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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	)	Docket No.	ER98-3760-007
Pacific Gas and Electric Company San Diego Gas and Electric Company and Southern California Edison Company	)	Docket Nos.	EC96-19-009 and ER96-1663-010
California Independent System Operator Corporation	)	Docket Nos.	EC96-19-030 ER96-1663-031

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MOTION FOR CLARIFICATION AND
REQUEST FOR REHEARING OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

I. Introduction

The California Independent System Operator Corporation ("ISO")[1] respectfully submits this Motion for Clarification and Request for Rehearing of the Commission's November 22, 2002 Order on Outstanding Issues Relating to the California Independent System Operator Corporation. 101 FERC ¶ 61,219 (2002) ("November 22 Order")

II. Request for Clarification and Specifications of Error

1. The November 22 Order erroneously reverses the Commission's earlier decision, 81 FERC ¶ 61,122 at 61,522 (1997) ("October 1997 Order"), that the ISO Tariff assignment of Unaccounted for Energy ("UFE") costs to Scheduling Coordinators ("SCs") was just and reasonable. Additionally, the November 22 Order erroneously requires the ISO to calculate UFE for all market participants. The ISO calculates UFE on a Utility Distribution Companies ("UDC") basis and cannot calculate if for each Scheduling Coordinator.

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[1] Capitalized terms not otherwise defined herein are used in the sense given in the Master Definitions Supplement, Appendix A to the ISO Tariff.

2. The November 22 Order should be clarified as to the effective date of the ordered revisions to the ISO Tariff. Because of the undue burden of implementing revisions to the Tariff retroactively, the ISO submits that any intention for a retroactive effective date is error and revisions must be made only prospectively.

III. Argument

1. The November 22 Order Erroneously Reversed Its Earlier Finding that the ISO Tariff Calculation of UFE losses based on Utility Distribution Company Service Areas was Just and Reasonable

In its October 1997 Order, the Commission found that the ISO Tariff's UFE calculation proposal was just and reasonable. 81 FERC ¶ 61,122 at 61,552. The ISO's UFE calculation included some elements of distribution-related UFE, as well as transmission-related UFE. The Commission found that the ISO's charges to SCs for UFE losses were just and reasonable on two grounds. The first was that it might not be "feasible" to separate out the specific component of UFE for SCs. The second was that SCs contributed to loss components other than those occurring only at the transmission level. The Commission stated:

> While the distribution loss deviation component should arguably not be assigned to such Scheduling Coordinators, the quantification of this single component may not be feasible. We do not agree that Scheduling Coordinators scheduling at only the transmission level should bear no share of the other loss components because they are attributable to overall system conditions and do not lend themselves to any reasonable alternative assignment methodology. Therefore, we find that the ISO Tariff assignment of UFE losses is reasonable.

Id. The two reasons the Commission relied on in that order remain true today, although the ISO has made great strides in more accurately allocating losses based on cost-causation.

While the ISO considered, prior to the start of operations, differentiating transmission-related and distribution-related UFE, the cost to achieve this was found to be prohibitive. Doing so would have required installing revenue quality metering at the more than 800 points of interconnection between the ISO Controlled Grid and the UDC distribution systems.[2] This remains the case today as well.

In its November 22 Order, the Commission misinterpreted the ISO's statements that it could provide separate UFE information for non-UDCs. The Commission has assumed that non-UDC meant market participants (*i.e.* SCs). The ISO intended non-UDCs to mean utilities that have the capability of executing the Utility Distribution Company Operating Agreement and thereby becoming a UDC, but choose not to become UDCs. 101 FERC ¶ 61,219 at P 16-17. Based on this misapprehension, the Commission reversed its earlier finding. *Id.* at P 18. The November 22 Order assumes the conclusions relied on for the reversing its original finding, stating:

> Rather, *if* market participants are incurring UFE charges for which they are not responsible, and the technology is available to more accurately account for losses, the applicable Tariff provisions are unjust and unreasonable because they ignore principles of cost causation.

Id. at P 17 (emphasis added).

