

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

California Independent System Operator )      Docket No. ER02-1656-000  
Corporation )

Investigation of Wholesale Market Rates )      Docket No. EL01-68-017  
Of Public Utility Sellers of Energy and )  
Ancillary Services in the Western )  
Electricity Coordinating Council )

**MOTION OF THE CALIFORNIA INDEPENDENT SYSTEM  
OPERATOR CORPORATION FOR DEFERRAL  
OF COMMISSION ACTION ON ACAP**

Pursuant to Rule 212 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission ("Commission"), 18 C.F.R. § 385.212, the California Independent System Operator Corporation ("ISO")<sup>1</sup> respectfully requests that the Commission defer acting on the available capacity obligation ("ACAP") element of the ISO's Comprehensive Market Redesign Proposal ("MD02") as it was proposed by the ISO on May 1, 2002 and supplemented with tariff language on June 17 and June 28, 2002.

**I. Background**

In an order issued on December 19, 2001, the Commission directed the ISO "to file by May 1, 2002 its revised congestion management proposal and a plan for

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<sup>1</sup> 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.

implementation of a day-ahead market.”<sup>2</sup> On May 1, 2002, the ISO filed the first part of its comprehensive Market Design 2002 proposal, or “MD02” proposal, with the intention of following the direction of the December 19 Order and addressing known deficiencies in the ISO’s existing market design (“May 1 Filing”). The ISO divided the elements of its redesign into three phases, reflecting the timing in which each element of the proposal would be implemented.<sup>3</sup>

Among the elements proposed for Phase III of MD02 was the available capacity obligation, or “ACAP.” ACAP was intended to enable the ISO to verify that load-serving entities are making the necessary advance arrangements to ensure that adequate generating capacity is available to meet system loads and reserve requirements. Through ACAP, the ISO would have required entities using the ISO Controlled Grid to serve Loads to demonstrate in advance that such entities own or have procured sufficient generating resources to meet their respective share of the ISO’s peak daily operating requirements. The intention was that resources identified by load-serving entities to satisfy this requirement would be made available to the ISO in the day-ahead market for possible commitment in order to satisfy ISO-forecast load. The ISO’s proposal was intended to encourage load-serving entities to shift their energy procurement away from real time and into the forward markets.

Concurrent with the development of the ISO’s MD02 proposal, a number of California state agencies initiated rulemakings or other proceedings related to resource

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<sup>2</sup> *San Diego Gas & Electric Company v. Sellers of Energy and Ancillary Services into Markets Operated by the California Independent System Operator Corporation and the California Power Exchange, et al.*, 97 FERC ¶ 61,275 (2001) (“December 19 Order”) at 62,257.

<sup>3</sup> Tariff revisions reflecting the changes necessary to implement the longer-term elements of MD02 were filed on June 17, 2002; clean tariff sheets for these elements were filed on June 28, 2002.

adequacy. The ISO previously submitted information regarding these initiatives to the Commission in the ISO's Statement of Position on MD02 outstanding issues that was filed on December 2, 2002 (see Appendix A to the ISO's Statement of Position). As noted in the ISO's Statement of Position, the progress of the State's efforts regarding resource adequacy has been significant.

The Commission issued an order on the May 1 Filing on July 17, 2002.<sup>4</sup> In its order, the Commission accepted, rejected, and modified various elements of the May 1 Filing. After ruling on the Phase I design elements, the Commission directed the ISO to hold Technical Conferences with stakeholders to refine and develop further its Phase II and III design elements. July 17 Order at ¶ 3. In particular, the Commission directed that

in light of the CAISO commitment to the development of a long-term permanent solution to the resource adequacy and the need for stakeholder involvement in this development process we will set the proposed ACAP requirement for expedited development at the technical conference we will direct staff to convene.

July 17 Order at ¶ 120.<sup>5</sup>

Subsequent to the July 17 Order and the Commission-sponsored Technical Conference that occurred shortly thereafter, the ISO and stakeholders formed the "Resource Adequacy Working Group" or "RAWG". As noted in previous ISO submissions to the Commission, California State agencies, represented by the State's

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<sup>4</sup> *California Independent System Operator Corporation, et al.*, 100 FERC ¶ 61,060 (2002) ("July 17 Order").

