Discussion Paper
Feb-Mar 2000 Out-of-Market Dispatch in SP15
May 26, 2000

On Tuesday, May 9, 2000 the ISO issued a notice regarding a significant retroactive adjustment for Trade Months February and March. This adjustment affects all participants with loads or exports in SP15. The net impact on SCs representing Demand in SP15 (and the reduction of the charges allocated to Southern California Edison Company) will be approximately $15 million. The retroactive adjustments have been made on preliminary settlement statements already issued on May 11th & 12th, 2000 for Trade Dates March 20th & 21st, 2000. This paper will provide some background on this matter.

Background - Operations

On many trade days from February 7th, through March 22nd, 2000, the ISO dispatched units in the Southern California Edison service area to relieve a local area requirement. These dispatches were made to substitute for RMR units that became unavailable because they were either on scheduled maintenance or forced out of service.

There are four RMR units in the SCE area. These units are; Alamitos 4, Huntington Beach 2, Redondo Beach 5 and 6. The Redondo Beach units provide voltage support in the South Bay region while the Alamitos & Huntington Beach units

provide voltage support in the Orange County region. The Alamitos and Huntington Beach units are also required to insure that the 500/230 KV transformer banks at the Serrano substation do not get overloaded under contingencies.

FERC Background

The types of calls described above were, prior to FERC's April 12, 2000 Order on Rehearing (*California Independent System Operator Corporation*, 91 FERC ¶ 61,026), considered "Out-of-Market" calls. On April 12, 2000 the FERC rejected the ISO's Rehearing Request of the earlier order on Amendment No. 23 (*California Independent System Operator Corporation*, 90 FERC ¶ 61,006 (January 7, 2000)). The effect of FERC's ruling was to disallow the ISO's request, in certain non-competitive situations, to reject an existing bid, call on resources Out-of-Market and pay those resources an Out-of-Market rate. Rather, resources with existing bids are to be paid "as bid" if called upon to resolve Intra-Zonal Congestion and are to be settled using the cost allocation procedures for Intra-Zonal Congestion. The Out-of-Market payment rates and cost allocation procedures approved by FERC in its January 7, 2000 order are still applicable in situations where the ISO has Intra-Zonal Congestion and there are no existing bids (or RMR units) available that can assist in resolving the local need. For example, if the ISO must call on a resource to resolve Intra-Zonal Congestion and the resource has not submitted a bid, the call is still considered an Out-of-Market call.

Settlement of Local Area/Intra-Zonal Generation Requirements

Depending on the availability of bids, the dispatch of resources (primarily generators) to alleviate local area reliability needs can be paid and settled either according to the procedures for Intra-Zonal Congestion or the procedures for Out-of-Market calls. As mentioned above, in the instance where resources have submitted bids, and solving a local area reliability need requires the dispatch of these distinct resources, the settlement is resolved through the procedures for Intra-zonal Congestion. The relevant resources are paid the their bid price for the MWh's dispatched. In the event that their bid price is in excess of the market-clearing price, the resources are still paid their bid price but the bid price does not set the Imbalance Energy price for that trade interval. Charges for the difference between the Imbalance Energy price and the price to resolve Intra-zonal Congestion are paid by the metered demand (metered load and exports) in the affected zone.

In the case where resources do not have market bids, and solving a local area reliability need requires the dispatch of these un-bid resources, the settlement is resolved via the Out Of Market (OOM) process. The un-bid resource is paid either the Imbalance Energy price, or if they have selected the alternative payment option, they are paid at the calculated optional payment price. In the event that the dispatched resource has chosen Imbalance Energy price, the cost is absorbed by the real-time Imbalance Energy market. To offset the generation from the resource that receives instruction from the ISO to relieve local reliability need, another resource will move in the opposite direction (e.g., a resource on regulation down or decremental instruction). The

instructed resource will receive the Imbalance Energy price and the offsetting resource will be charge the same price. As a result the payment and the charge offset each other and therefore there is no need to charge the market or the Participating Transmission Owner (PTO). In the event that the dispatched resource is paid under the alternative plan, the responsible PTO pays the difference between the Imbalance Energy price and the alternative payment option price paid to the resource.

Resolution

Originally the ISO had incorrectly allocated these charges according to the Out-of-Market allocation procedures (i.e., entirely to the PTO). However, because there were bids submitted for most of the dispatched intervals, the dispatch of the resources should not be considered Out-of-Market and should be settled according to the intrazonal process discussed above. As a result, the allocation of the charges to date (allocated entirely to Southern California Edison Company) should be re-allocated to all Metered Demand (metered load and exports) in the affected zone, in this case in SP15. The retroactive adjustments referenced at the beginning of this paper are a result of the correction of this allocation.