

April 8, 2005

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

**Re: *California Independent System Operator Corporation*
Docket No. ER05-____- 000
Amendment No. 67 to the CAISO Tariff**

Dear Secretary Salas:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, and Sections 35.11 and 35.13 of the regulations of the Federal Energy Regulatory Commission ("Commission"), 18 C.F.R. §§ 35.11, 35.13, the California Independent System Operator Corporation ("CAISO") respectfully submits for filing an original and five copies of an amendment ("Amendment No. 67") to the CAISO Tariff.¹ Amendment No. 67 revises the CAISO Tariff provisions concerning the deadline for submitting Supplemental Energy bids to the CAISO, to provide for a deadline of 62 minutes prior to the operating hour rather than 60 minutes prior to the operating hour as currently stated in the CAISO Tariff. The CAISO requests that the tariff amendment be made effective April 9, 2005.

Two extra copies of this filing are also enclosed. Please stamp these copies with the date and time filed, and return them to the messenger. Please

¹ Capitalized terms not otherwise defined herein are defined in the Master Definitions Supplement, CAISO Tariff Appendix A, as filed August 15, 1997, and subsequently revised.

feel free to contact the undersigned if you have any questions concerning this matter.

I. BACKGROUND

Sections 2.5.22.4.1 and 5.13.2.1 of the CAISO Tariff and Sections 3.2 and 7.3 of the Dispatch Protocol provide that the deadline for submitting Supplemental Energy bids to the CAISO is 60 minutes prior to the operating hour. Since October 1, 2004, however, the CAISO has needed to operate – and has operated – outside of the 60-minute deadline stated in the Tariff due to the CAISO's use of the Real-Time Market Application ("RTMA") that was implemented on that date as part of the CAISO's Market Redesign & Technology Upgrade ("MRTU") Phase 1B changes.

The RTMA performs a five-minute dispatch and 15-minute unit commitment process using a multi-interval optimization over a two-hour time horizon. Supplemental Energy bids are made available to the CAISO's market systems, including the RTMA, by transferring the bids from where they are submitted by Market Participants in the CAISO's scheduling infrastructure workspace and by subjecting the bids to a final validation. Because of the two-hour time horizon, the Supplemental Energy bids are immediately used by the next RTMA "run" – the first one of each hour – which occurs 12 seconds after the top of the hour prior to the operating hour for which the market has just closed. Within each two-hour time horizon, the RTMA incorporates the second hour's Supplemental Energy bids into the multi-interval optimization for the first hour. Thus, for the two-hour time horizon from 9:00 a.m. to 11:00 a.m. on a given day, the RTMA will start using Supplemental Energy bids for the hour starting at 10:00 a.m. and ending at 11:00 a.m. when the RTMA is running at 12 seconds after 9:00 a.m.

In testing the RTMA prior to its implementation on October 1, 2004, the CAISO discovered that the process of closing the market for Supplemental Energy frequently took more than 12 seconds. Thus, the CAISO found that the RTMA was unable to use the bids in the first run of each hour and could only use those bids at the start of the following hour.

As a temporary solution to this problem, the CAISO proposed, in conference calls with Market Participants prior to October 1, 2004 implementation of RTMA, to move back the deadline for submitting Supplemental Energy bids to 62 minutes prior to the operating hour until changes to the RTMA could be developed and implemented that would eliminate the need to use a 62-minute deadline. Moving the deadline to 62 minutes before the operating hour

would ensure that the CAISO had enough time to close the market for Supplemental Energy and still use the RTMA's two-hour time horizon.

On a Phase 1B conference call held on August 20, 2004, the CAISO proposed to submit to the Commission a conditional request for waiver of the CAISO Tariff provisions concerning the 60-minute deadline (discussed further below). Market Participants generally supported the CAISO's proposal, and subsequently no Market Participant provided written comments on the proposal in response to a CAISO request for comments made on the conference call.

