

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

<b>Southern California Edison Company,</b>	)	
<b>Pacific Gas and Electric Company,</b>	)	<b>Docket No. EL01-34-000</b>
<b>San Diego Gas &amp; Electric Company</b>	)	
	)	

**MOTION TO INTERVENE AND COMMENTS OF THE  
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

Pursuant to Rules 212 and 214 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission ("Commission"), 18 C.F.R. §§ 385.212 and 385.214, and the Commission's February 20, 2001 Notice of Filing, the California Independent System Operator Corporation ("ISO")<sup>1</sup> hereby moves to intervene and provide comments in support of the requested relief sought by Southern California Edison Company ("SCE") and Pacific Gas & Electric Company ("PG&E") in the above-captioned proceeding.

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<sup>1</sup> Capitalized terms not otherwise defined herein are defined in the Master Definitions Supplement, Appendix A to the ISO Tariff.

## **I. COMMUNICATIONS**

Please address communications concerning this filing to the following persons:

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## **II. BACKGROUND**

In response to concerns regarding the functioning of the California electricity markets this past summer, and to address issues raised by Market Participants in several ongoing proceedings, the Commission instituted an investigation into the California bulk power markets. On November 1, 2000, the Commission issued an order that proposed certain “specific remedies to address dysfunctions in California’s wholesale bulk power markets and to ensure just and reasonable wholesale power rates by public utility sellers in California.”<sup>2</sup> The Commission proposed significant changes to the operation of the California markets, including an interim “soft” price cap of \$150 on bids in the ISO’s markets. Under the Commission’s proposal, the Market Clearing Price in the ISO’s markets would be capped at \$150 and suppliers would be paid “as-bid” for bids in excess of \$150. In addition, the Commission proposed certain measures

to increase the scheduling of Energy in the forward markets.

Numerous intervenors submitted comments in response to the November 1 Order. Subsequently, in its December 15 Order, the Commission adopted many of the features of its November 1 Order. *San Diego Gas & Electric Company, et al.*, 93 FERC ¶ 61,294 (2000) ("December 15 Order").

In the December 15 Order, the Commission concluded that underscheduling jeopardizes system operations by forcing the ISO to operate a sizeable Real Time Energy market, as opposed to merely supplying the balancing services needed to provide reliable transmission service. Therefore, the December 15 Order required that all Market Participants pre-schedule their Load and imposed penalties when real time Load exceeded more than five percent (5%) of an entity's scheduled Load. That is, 95 percent of a Market Participant's Load must be scheduled into the forward markets (*i.e.*, the Day-Ahead or Hour-Ahead Markets) or scheduled bilaterally prior to real time. The Commission also established a 10 MW minimum deviation to accommodate smaller entities (*i.e.*, those with less than 200 MW of Load). Thus, no charge will be assessed for a scheduling shortfall up to the greater of five percent (5%) of an entity's Load or 10 MW.

The Commission set the penalty for those entities that exceed the five percent (5%) or 10 MW "deadband" for any trading hour at two times the cost of Imbalance Energy during that hour (including any Out-of-Market purchases for that hour), with the penalty not to exceed \$100/MWh (*i.e.*, \$100 in addition to the

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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 and the California Power*

actual Energy cost). The Commission also directed that the penalty revenues be disbursed to those Market Participants that scheduled accurately during the trading hour in which the penalties were incurred.

On February 2, 2001, SCE and PG&E tendered for filing a Request for Immediate Suspension of the underscheduling penalty adopted by the Commission in its December 15 Order ("Request").

In their filing, SCE and PG&E recognize that the purpose of the penalty was to alleviate the reliance on the ISO's Imbalance Energy Market to meet Load. Request at 3. They note, however, a series of events that render it impossible for them to expand their forward purchases: First, the California Power Exchange ("PX") has ceased operating its Day-Ahead and Day-of-Markets. *Id.* at 4. Second, credit and supply problems have rendered it impossible for SCE and PG&E to access forward power markets. *Id.*

Given current circumstances, SCE and PG&E maintain that the underscheduling penalty cannot provide an incentive to their procurement strategy and amounts to nothing more than an additional tax on their already highly expensive energy purchases. *Id.* at 5.

