UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

San Diego Gas & Electric Company, Complainant, v. Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator and the California Power Exchange, Respondents	)	Docket Nos. EL00-95-058 EL00-95-053 EL00-95-031
Investigation of Practices of the California Independent System Operator and the California Power Exchange	)	Docket Nos. EL00-98-050 EL00-98-047 EL00-98-042 EL00-98-038 EL00-98-033 EL00-98-009

MOTION FOR CLARIFICATION, REQUEST FOR REHEARING, AND PETITION FOR RECONSIDERATION AND MOTION FOR EXPEDITED CONSIDERATION OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

Pursuant to section 313(a) of the Federal Power Act, 16 U.S.C. § 825l(a), and sections 207, 212, and 713 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §§ 385.207, 385.212, and 385.713, the California Independent System Operator Corporation ("ISO")[1] respectfully submits this Motion for Clarification, Request for Rehearing, and Petition for Reconsideration concerning one issue[2] addressed in three Commission Orders issued on May 15,

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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] Due to the need to address this issue expeditiously, the ISO is filing this pleading at this time. The ISO make seek clarification or rehearing of additional issues concerning the May 15 Orders at a later time.

2002: Order Accepting In Part and Rejecting In Part Compliance Filing ("Order on January 25 Compliance Filing"), 99 FERC ¶ 61,158 (2002); the Order on Rehearing and Clarification ("Order on 2001 Compliance Filings"), 99 FERC ¶ 61,159 (2002); and Order on Rehearing and Clarification ("Rehearing Order"), 99 FERC ¶ 61,160 (2002) ("collectively May 15 Orders"). This issue concerns the implementation of the seven percent Operating Reserve threshold for recalculation of the mitigated market clearing price.

First, the ISO requests clarification concerning the effective date the ISO is to implement the seven percent reserve threshold for resetting the mitigated market clearing price and whether the price should be reset for short-term operating events. In the Order on the 2001 Compliance filings, the Commission stated the ISO should implement the seven percent level effective December 19, 2001, but at the same time expressed a concern that market participants must have prior knowledge of an impending reserve condition that would result in a new mitigated price and have an opportunity to adjust their behavior accordingly. The ISO experienced an hour on May 13, 2002, two days prior to the order, when Operating Reserves fell below seven percent for a full clock hour. This situation was due in large part to the forced outage of a generating unit that forced the ISO to deploy reserves rather than an overall unavailability of resources. Moreover, the ISO had not notified Market Participants that it anticipated a reserve deficiency prior to this hour, nor did it declare an emergency during this hour.

On June 6, the ISO again experienced a reduction in Operating Reserves below seven percent for a full hour. This was due to a fire which caused the outage of the Pacific Direct Current Intertie (PDCI). While the reserve level was below seven percent, the ISO was still in compliance with steady-state WECC operating reserve requirements and no system emergency was declared.[3] The ISO requests clarification if it should recalculate the market clearing prices based on either of these events.

Second, the ISO requests clarification regarding the relationship between the level of Operating Reserves it must maintain and the recalculation of the market clearing price. Pursuant to WECC criteria, the Operating Reserve number is not static. Based on system conditions including Control Area Loads, hydroelectric generation output, thermal generation output and levels of firm and non-firm imports, the ISO's Operating Reserve requirements from January 1, 2000 through the present have ranged from a low of 6.08 percent to a high of 9.67 percent.

The Commission has stated that the mitigated market clearing price should be reset if reserves drop below seven percent. If the Commission intends that the ISO must also use seven percent as a purchasing target, the ISO respectfully requests rehearing, or, if the Commission determines that rehearing has been denied, reconsideration of the seven percent requirement. There are periods where the WECC reserve requirement is above seven percent. If this problem is addressed by requiring the ISO to purchase the greater of seven

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[3] The ISO was unable to return its Area Control Error to zero within fifteen minutes of the loss of the PDCI and did violate the Disturbance Control Standard, however.

percent or the WECC requirement, California consumers may be exposed to significant costs resulting from the purchase of excess reserves above amounts required by the WECC.[4]

The ISO recognizes the Commission's desire to have an objective threshold to trigger changes to the mitigated market clearing price. The ISO believes that a better threshold would be six (6) percent. This number would allow the ISO to continue to purchase Operating Reserves based on variable system conditions in accordance with Good Utility Practice. Recalculation of the mitigated price would only be triggered, as intended by the Commission, by true scarcity.

Due to the need to implement promptly the Commission's west-wide mitigation methodology as instructed in the May 15 Orders, the ISO also respectfully requests expedited consideration of this pleading.