Accordingly, on September 7, 2004, the CAISO submitted a "Conditional Request for Waiver and for Expedited Action" in Docket No. EL04-132 ("September 7 Request"). In that filing, the CAISO conditionally requested that the Commission temporarily waive the sections of the CAISO Tariff concerning the 60-minute deadline for submitting Supplemental Energy bids, so that the CAISO could set the deadline at 62 minutes before the operating hour in the event that the CAISO was unable to modify the RTMA prior to its implementation on October 1, 2004. The CAISO asked that the Commission grant the conditional request for waiver for the time period of October 1 through December 1, 2004. On September 9, 2004, the Commission issued a notice of filing concerning the September 7 Request. Four parties submitted motions to intervene and comments, none of them critical of the CAISO's conditional request for waiver of the CAISO Tariff provisions concerning the 60-minute deadline.² The Commission has not yet issued an order concerning the September 7 Request.

Despite its efforts, the CAISO was unable to modify the RTMA prior to its implementation on October 1, 2004. Therefore, in order to implement the RTMA on October 1, 2004, it was necessary for the CAISO to implement the 62-minute deadline as of October 1, 2004. Similarly, since October 1, the CAISO has not been able to make modifications to the RTMA that would eliminate the need for a 62-minute deadline, and thus the CAISO has continued to employ the 62-minute deadline.

² The following entities filed motions to intervene that did not include substantive comments: the California Electricity Oversight Board; Cities of Redding and Santa Clara, California, and the M-S-R Public Power Agency; and the Modesto Irrigation District. On September 14, 2004, West Coast Power LLC and Williams Power Company, Inc. (together, "WCP/Williams") jointly filed comments that raised concerns that the September 7 Request might indicate that the MRTU Phase 1B software and systems were not ready for full implementation, and therefore that an October 1, 2004 implementation date for Phase 1B might not be practical or consistent with prior Commission orders. On September 17, 2004, WCP/Williams submitted supplemental comments in which they stated that, based upon subsequent CAISO statements that Phase 1B would be ready for implementation on October 1, 2004, WCP/Williams did not object to that implementation date.

The CAISO discussed the continuing need for a 62-minute deadline for submitting Supplemental Energy bids on a Phase 1B conference call with Market Participants on February 4, 2005. No Market Participant objected to making the 62-minute deadline permanent through a CAISO Tariff amendment. On February 10, 2005, the CAISO issued a market notice in which it explained, *inter alia*, the possibility that the CAISO would submit an amendment to the CAISO Tariff to include the 62-minute deadline in the CAISO Tariff.³

II. PROPOSED CHANGES

The CAISO proposes to modify Sections 2.5.22.4.1 and 5.13.2.1 of the CAISO Tariff and Sections 3.2 and 7.3 of the Dispatch Protocol to state that the deadline for submitting Supplemental Energy bids is 62 minutes prior to the operating hour, rather than 60 minutes prior to the operating hour as currently stated in those sections. As explained in Section I, above, the use of a 62-minute deadline ensures that the CAISO has enough time to close the market for Supplemental Energy and still use the RTMA's two-hour time horizon. If the CAISO were required to use a 60-minute deadline, the CAISO could not correctly implement the Phase 1B changes that the Commission approved.⁴ Therefore, the Commission should accept this filing and permit the CAISO to modify the Tariff as requested herein.⁵

III. EFFECTIVE DATE

The CAISO respectfully requests that, pursuant to Section 35.11 of the Commission's regulations, 18 C.F.R. § 35.11, the Commission waive its notice requirements for Amendment No. 67, accept Amendment No. 67 for filing, and permit it to become effective on the day after filing – April 9, 2005. As explained in Section I, above, since October 1, 2004, the CAISO has employed a deadline of 62 minutes prior to the operating hour for submitting Supplemental Energy

³ The February 10, 2005 market notice is included as Attachment A to the present filing.