UFE is the Energy attributable to meter measurement errors, power flow modeling errors, energy theft, statistical Load profile errors and distribution loss deviations and is calculated on a UDC basis. UFE is, in essence, imports less exports plus Generation less losses less the quantity of real-time metering plus Load Profile metering. Real-time metering is metered data from an ISO Metered Entity and Load Profile metering is metered data from SC Metered Entities. The ISO calculates UFE on a UDC Service Area basis and settles the UFE charge or credit on a SC pro-rata share based on their Loads and real-time exports. UFE is calculated based on a UDC Service Area because each UDC is required to file with their local Regulatory Authority their distribution loss factor ("DLF"). Since DLF is apart of the Load calculation, if UFE was

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2 Answering Brief of the ISO in Docket Nos. ER98-3760-000, *et al.*, April 10, 2000 at page 307.

calculated on a Control Area wide basis there would be a cost shifting between SCs and thus cannot be calculated on a Scheduling Coordinator basis.

There remains a great difference in the technology needed to separately and precisely account for the UFE of a few UDCs which operate in certain ways and that needed to account for the mass of SCs that operate in different ways. This difference is not created by the Tariff and cannot be easily fixed by amended Tariff language. The distinction is rather reflected by the Tariff. That is, while it may be logistically feasible to account separately for the UFE of distribution company Service Area that are ISO Metered Entities, it is not practical to do so for each individual SC.[3] The November 22 Order therefore errs in assuming a change in the underlying facts that led the Commission to originally find the ISO's treatment of UFE to be just and reasonable.

The November 22 Order further errs in its assumptions regarding cost causation. The ISO notes, and the November 22 Order reiterates, that despite the impracticality of separating transmission-related UFE and distribution-related UFE with precision, the ISO has greatly increased the accuracy of its UFE calculations for SCs to better reflect cost-causation. Even prior to this greater accuracy, the Commission found in its October 1997 Order that SCs should bear a share "of the other loss components because they are attributable to overall system conditions … ." With the ISO's original UFE calculation, which was originally determined to be just and reasonable in light of the same arguments regarding cost causation, now greatly improved to better reflect cost causation and more accurately allocate UFE charges to the SCs that serve Load in a UDC's Service Area, it appears that the November 22 Order errs in its determination that the improved calculation is now unjust and unreasonable. As noted above, the November 22 Order may be relying on erroneous assumptions regarding the feasibility of more accurate calculations in determining the ISO's improved calculations to be unjust and unreasonable. An erroneous assumption cannot act as the foundation for a supported finding, however.

The Commission should therefore find (1) that the November 22 Order erroneously assumed a change in technology for calculating the UFE for all SCs and in doing so, erred in reversing the Commission's earlier determination, (2) that UFE should be calculated on a distribution company Service Area, and (3) that the Commission's erroneous assumption led to the further erroneous finding that the ISO's improved calculation, which better reflects cost causation than the calculation originally found to be just and reasonable, was now unjust and unreasonable.

2. The Commission Should Clarify that Any Tariff Changes Ordered in the November 22 Order are to be Effective Prospectively. Any Intention That the Tariff Changes Should be Retroactive is Error.

While the November 22 Order directs several alterations to the ISO's Tariff, it does not clearly indicate when those changes are to be effective. The ISO requests that the Commission clarify that any changes to the ISO Tariff are to be made effective on a prospective basis. The re-calculation of charges and re-assembly of schedules from 1998 would be an onerous task. Even if all of the data in question could be located and reassembled, the huge number of man-hours needed to perform such actions would make the task a practical impossibility. For that same reason, if the November 22 Order had intended a retroactive effective date for the Tariff changes ordered therein, the Commission should grant rehearing of that determination and direct that the Tariff changes are to be effective on a prospective basis only.

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[3] An ISO Metered Entity provides direct polled meter data to the ISO on a daily basis.

IV. Conclusion

WHEREFORE, for the reasons and in the manner stated above, the ISO respectfully requests rehearing and/or clarification of the November 22 Order.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The foregoing Motion for Clarification and Request for Rehearing of the California Independent System Operator Corporation was served upon all parties listed on the service list for these dockets on this 23rd day of December, 2002.

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