of these studies. In the March 31, 1999 Motion, the ISO explained that it had been devoting extensive resources to addressing numerous issues arising from the restructuring of the California electricity market which were critical to ISO operations including:

- an ongoing proceeding involving the rates and terms and conditions for the provision of Reliability Must-Run ("RMR") services;

² In the January 4, 1999 Motion, the ISO indicated that it would address Ancillary Services bid evaluation issues as part of its redesign of the Ancillary Services markets. Although the ISO discussed Ancillary Services bid evaluation in its March 1, 1999 redesign filing in Docket No. ER99-1971, that filing did not include the results of the Ancillary Services bid evaluation study. Those results are presented in the enclosed Report.

- the development of a proposed redesign of the ISO's Ancillary Services markets,
- efforts to ensure that the ISO's critical systems are Y2K compliant,
- the development of a proposal for and implementation of a design for Firm Transmission Rights ("FTRs"); and
- negotiations with various stakeholders and market participants to address hundreds of unresolved issues, as ordered by the Commission in *California Independent System Operator Corp.*, 84 FERC ¶ 61,217 (1998).

Due to the commitment of resources to these high priority initiatives and the fact that the ISO had determined that completion of the studies directed by the Commission would require a significantly greater level of effort than originally anticipated, the ISO requested that it be permitted to file the reports on the results of these studies by November 30, 1999.

In an order issued on September 15, 1999 in Docket No. ER99-3339, the Commission granted the ISO's request for an extension until November 30, 1999 to file the report on the criterion for creating or modifying Zones. *California Independent System Operator Corp.*, 88 FERC ¶ 61,221 at 61,730 (1999). In a order issued in the past week, the Commission again acknowledged the ISO's commitment to submit by November 30, 1999, a report on the studies required by the October 30 Order. *California Independent System Operator Corp.*, 89 FERC ¶ 61,229, slip op. at 4 n.3, 10-11 (November 24, 1999).

The ISO now submits its Report on the three studies which the Commission directed the ISO to undertake in the October 30 Order. The ISO regrets the additional delay which required the ISO to file the Report one day after the November 30 date approved by the Commission. Although the Report was finalized by November 30, production delays related to the size of the Report and the numerous graphics contained therein prevented the ISO from submitting the Report to the Commission yesterday.

The studies described in this Report fully comply with the directives of the October 30 Order with one exception. The ISO has been unable to complete one aspect of the study on the criterion for creation or modification of Zones. One of the factors which the Commission directed the ISO to consider in undertaking this study is:

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The total number of MWs and the associated redispatch costs of Intra-Zonal Congestion within each Active and Inactive Zone, for each hour in the Day-Ahead and Hour-Ahead Schedules, starting from the date the ISO commences operations.

81 FERC at 61,484. As explained in the enclosed Report, Intra-Zonal Congestion during the relevant period was managed primarily through the use of RMR generation. The ISO lacks sufficient data for 1998 to disaggregate RMR costs associated with Intra-Zonal Congestion Management from RMR costs incurred for other reliability-related purposes, but believes that it has sufficient data to disaggregate RMR costs for 1999. In the enclosed Report, the ISO therefore proposes a methodology for further analysis of Intra-Zonal Congestion Management costs, as they relate to the criterion for Zone creation and modification, and commits to prepare a subsequent report based on this analysis. The ISO requests guidance from the Commission on the proposed methodology and the data to be studied in this subsequent report.

Communications regarding this filing should be addressed to the following individuals, whose names should be placed on the official service list established by the Secretary with respect to this submittal:

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The ISO has served copies of this Report on the Public Utilities Commission of the State of California, the California Energy Commission, the California Electricity Oversight Board, and on all parties with effective Scheduling Coordinator Service Agreements under the ISO Tariff. In addition, the ISO will post the Report on its Home Page.

A form of notice, in hard copy and electronic form, is included in this filing. Also enclosed is an additional copy of this filing to be date-stamped and returned to the messenger. Thank you for your attention to this matter.

Respectfully submitted,

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