I. BACKGROUND

Under Section 2.3.1.3.1 of the ISO Tariff, the ISO is to exercise Operational Control over the ISO Controlled Grid "to meet planning and Operating Reserve Criteria no less stringent than those established by WSCC and NERC as those standards may be modified from time to time . . . ."[5] The

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4 Typically, the ISO's WECC Operating reserve requirement falls within the range of five to seven percent. Moreover, the majority of the time, seven percent is above the WECC minimum requirement.

5 *See also* Section 2.1 of the Dispatch Protocol of the ISO Tariff which provides: the ISO shall exercise Operational Control over the ISO Controlled Grid in compliance with all Applicable Reliability Criteria. Applicable Reliability Criteria are defined as the standards established by NERC, WSCC and Local Reliability Criteria and include the requirements of the Nuclear Regulatory Commission. The Western Electricity Coordinating Council ("WECC") was previously known as the Western System Coordinating Council.

WECC requires that the ISO (and all other control areas in the WECC) maintain Spinning Reserves and Non-Spinning Reserves equal to the greater of:

> (1) The loss of generating capacity due to forced outages of generation or transmission equipment that would result from the most severe single contingency, or
>
> (2) The sum of five percent of the load responsibility served by hydro generation and seven percent of the load responsibility served by thermal generation.

WSCC Rate Schedule No. 1 First Revised Sheet No. 27. In the case of the ISO it is the latter five percent and seven percent reserve requirement which typically applies, though during very low Load levels the ISO's reserve requirement is sometimes determined instead by its single largest contingency. Moreover, the total Operating Reserve requirement also depends on the amount of scheduled non-firm imports. In accordance with WECC criteria, the ISO must maintain "Operating Reserve equal to the amount of Interruptible Imports scheduled by Scheduling Coordinators for any hour."[6] Thus, the "target" reserve level that the ISO must ensure is maintained has not been a fixed level, but has fluctuated based on Load levels, the availability of hydroelectric resources, and the amount of non-firm imports. Between January 1, 2000 and the present, hourly operating reserve requirements ranged from a low of 6.08 percent to a high of 9.67 percent.

The ISO has also instituted a process to inform market participants and the public when it is experiencing a shortfall of operating reserves. The ISO issues "Alerts" in the day-ahead timeframe and "Warnings" in the hour-ahead

[6] ISO Tariff Section 2.5.3.2.

timeframe if the ISO expects, based on market schedules and other operating information, that a reserve deficiency may occur. In accordance with Executive Order D-38-01 the ISO also issues notices 48 hours and 24 hours in advance when it forecasts the possibility of rotating blackouts.[7] If an Operating Reserve shortfall exists or is anticipated to be unavoidable and available market and non-market resources will be insufficient to maintain Operating Reserves in compliance with the WECC criteria, the ISO declares a Stage 1 emergency. If Operating Reserves are currently or are forecast to be below 5 percent, a Stage 2 emergency is declared. The ISO declares a Stage 3 emergency when Operating Reserves are currently or are forecast to be below 1.5 percent.

On April 26, 2001, the Commission issued an order establishing a prospective mitigation and monitoring plan for the wholesale spot markets operated by the ISO.[8] The Commission prescribed a specific method for calculating a mitigated reserve deficiency Market Clearing Price during periods of reserve deficiency.[9] On June 19, 2001, the Commission acted on requests for rehearing and clarification of the April 26 Order.[10] The Commission expanded the mitigation plan to encompass the whole WSCC at all times. The June 19 Order affirmed the April 26 Order's methodology for calculating prices for reserve

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[7] See Emergency Operating Procedure E-508. http://www.caiso.com/thegrid/operations/opsdoc/emergency/**.**

[8] *San Diego Gas & Electric Co. et al.*, 95 FERC ¶ 61,115 (2001) ("April 26 Order").

[9] April 26 Order at 61,359. The Commission stated that its plan would "establish price mitigation for available capacity in real time when there is a reserve deficiency during emergency stages beginning with Stage 1" which it defined as "applicable to all conditions defined by the ISO as beginning when reserves fall below 7.5%." 95 FERC at 61,358.

