



April 26, 2002

The Honorable Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

**Re: California Independent System Operator
Docket No. ER02-____-000
Aggregated Distributed Generation Pilot Project - Pro Forma
Agreement and Related Requirements**

Dear Ms. Salas:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C § 824d, and Section 35.13 of the Federal Energy Regulatory Commission's ("FERC" or "Commission") regulations, 18 C.F.R. § 35.13, the California Independent System Operator ("ISO"), respectfully submits for filing an original and six copies of a *pro forma* Aggregated Distributed Generation Pilot Project ("ADGPP") Participating Generator Agreement ("PGA"). The ADGPP PGA is intended for use in a pilot project designed by the ISO and scheduled to be in effect from June 1, 2002, through December 31, 2002, unless terminated earlier. This pilot project will test arrangements for Generating Units with a rated capacity less than 1 MW that are currently not accommodated in ISO markets to be aggregated into units no less than 1 MW but less than 10 MW, and to, in this aggregated fashion, schedule Energy with the ISO and participate in the ISO's Supplemental Energy market.¹ A further similar program may be offered after December 31, 2002 based on the outcome of the pilot project.

The requirements for the ADGPP are submitted as an attachment to this filing for informational purposes. In addition, the ISO respectfully asks the Commission, in approving the *pro forma* PGA for the ADGPP, to extend to ADGPP participants the streamlined regulatory procedures it offered until April 30, 2002, to accommodate wholesale sales within the Western Systems Coordinating Council (now the "WECC") from generators providing primarily back-up or on-site generation in its March 14 and May 16, 2001, orders in Docket No. EL01-47-000².

¹ Unless otherwise specified, terms used with initial capitalization have the meanings set forth in the Master Definitions Supplement, Appendix A of the ISO Tariff.

² 94 FERC ¶ 61,272 and 95 FERC ¶ 61,225 respectively.

I. THE PROPOSED ACTIONS

A. ADGPP requirements and *pro forma* ADGPP PGA

The ISO hereby files the requirements for the ADGPP for informational purposes only, and seeks expedited approval by the Commission for a *pro forma* ADGPP PGA for use by participants in the pilot project.

The ISO has designed a pilot project whereby Generating Units with a rated capacity less than 1 MW can be aggregated to permit scheduling of such units with the ISO and to permit such units to participate in the ISO's Supplemental Energy market. The pilot project requirements are attached as Exhibit A, hereto, and are submitted to the Commission for informational purposes. The ADGPP continues the work on the part of the ISO, begun in December 2000, to address the needs of small Generating Units, by providing additional markets into which small Generating Units can sell their output.

On December 29, 2000, the ISO filed Amendment No. 35 with the Commission. Amendment 35 clarified that owners of Generating Units with a rated capacity less than 1 MW are not Participating Generators unless they participate in the ISO's Ancillary Service markets and/or submit Supplemental Energy bids; are not required to be ISO Metered Entities; and are allowed to maintain net metering arrangements. Amendment 35 was intended in part to reduce barriers to small Generating Units by minimizing ISO requirements as to such units. Nonetheless, the tariff changes in Amendment 35 left open the possibility that small Generating Units with a rated capacity less than 1 MW could be aggregated for purposes of scheduling and participation in ISO administered markets. The ADGPP is intended to establish the groundwork for such scheduling and participation by testing approaches for the aggregation of small Generating Units and the communication of data between the ISO and the aggregators of such Generating Units. Until now, because they are not Participating Generators and because the infrastructure was not in place to accommodate them, small Generating Units could not sell into the ISO's Supplemental Energy market, and could not Schedule with the ISO to sell to other entities. The ADGPP is intended to test approaches to correct these deficiencies.

The ADGPP will allow Generating Units with a rated capacity of less than 1 MW to be aggregated to form an Aggregated Distributed Unit ("ADU"). ADGPP Participating Generators would represent one or more ADUs. The ADU would be comprised of two or more Generating Units, each with a rated capacity of less than 1 MW, and would be able to schedule its output with the ISO and bid into the ISO Supplemental Energy market. The ADU would be assigned a unique Resource ID to be used for all scheduling and meter data reporting. Except as to the specific requirements of the ADGPP, the ADU would be treated like any other Participating Generator unit operating within the ISO's Control Area. For example, an ADU would have to be represented by an ISO certified Scheduling Coordinator that would be responsible for providing Energy

Schedules and Supplemental Energy bids for the ADU, and for submitting Settlement Quality Meter Data to the ISO's revenue meter data acquisition and processing system.

The ADGPP Participating Generator would be required to provide near-real time operational data for each ADU, using processes, protocols and formats acceptable to the ISO, to allow the ISO to monitor compliance with Schedules and Supplemental Energy bids. These processes would ensure that the ISO would receive operational data from the ADU no less frequently than every ten minutes. The ISO hopes that the experience gained from using this process for purposes of monitoring performance in scheduling and in the Supplemental Energy market will provide a basis for a future extension of the ADGPP to the Replacement Reserve market (or its successor in a new market design) and the Non-Spinning Reserve Ancillary Service market.