⁴ See *California Independent System Operator Corporation*, 105 FERC ¶ 61,091 (2003); *California Independent System Operator Corporation*, 108 FERC ¶ 61,142 (2004) (orders approving Phase 1B).

⁵ The CAISO has implemented an enhancement that enables the RTMA to check for bid availability at every subsequent run if the bids were not available for the first run of an hour. Even after the enhancement, the CAISO remains concerned about the unavailability of next-hour bids for the first run of an hour. The CAISO has this concern because the dispatch results from the first run will likely be inconsistent with future runs unless the bids are available for the first run.

bids. The CAISO informed Market Participants of the CAISO's intended use of the 62-minute deadline prior to its implementation on October 1, and has subsequently kept Market Participants informed of developments concerning the CAISO's continued use of the 62-minute deadline. Moreover, Market Participants have not indicated that the use of a 62-minute deadline harms them, and in fact have indicated support for that deadline several times: (1) on the CAISO's August 20, 2004 conference call, Market Participants generally supported the CAISO's proposal, and subsequently no Market Participant provided written comments on the proposal in response to a CAISO request for comments; (2) no Market Participant submitted comments that were critical of the proposed conditional requested for waiver contained in the September 7 Request; and (3) on the CAISO's February 4, 2005 conference call, no Market Participant objected to making the 62-minute deadline permanent through a CAISO Tariff amendment. Granting the requested effective date, therefore, is appropriate.

IV. COMMUNICATIONS

Communications regarding this filing should be addressed to the following individuals, whose names should be placed on the official service list established by the Secretary with respect to this submittal:

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V. SERVICE

The CAISO has served copies of this transmittal letter, and all attachments, on the California Public Utilities Commission, the California Energy Commission, the California Electricity Oversight Board, all parties with effective Scheduling Coordinator Service Agreements under the CAISO Tariff, and all

SWIDLER BERLIN LLP

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parties in Docket No. EL04-132. In addition, the CAISO is posting this transmittal letter and all attachments on the CAISO Home Page.

VI. ATTACHMENTS

The following documents, in addition to this letter, support this filing:

- | | |
|--------------|---|
| Attachment A | February 10, 2005 CAISO market notice |
| Attachment B | Revised CAISO Tariff sheets |
| Attachment C | Black-lined CAISO Tariff provisions |
| Attachment D | Notice of this filing, suitable for publication in the Federal Register (also provided in electronic format). |

Respectfully submitted,



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ATTACHMENT A

From: CRCommunications [mailto:CRCommunications@caiso.com]
Sent: Thu 2/10/2005 1:11 PM
To: ISO Market Participants
Subject: CAISO: Market Rules & Market Design/ Notification of moving the closing time of the Supplemental Energy market

CAISO MARKET NOTICE

Requested Client Action: Information Only/ Request for Comment
Categories: Market Rules & Market Design
Subject: Notification of moving the closing time of the Supplemental Energy market

Summary:

In the near future, the California ISO intends to submit to the Federal Energy Regulatory Commission (FERC) a request for retroactive waiver of the ISO Tariff provisions that provide for a 60-minute deadline for submitting Supplemental Energy bids. The ISO will be submitting the filing in order to receive FERC approval for a waiver that is consistent with using a deadline that is 62 minutes prior to the operating hour rather than 60 minutes prior to the operating hour and that is effective from October 1, 2004 on.

After the ISO submits the request for retroactive waiver, the ISO may also submit an amendment to the ISO Tariff to change the provisions so that they provide for a 62-minute deadline for submitting Supplemental Energy bids, effective October 1, 2004.

Main Text:

Since October 2002, the Supplemental Energy Market has closed 60 minutes before the start of the operating hour (T-60). In general, the Supplemental Energy Market should close as late as possible to allow market participants to bid with as much knowledge of market conditions as possible.