[10] *San Diego Gas & Electric Co. et al.*, 95 FERC ¶ 61,418 (2001) ("June 15 Order").

deficiency conditions and established a methodology for setting price limits in non-reserve deficiency conditions.[11]

On December 19, 2001, the Commission issued an Order requiring "the ISO to modify its Tariff to make recalculation of the mitigated prices triggered when reserves in California fall below 7 percent."[12] The Commission found that establishing a specific percentage enhanced market certainty during the mitigated period.[13] The Commission further stated that "for the duration of the mitigation plan" the ISO's discretion to declare emergencies based on system conditions and other factors was "no longer warranted" since such discretion could "provide the appearance of manipulation of the market by the ISO."[14]

In the Rehearing Order and in the Order on the 2001 Compliance filings, the Commission denied the ISO's request to reduce the seven percent trigger.[15] The Commission also found the ISO has incorrectly implemented the seven percent triggering mechanism.[16]

In the Order on January 25 Compliance Filing, the Commission stated,

> We find that the ISO's proposed new Tariff term ("Price Mitigation Deficiency Reserve" [sic]) is reasonable and consistent with the intent of the Commission's December 19 Compliance Order to

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11 95 FERC at 62,548. The Commission stated,

> For spot market sales, both in the WSCC and in California, in all non-reserve deficiency hours (*i.e.* when reserve levels in the ISO exceed 7%), we will adapt the use of these market clearing prices. Eighty-five percent (85%) of the highest ISO hourly market clearing price established when the last Stage 1 (not Stage 2 or 3) was in effect will, absent justification, serve as the maximum price for the subsequent period.

Id.

12 *San Diego Gas & Electric Co. et al.*, 97 FERC ¶ 61,293 at 62,364 (2001).

13 *Id.*

14 *Id.*

15 Rehearing Order, slip op. at 30. Order on 2001 Compliance Filings, slip op at 5.

16 Order on 2001 Compliance Filings, slip op at 6.

> remove from the ISO any discretion regarding the declaration of system emergencies for purposes of recalculating the mitigated market clearing price.[17]

The Commission also denied Reliant's request that price mitigation and system emergencies be declared at the same time.[18]

II. DISCUSSION

A. EFFECTIVE DATE AND EVENT DURATION

In the Order on the 2001 Compliance filings, the Commission granted the request by Dynegy and Reliant that the effective date for of the seven percent triggering mechanism is December 19, 2001 rather than May 29, 2001.[19] The Commission expressed a concern that a retroactive effective date for a triggering mechanism for mitigating market prices would change the ISO mitigated price but could not result in market behavioral changes.[20]

The ISO notes that for the period from December 21, 2001 until May 1, 2002, the Market Clearing Price was capped at $108/MWh and not dependent on Operating Reserve levels consistent with the Commission's Order Temporarily Modifying the West-Wide Price Mitigation Methodology issued on December 19, 2001.[21] Since May 1, 2002, however, there have been two instances in which the ISO's Operating Reserve level has dropped below seven percent for a full clock hour. The first occurred for hour ending 1000 on May 13, 2002. Based on the Commission's mitigation methodology, recalculating the mitigated reserve

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17 Order on January 25 Compliance Filing, slip op at 14.
18 *Id.*
19 Order on 2001 Compliance filings, slip op at 5.
20 *Id.*
21 97 FERC ¶ 61,294, reh'g denied, 99 FERC ¶ 61,161 (2002).

deficiency price based on the units dispatched in this hour and the applicable gas prices would result in a new price ceiling of $45.27/MWh, instead of the prior price ceiling of $91.87/MWh.

The May 13 instance occurred before the May 15 Orders were issued and before the ISO had implemented an advance warning system tied to the seven percent threshold. One significant reason to why the ISO's operating reserves fell below seven percent at that time was that a large generating unit tripped during the hour, requiring the ISO to deploy Operating Reserve to meet established disturbance performance criteria. WECC criteria allow sixty minutes to restore the deployed Operating Reserves.

On June 6, 2002, fires in Southern California forced the PDCI from service. This in turn caused overloads on Path 26 and the California Oregon Intertie ("COI"). The ISO dispatched units providing Operating Reserves to mitigate these overload conditions. As a result, Operating Reserves were below seven percent for hour ending 1500. By the end of the next hour, Operating Reserves had been restored to 7.1 percent.

The ISO requests clarification of two issues: (1) whether temporary Operating Reserve deficiencies caused by deploying contingency reserves are eligible to trigger price mitigation and (2) whether the Commission wants the ISO to recalculate the Market Clearing Price based on the May 13 or June 6 events. In the December 19 Order, the Commission accepted the ISO's proposal to use a full clock hour approach for determining whether a reserve deficiency condition existed which should requiring resetting the mitigated Market Clearing Price.[22] However, in the Order on the 2001 Compliance filings, the Commission discussed the need for advanced warning to enable Market Participants to take corrective action.[23] As the events of May 13 and June 6 demonstrate, such advance notice may not possible when the ISO encounters real-time short-term contingencies.