Subject to expedited approval by the Commission of the *pro forma* ADGPP PGA, the ISO intends to operate the ADGPP from June 1, 2002 through December 31, 2002, with the possibility of terminating the pilot project with fifteen days prior notice any time after September 30, 2002, if circumstances warrant early termination (such as a determination that the project is inconsistent with implementation of any redesign of the ISO's markets). At the conclusion of this pilot period, the ISO will assess the results of the pilot project and determine whether a similar program should be offered for a subsequent time period; whether program requirements should be revised; and whether additional markets, e.g., Ancillary Service markets, can be added.

Since the ISO Tariff already provides that the ISO may approve aggregations of small Generating Units for purposes of scheduling and participation in the Supplemental Energy market, this filing is limited to seeking Commission approval for a *pro forma* ADGPP PGA that would be signed by the ADU or the ADU aggregator. The *pro forma* ADGPP PGA would, in addition to committing an ADGPP Participating Generator to comply with the ISO Tariff, commit an ADGPP Participating Generator to comply with the requirements of the ADGPP through a reference in section 4.2, and by incorporating into the agreement a number of the most significant ADGPP requirements. In addition, consistent with the pilot nature of the ADGPP, the *pro forma* ADGPP PGA allows the ISO to terminate the agreement upon fifteen days notice after September 30, 2002 and provides that the agreement will terminate on December 31, 2002.

The ADGPP has been discussed extensively with interested stakeholders, including an all day workshop on March 8, 2002. The proposed ADGPP was presented to, and approved by, the ISO Governing Board at the April 25, 2002, Governing Board meeting.

To permit the ADGPP to operate during the critical summer months, the ISO requests that the Commission waive the sixty day filing deadline, and act on this filing within thirty days (by May 28, 2002). In addition, the ISO requests that in adopting the *pro forma* ADGPP PGA, the Commission indicate that it will also waive the sixty day notice period as to particular ADGPP PGAs signed between the ISO and potential participants in the pilot project that are consistent with the *pro forma* ADGPP PGA

approved by the Commission in this matter. In this manner, the ISO will have a few days before the June 1 intended start date to finalize and sign ADGPP PGAs with potential participants in the pilot project, and pilot project participants that file these finalized agreements with the Commission on or before June 1, 2002, would be able to commence participation in the pilot project on the pilot project start-date.

B. Streamlined regulatory procedures to accommodate wholesale sales from small Generating Units.

The ISO requests that the Commission, in approving the *pro forma* ADGPP PGA, extend to ADGPP participants the streamlined regulatory procedures it offered until April 30, 2002, to accommodate wholesale sales within the WECC from generators providing primarily back-up or on-site generation. This action could substantially increase the number of Generating Units able to participate in a timely manner in the ADGPP.

Last year, in Docket No. EL01-04-000, the Commission issued several orders removing obstacles to increased electric generation and natural gas supply in the Western United States, including an order on March 14, 2001, and an order on May 16, 2001³. Among other measures, these orders adopted streamlined regulatory procedures to accommodate wholesale sales from existing on-site generators used primarily for back-up or self-generation, that would become subject to the Federal Power Act by virtue of sales of power from such facilities. See 94 FERC ¶ 61,272, at 61,970-71. The streamlined regulatory procedures were to be in place through December 31, 2001, in accordance with the March 14, 2001, order, but were extended to April 30, 2002, in the May 16, 2001, order.

In its orders, the Commission reasoned that the streamlined regulatory procedures were needed because they would encourage Generating Units designed primarily to serve on-site load to make excess power available to the market during a period of tight supply. The streamlined regulatory procedures included the following:

- ?? Eligible sellers were permitted to make sales at wholesale without prior notice under section 205 of the Federal Power Act.
- ?? The Commission waived for eligible sellers the following parts of its regulations in 18 C.F.R.: most of Subparts B and C of Part 35 (documentation), Part 41 (accounting verification), Part 101 (prescribed Uniform System of Accounts), and Part 141 (annual reports). In addition, the Commission allowed such sellers to make shortened filings to satisfy Part 33 (disposition of facilities) and Part 45 (interlocking positions), and granted blanket authorizations for issuances of securities (Part 34). The Commission allowed market-based rates on the part of eligible sellers subject to the following requirements:
 - ?? the purchasers of power from eligible sellers must report to the Commission the names of each such seller from whom power was

³ 94 FERC ¶ 61,272 and 95 FERC ¶ 61,225 respectively.

purchased, the aggregate amount of capacity and/or energy purchased from each seller, and the aggregate compensation paid to each seller. Quarterly transaction summaries, or a final summary on April 30, 2002 were deemed sufficient.

?? To the extent that as a result of wholesale sales, mutually-agreed upon interconnection agreements became jurisdictional, the Commission waived prior notice for those agreements and stated that filing of jurisdictional agreements could be made along with the reports of sales.