As part of the Phase 1B applications, the Real-Time Market Applications (RTMA) performs a 5-minute dispatch and a 15-minute commitment process using a multi-interval optimization over a 2-hour time horizon. Because of the 2-hour time horizon requirement, the Supplemental Energy bids are immediately used by the next RTMA run, the first one of each hour, which occurs 12 seconds after the top of the hour prior to the operating hour for which the market had just closed (i.e. RTMA will start using Supplemental Energy Bids for HE 11 when running at 12 seconds after 9:00 am).

In testing the RTMA system, it was found that the process of closing the market frequently took more than 12 seconds, thus RTMA was prevented from using the bids in that run. Due to the design of RTMA at the time, in these situations the bids could not be used again until the start of the following hour, rendering the 2-hour time horizon useless.

As a temporary solution, the ISO proposed to move back the closing time by two minutes until enhancements to the RTMA system could be implemented. The ISO notified Market Participants of this plan verbally in the ongoing conference calls.

On September 7, 2004, in FERC Docket No. EL04-132-000, the ISO submitted a conditional request for waiver of the ISO Tariff provisions concerning Supplemental Energy Market closing time, to be effective from October 1, 2004 until December 1, 2004.

On September 9, 2004, FERC issued a notice of filing concerning the ISO's conditional request for waiver, but to this date FERC has not addressed it in an order. Meanwhile, the ISO started closing the Supplemental Energy Market at T-62 starting on 23:58 September 30, 2004, and continues the practice to this day.

The RTMA enhancement referenced above enabled the system to check for bid availability at every subsequent run if the bids were not available for the first run. Although the RTMA enhancement has been placed in service, the ISO remains concerned about the lack of next-hour bids available for the first run of the hour, even if the bids were to be picked up in the very next run. The reason is that the dispatch results for the first run may not be as consistent with future runs as they would be if the Supplemental bids were available. Moving the closing time up by two minutes on a permanent basis would help insure that the bids are available. Because of this concern, the ISO may be requesting a tariff amendment to make the closing time change permanent.

The ISO's concerns had been discussed in the Phase 1B conference call with Market Participants on February 4, 2005. While no objections to a permanent change in the market closing time were noted, we welcome any comments you may have. Please send comments to the contact address.

For More Information Contact:

Please contact Greg Ford at Phase1BDeployment@caiso.com <<mailto:Phase1BDeployment@caiso.com>>

Client Relations Communications.1026

CRCcommunications@caiso.com <<mailto:CRCcommunications@caiso.com>>

The California ISO strives to be the preferred provider of superior electrical transmission services for the benefit of our customers in California and the West.

ATTACHMENT B

which are being self-provided the Energy Bid shall be used to determine the Dispatch, subject to the limitation on the Dispatch of Spinning Reserve and Non-Spinning Reserve set forth in Section 2.5.22.3.

2.5.22.4 Supplemental Energy Bids. In addition to the Generating Units, Loads and System Resources which have been scheduled to provide Ancillary Services in the Day-Ahead and Hour-Ahead Markets, the ISO may Dispatch Generating Units, Loads or System Resources for which Scheduling Coordinators have submitted Supplemental Energy bids.

2.5.22.4.1 Timing of Supplemental Energy Bids.

Supplemental Energy bids must be submitted to the ISO no later than sixty-two (62) minutes prior to the operating hour. Bids may also be submitted at any time after the Day-Ahead Market closes. These Supplemental Energy bids cannot be withdrawn after sixty-two (62) minutes prior to the Settlement Period.

2.5.22.4.2 Form of Supplemental Energy Bid Information.

Supplemental Energy bids must include the information specified in Schedules and Bids Protocol Section 6.1.

The Energy Bid shall be a staircase price (\$/MWh) versus quantity (MW) curve of up to 10 segments. The Energy Bid shall be submitted to the real-time Imbalance Energy market using the Supplemental Energy Bid template. The Energy Bid curve shall be monotonically increasing, i.e., the price of a subsequent segment shall be greater than the price of a previous segment. Subject to the foregoing, sellers may increase or decrease bids in the ISO Real Time Market for capacity associated with those parts of the bid curve that were not accepted in or before the Hour-Ahead Market. For capacity associated with those parts of the bid curve previously accepted in or before the Hour-Ahead Market, sellers may only submit lower bids in subsequent markets. Each Forbidden Operating Region must be represented by only one bid segment.