<sup>5</sup> The Commission indicated its belief that ACAP might be altered or replaced through developments in the technical conference process when it noted that the ISO "will be developing a resource adequacy condition, whether it is ACAP or some other method." July 17 Order at ¶ 65.

“Inter-Agency Working Group” or “IAWG”, were chosen to facilitate the RAWG discussions.

At the November 24, 2002 ISO Board of Governors Meeting, the Board voted to direct ISO Management to file a Motion with the Commission to request that the Commission defer acting on the ACAP element of MD02 “at this time pending further actions by the State...” See ACAP Deferral Motion, included with this filing as Attachment A.

## **II. Request for Deferral of Action**

In light of the substantial progress the State has made in developing a resource adequacy mechanism, and the fact that ongoing working group discussions and developments have been and continue to be very productive in this regard, the ISO requests that the Commission defer acting on the ACAP element of the MD02 proposal. Such a deferral would be consistent with the Commission’s July 17 Order, which deferred acting on ACAP, *inter alia*, pending the results of further processes involving stakeholder input.

The ISO submits that the State of California has a primary and important role to play in determining how best to proceed on the issue of resource adequacy.<sup>6</sup> This was acknowledged in the May 1 Filing, in which the ISO noted that in approving the ACAP proposal the ISO Board “stressed that nothing in the MD02 proposal was meant to shift or modify the jurisdictional authority between functions traditionally performed by state authorities and those performed by FERC.” May 1 Transmittal Letter at 14. The ISO

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<sup>6</sup> The Commission has not addressed the question of jurisdiction over the issue of resource adequacy. See *California Independent System Operator Corporation, et al.*, 101 FERC ¶ 61,061 (2001) at ¶ 50 and n. 19.

also made its views on this issue known in its Statement of Position on the outstanding unresolved issues of MD02:

[a]t this time, and in recognition of the primary role and significant progress of the State of California's own efforts at developing a policy framework for resource adequacy within California, the CAISO supports further development of those State efforts before defining what, in the end, may be required with respect to a limited and appropriate resource adequacy requirement for users of the CAISO Controlled Grid.

ISO Statement of Position at 66-67.

The ACAP proposal filed on May 1, while made with the best understanding and analysis of the issues then available to the ISO, has been overtaken by discussions taking place in the RAWG, as well as by the separate programs being developed by the State Agencies. That being the case, and in recognition of the State's efforts and commitment to create a framework for resource adequacy within California, the ISO submits that any action on the ACAP proposal of May 1 would be undesirable at this time. California State agencies have collectively committed to move forward to address resource adequacy-related issues in California no later than November 1, 2003. In fact, the ISO understands that the State Agencies intend to act well before the November 1st deadline. Therefore, the ISO recommends that the Commission permit those efforts to continue prior to examining the need to establish any resource adequacy requirement for users of the ISO Controlled Grid.

### III. Conclusion

For these reasons, the ISO requests that the Commission defer acting on the ACAP proposal that was included as part of Phase III of MD02 until such time as the ISO files to revise, replace or permanently defer the proposal as a result of developments in California.

Respectfully submitted,

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Dated: January 16, 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 dockets.

Dated at Washington, DC, on this 16<sup>th</sup> day of January, 2003.

/s/ **Julia Moore**  
Julia Moore

## ATTACHMENT A



**Board of Governors**

**ACAP Deferral Motion**

**Resolved that the Board of Governors of the ISO directs Management to file a motion with FERC to defer action on our ACAP proposal at this time pending further actions by the State and to participate actively in State proceedings for determining resource adequacy standards. Once the State has completed its actions with respect to resource adequacy, or no later than the November, 2003, Board meeting, the ISO Board shall act on whatever policy is developed in conjunction with the State. Should exigent circumstances arise with respect to resource adequacy prior to the development of said standards, the Board directs Management to work with the State to adequately respond to such circumstances.**

**Moved: Florio Second: Finney**

<b>Board Action: Passed</b>		<b>Vote Count: 3-0-0</b>
Finney	Y	
Florio	Y	
Guardino	X	
Kahn	Y	