B. THE SEVEN PERCENT RESERVE THRESHOLD

The Commission's orders require the ISO to utilize a seven percent threshold for triggering the recalculation of the mitigation price. The orders, however, do not specify the level of reserves the ISO must maintain.[24] The ISO recognizes there is a tension between several competing objectives:

(1) The requirement for the ISO to comply with WECC reliability criteria;

(2) The ISO's strong desire not to over-procure reserves which would result in unnecessary costs to California consumers;

(3) The Commission's objective of providing Market Participants with "certainty" with regard to the circumstances in which a revised mitigated price would be recalculated. In particular, this means:

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22 December 19 Order, 97 FERC at 62,366.

23 Order on 2001 Compliance filings, slip op at 5.

24 In the Order on 2001 Compliance Filings, the Commission rejected the ISO's proposal to use a reserve requirement of 6.2 percent to trigger recalculation of the mitigated Market Clearing Price, stating that use of that threshold "would not rectify any claimed unjust or unreasonable result, but rather simply, at best, conform the triggering mechanism to be precisely aligned with WSCC reserve requirements." Order on 2001 Compliance Filings, slip op at 5.

- establishing a specific, objective (seven percent) criteria for triggering recalculation of the mitigated market clearing price;[25]
- "remov[ing] from the ISO discretion regarding the declaration of system emergencies for purposes of recalculation of the mitigated market clearing price";[26]
- providing greater transparency by posting the operating reserve levels;[27] and
- providing Market Participants with advance notice of impending price mitigation.

As noted above, the WECC criteria do not require the ISO to procure or maintain a static level of Operating Reserves. Instead, the ISO must purchase and maintain reserves based on dynamic system conditions. The variable nature of the WECC reserve requirement criteria conflicts with the use of a single number that would serve as a threshold for recalculation of the mitigated market clearing price and as the Operating Reserve requirement for the ISO.

For example, if the Commission mandated seven percent as the level of Operating Reserves the ISO must maintain, in addition to being the trigger for determination of a revised mitigated market clearing price, the result would be periods in which the ISO was out of compliance with WECC requirements by buying too few reserves, as well as other periods in which the ISO would be forced into over-procuring Operating Reserves, such as during off-peak hours. If

[25] December 19 Order, 97 FERC at 62,364.
[26] Order on January 25 Compliance Filing, slip op at 14.
[27] Order on 2001 Compliance Filings, slip op at 6.

the Commission sought to the problem of WECC compliance by requiring the ISO to purchase the greater of seven percent or the WECC requirements, California customers would still be forced to pay for additional reserves over and above amounts that would have been required during times the ISO could have been in compliance at levels below seven percent.

The ISO believes the Commission's desire to have an objective threshold for resetting the mitigated price ceiling can be addressed while at the same time minimizing over-procurement costs. If the Commission utilized six (6) percent as the threshold for resetting the mitigated price ceiling, this number would allow the ISO to continue to purchase Operating Reserves based on variable system conditions in accordance with WECC criteria and Good Utility Practice. Recalculation of the mitigated Market Clearing Price would only be triggered, as intended by the Commission, by true scarcity. This option also could be implemented expeditiously.

III. MOTION FOR EXPEDITED CONSIDERATION

In order to properly implement the Commission's mitigation methodology, procure the appropriate amount of Operating Reserves, and give market participants appropriate notice of deficiency conditions that can result in changes to the mitigated market clearing price, the ISO respectfully requests expedited consideration of this motion. Accordingly, the Commission should shorten the fifteen-day period for answers to seven days or such other period as it deems appropriate.

IV. CONCLUSION

Wherefore, for the reasons discussed above, the ISO respectfully requests that the Commission clarify: (1) the effective date for the seven percent threshold, (2) whether the short-term operating contingencies should result in resetting the mitigated Market Clearing Price, and (3) whether the threshold for triggering proxy price-based mitigation should be reduced to six (6) percent.

Respectfully submitted,

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Dated: June 7, 2002

CALIFORNIA ISO

California Independent
System Operator

June 7, 2002

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

Re: 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 Exchange
Docket Nos. EL00-95-031, EL00-95-053, EL00-95-058

Investigation of Practices of the California Independent System Operator and the California Power Exchange
Docket Nos. EL00-98-009, EL00-98-033, EL00-98-038, EL00-98-042, EL00-98-047, EL00-98-050

Dear Secretary Salas:

Enclosed for electronic filing please find the Motion for Clarification, Request for Rehearing and Petition for Reconsideration and Motion for Expedited Consideration of The California Independent System Operator Corporation in the above-referenced dockets.

Thank you for your assistance in this matter.

Respectfully submitted,

Anthony J. Ivancovich
Counsel for The California Independent
System Operator Corporation

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 Folsom, CA, on this 7th day of June 2002.

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Anthony J. Ivancovich