5.13.2 Energy Bid Submission.

5.13.2.1 Real Time Market. Bids shall be submitted for use in the real-time Hourly Pre-Dispatch in DP 8.6.3(j) and the Real-Time Economic Dispatch up to sixty-two (62) minutes prior to the Operating Hour. Resources required to offer their Available Generation in accordance with Section 5.11.4 shall be required to submit Energy Bids for 1) all of their Available Generation and 2) any Ancillary Services capacity awarded or self-provided in the Day-Ahead or Hour-Ahead Ancillary Services markets. In the absence of submitted bids, default bids will be used for resources required to offer their Available Generation in accordance with Section 5.11.4. Resources not required to offer their Available Generation in accordance with Section 5.11.4 that were awarded or self-provided Ancillary Services capacity must submit an Energy Bid for no less than the amount of awarded or self-provided Ancillary Services capacity. Resources not required to offer their Available Generation in accordance with Section 5.11.4 may voluntarily submit Energy Bids. Submitted Energy Bids shall be subject to the Damage Control Bid Cap as set forth in Section 28.1 and to the Mitigation Measures set forth in Appendix A to the Market Monitoring and Information Protocol.

DP 3 SCHEDULING AND REAL-TIME INFORMATION

DP 3.1 Final Schedules

The scheduling process described in the SP will produce for the ISO real-time dispatchers for each Settlement Period of the Trading Day a Final Schedule consisting of the combined commitments contained in the Final Day-Ahead Schedules and the Final Hour-Ahead Schedules for the relevant Settlement Period. The Final Schedule will include information with respect to:

- (a) Generation schedules;
- (b) Demand schedules;
- (c) Ancillary Services schedules based on the ISO's Ancillary Services auction;
- (d) Ancillary Services schedules, based on SCs' ISO accepted schedules and forecast load, for self-provided Ancillary Services;
- (e) Interconnection schedules between the ISO Control Area and other Control Areas; and
- (f) Inter-Scheduling Coordinator Energy Trades.

DP 3.2 Supplemental Energy

In addition to the Final Schedules, Supplemental Energy bids will be available to the ISO real-time dispatchers, as described in the SBP, by sixty-two (62) minutes prior to the start of the Settlement Period to which such Supplemental Energy bids apply.

DP 3.3 SC Intertie Schedules

In accordance with the SBP and the SP, SCs shall provide the ISO with Interconnection schedules prepared in accordance with all NERC, WECC and ISO requirements. The provisions of the SBP and the SP shall apply to real-time changes in Interconnection schedules under Existing Contracts.

DP 3.4 Information to be Supplied by SCs

DP 3.4.1 SC Dispatch

Each SC shall be responsible for the scheduling and Dispatch of Generation and Demand in accordance with its Final Schedule.

DP 3.4.2 Generator or Interconnection Schedule Change

Each SC shall keep the ISO apprised of any change or potential change in the current status of all Generating Units, Interconnection schedules and Inter-Scheduling Coordinator Energy Trades. This will

- (a) verify that each SC's Ancillary Services obligations are scheduled as required. The ISO will procure additional Ancillary Services if insufficient resources are scheduled;
- (b) verify any Supplemental Energy bids received up to thirty (30) minutes prior to the Settlement Period, for increases or decreases in Energy output which it may require for the Settlement Period; and
- (c) verify that with currently anticipated operating conditions there is sufficient transfer capacity on the ISO Controlled Grid to implement all Final Schedules.