### **III. BASIS FOR MOTION TO INTERVENE**

The ISO is a non-profit public benefit corporation organized under the laws of the State of California and responsible for the reliable operation of a grid comprising the transmission systems of PG&E, SCE, and San Diego Gas & Electric Company and the transmission interests of the City of Vernon, California,

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*Exchange, et al.*, 93 FERC ¶ 61,121 ("November 1 Order") at 61,349.

as well as for the coordination of the competitive electricity market in California. As the operator of this grid and the entity that must implement the underscheduling penalty, the ISO believes that it has a unique interest in any Commission proceeding concerning the agreement submitted. Accordingly, the ISO requests that it be permitted to intervene herein with full rights as a party.

The ISO reserves the right to raise substantive issues regarding any further aspects of the proceeding ordered by the Commission. The ISO also reserves the right to file supplemental comments if warranted.

#### **IV. COMMENTS**

As explained in its October 20 Offer of Settlement in the EL00-95 proceeding, the ISO believes that an underscheduling penalty can be appropriate and warranted in remedying the stressful and difficult conditions under which the ISO has operated.<sup>3</sup> Nevertheless, the ISO recognizes that under current conditions SCE and PG&E cannot procure their full needs on a forward basis.

Without the financial wherewithal to make their own bilateral purchases or access to a forward market, SCE and PG&E are incapable of scheduling 95 percent of their Load. With approximately 15 percent of the ISO Load being met in real time during the January 2000 to February 2000 period, the total penalty for this period may exceed \$500 million.

The California Department of Water Resources ("CDWR") has come forth to procure a significant portion of SCE's and PG&E's "net short" position -- the

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<sup>3</sup> As explained in its motion for clarification and request for rehearing on the December 15 Order, the ISO believes very strongly, however, that some form of underscheduling penalty should be applied to both Load *and* Generation.

difference between what the utilities' own resources can provide and their system Loads. While CDWR, supported by the activities of the Governor and the legislature, has made extraordinary efforts to meet the net short needs on a forward basis, it does not appear that CDWR will be able fully to satisfy the Commission's 95 percent criteria in the near future in spite of their best efforts.

In response to this situation, the ISO Governing Board, at its February 28, 2001 meeting, approved management's recommendation to file a tariff amendment requesting suspension of the underscheduling penalty for the January 1, 2001 to May 31, 2001 period. The ISO is concerned that the penalty is placing an additional burden on PG&E and SCE and their ratepayers at a time when they are under extreme financial duress, that the penalty is not having the desired effect of encouraging forward contracting given the current market situation, and that suppliers already are charging a significant premium above the actual costs of production.<sup>4</sup> The ISO currently is preparing the amendment authorized by the Board and will file it in the near future. The relief requested by SCE and PG&E is consistent with the amendment the ISO will be proposing.

Accordingly, the ISO supports a temporary suspension of the underscheduling penalty until May 31, 2001. The ISO hopes that by this date either the state will have remedied the situation so that SCE and PG&E will be able to enter into forward purchases, or CDWR will be in a position to meet the

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<sup>4</sup> An analysis of the costs being charged by suppliers in California markets is included in a report by the ISO's Department of Market Analysis, "Report on Real Time Supply Costs Above Single Price Auction Threshold: December 8, 2000 - January 31, 2001", filed with the Commission in Docket No. EL00-95, *et al.* on March 1, 2001.

full net short demands, eliminating the need for the ISO to assess the SCE and PG&E Scheduling Coordinators with the underscheduling penalty.

## **V. CONCLUSION**

Wherefore, for the foregoing reasons, the ISO should be accorded full party status in this proceeding. The Commission should grant the relief requested by SCE and PG&E. Indeed, based on the motion in this docket and the ISO's upcoming tariff filing, the Commission should suspend operation of the underscheduling penalty for the period January 1, 2001 through May 31, 2001.

Respectfully submitted,

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Date: March 2, 2001

## **CERTIFICATE OF SERVICE**

I hereby certify that I have served the foregoing document upon all parties on the official service list compiled by the Secretary in the above-captioned proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Washington, DC this 2<sup>nd</sup> day of March, 2001.

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Julia Moore