The streamlined regulatory procedures minimized the regulatory burden associated with undertaking wholesale sales, particularly in the case of the small entities interested in making their excess capacity available to a tight supply market, while maintaining requisite Commission oversight over wholesale sales.

The ISO considers that the factors that justified creation of the streamlined regulatory procedures during 2001 and through April 30, 2002, justify extension of these procedures to participants in the ISO's ADGPP. First, while some of the market conditions that created the most significant problems in the market during 2001 have improved, many potential and actual problems remain, as documented recently in a report filed by the ISO in Docket EL00-95-012 on March 26, 2002. Accordingly, the ISO considers that it remains important to retain programs that maximize available supplies to meet Load through the end of the year. Moreover, the ISO is concerned that, particularly in light of the temporary pilot nature of the program, many small participants may be unable or unwilling to participate in the ADGPP if complex and lengthy regulatory procedures are required before participants are authorized to make sales through the program.

Accordingly, the ISO requests the Commission, in its order relating to the *pro forma* ADGPP PGA, to extend the streamlined regulatory procedures from the March 14 and May 16, 2001, orders in Docket No. EL01-47-000 to participants in the ADGPP. This treatment would be particularly appropriate as to sales into the ISO's Supplemental Energy market, since the terms for such sales are set forth in the ISO Tariff and hence have already been approved by the Commission.

II. EFFECTIVE DATES

As noted above, the ISO requests waiver of the sixty day filing deadline, and expedited consideration of this filing by the Commission, with an order within thirty days, or by May 28, 2002. In addition, the ISO requests that the Commission indicate in its order in this matter that it will waive the sixty day filing deadline as to any ADGPP PGAs signed between the ISO and prospective participants in the ADGPP that are consistent with the *pro forma* ADGPP PGA approved by the Commission.

III. NOTICE AND SERVICE OF DOCUMENTS

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 letter and all attachments 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 Agreements under the ISO Tariff. In addition, the ISO is posting this transmittal letter and all attachments on the ISO's Home Page.

IV. SUPPORTING DOCUMENTS

Attachment A	ADGPP Requirements
Attachment B	<i>Pro forma</i> ADGPP Participating Generator Agreement
Attachment C	Notice of this filing, suitable for publication in the Federal Register (also provided in electronic format)

An additional copy of this filing is enclosed to be marked with your filing stamp and returned to our messenger. If there are any questions concerning this filing, please contact the undersigned.

Respectfully submitted,

Jeanne M. Solé
Counsel for the California Independent
System Operator Corporation

David Rubin
Swidler, Berlin, Shereff, Friedman, LLP
Counsel for the California Independent
System Operator

NOTICE OF FILING SUITABLE FOR PUBLICATION IN THE FEDERAL REGISTER

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System)
Operator Corporation) Docket No. ER02-____-____

Notice of Filing of a pro forma Aggregated Distributed Generation Pilot Project
Participating Generator Agreement and associated documents

Take notice that on April 26, 2002, pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d, and Section 35.13 of the Federal Energy Regulatory Commission's (FERC or Commission) regulations, 18 C.F.R. § 35.13, the California Independent System Operator Corporation (ISO) submitted for filing a *pro forma* Aggregated Distributed Generation Pilot Project (ADGPP) Participating Generator Agreement (PGA) and related requirements. The pro forma ADGPP PGA relates to a pilot project designed by the ISO and scheduled to be in effect from June 1, 2002, through December 31, 2002, unless terminated earlier. The pilot project will test arrangements for the aggregation of Generating Units with a rated capacity less than 1 MW for purposes of scheduling Energy with the ISO and of participation in the ISO's Supplemental Energy Market. The ISO also filed the ADGPP requirements for informational purposes. In addition, the ISO requested the Commission to extend to pilot project participants the streamlined regulatory procedures it offered until April 30, 2002, to accommodate wholesale sales within the Western Systems Coordinating Council (now WECC) area from generators providing primarily back-up or on-site generation in its March 14 and March 16, 2001, orders in Docket No. EL01-47-000.

The ISO has served copies of the filing upon 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 posted the filing on the ISO's Home Page.

Any person desiring to be heard or to protest said filing should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with the Commission's Rules of Practice and Procedure (18 C.F.R. §§ 385.211, 385.214). All such motions and protests should be filed on or before [], 2002. Protests will be considered by the Commission to determine the appropriate action to be taken, but will not serve to make protestants parties to the proceedings. Any person wishing to become a party must file a motion to intervene. Copies of this filing are on file with the Commission and are available for public inspection. This filing may also be viewed on the Internet at <<http://www.ferc.gov>> using the "RIMS" link, select "Docket#" and follow the instructions

(call 202-208-2222 for assistance). Comments, protests, and interventions may be filed electronically via the Internet in lieu of paper. See 18 C.F.R. § 385.2001(a)(1)(iii) and the instructions on the Commission's Internet site under the "e-Filing" link.

Comment date:

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon 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.

Dated at Folsom, California, on this 26th day of April 2002.

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