DP 7.2 Confirm Interchange Transaction Schedules (ITSSs)

Also in the hour prior to the beginning of the Settlement Period the ISO will:

- (a) adjust interchange transaction schedules (ITSSs) as required under Existing Contracts in accordance with the procedures in the SBP and the SP for the management of Existing Contracts;
- (b) adjust ITSSs as required by changes in transfer capability of transmission paths occurring after close of the Hour-Ahead Market; and
- (c) agree on ITS changes with adjacent Control Area Operators.

DP 7.3 Supplemental Energy Bids

Supplemental Energy bids may be submitted to the ISO no later than sixty-two (62) minutes prior to the beginning of the Settlement Period in accordance with the format and content requirements of the SBP. These Supplemental Energy bids cannot be withdrawn after sixty-two (62) minutes prior to the beginning of the Settlement Period. A System Resource that identifies its bid as a Hourly Pre-Dispatch bid will only be pre-dispatched and will not be subject to any intra-hour Redispatch except as necessary to maintain inter-Control Area transmission reliability.

DP 7.4 Intra-Zonal Congestion Management

In the hour prior to the beginning of the Settlement Period the ISO may adjust SCs' Final Schedules to alleviate Intra-Zonal Congestion. Except in those instances where the ISO calls Reliability Must-Run Units as provided in Section 5.2 of the ISO Tariff, the ISO will adjust resources in accordance with DP 8.4 and DP 8.5.

ATTACHMENT C

2.5.22.4.1 Timing of Supplemental Energy Bids.

Supplemental Energy bids must be submitted to the ISO no later than ~~sixtysixty-two~~ (6062) minutes prior to the operating hour. Bids may also be submitted at any time after the Day-Ahead Market closes. These Supplemental Energy bids cannot be withdrawn after ~~sixtysixty-two~~ (6062) minutes prior to the Settlement Period.

* * *

5.13.2 Energy Bid Submission.

5.13.2.1 Real Time Market. Bids shall be submitted for use in the real-time Hourly Pre-Dispatch in DP 8.6.3(j) and the Real-Time Economic Dispatch up to ~~sixtysixty-two~~ (6062) minutes prior to the Operating Hour. Resources required to offer their Available Generation in accordance with Section 5.11.4 shall be required to submit Energy Bids for 1) all of their Available Generation and 2) any Ancillary Services capacity awarded or self-provided in the Day-Ahead or Hour-Ahead Ancillary Services markets. In the absence of submitted bids, default bids will be used for resources required to offer their Available Generation in accordance with Section 5.11.4. Resources not required to offer their Available Generation in accordance with Section 5.11.4 that were awarded or self-provided Ancillary Services capacity must submit an Energy Bid for no less than the amount of awarded or self-provided Ancillary Services capacity. Resources not required to offer their Available Generation in accordance with Section 5.11.4 may voluntarily submit Energy Bids. Submitted Energy Bids shall be subject to the Damage Control Bid Cap as set forth in Section 28.1 and to the Mitigation Measures set forth in Appendix A to the Market Monitoring and Information Protocol.

* * *

DP 3.2 Supplemental Energy

In addition to the Final Schedules, Supplemental Energy bids will be available to the ISO real-time dispatchers, as described in the SBP, by ~~sixty-sixty-two~~ (6062) minutes prior to the start of the Settlement Period to which such Supplemental Energy bids apply.

* * *

DP 7.3 Supplemental Energy Bids

Supplemental Energy bids may be submitted to the ISO no later than ~~sixty-sixty-two~~ (6062) minutes prior to the beginning of the Settlement Period in accordance with the *format and content requirements* of the SBP. These Supplemental Energy bids cannot be withdrawn after ~~sixty-sixty-two~~ (6062) minutes prior to the beginning of the Settlement Period. A System Resource that identifies its bid as a Hourly Pre-Dispatch bid will only be pre-dispatched and will not be subject to any intra-hour Redispatch except as necessary to maintain inter-Control Area transmission reliability.

ATTACHMENT D

385.2001(a)(1)(iii) and the instructions on the Commission's web site under the "e-Filing" link. The Commission strongly encourages electronic filings.

Comment Date: _____