

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

San Diego Gas & Electric Company,)	
Complainant,)	
)	
v.)	Docket No. EL00-95-109
)	
Sellers of Energy and Ancillary Services)	
Into Markets Operated by the California)	
Independent System Operator and the)	
California Power Exchange,)	
Respondents.)	
)	
Investigation of Practices of the California)	Docket No. EL00-98-096
Independent System Operator and the)	
California Power Exchange)	

**REQUEST FOR CLARIFICATION AND, IN THE ALTERNATIVE, REHEARING
OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

I. INTRODUCTION

Pursuant to Section 313(a) of the Federal Power Act, 16 U.S.C. § 8251 (a), and Rule 713 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“Commission”) 18 C.F.R. § 385.713, the California Independent System Operator Corporation (“ISO”)¹ hereby requests that the Commission clarify or grant rehearing of its “Order Addressing Compliance Filing, Emergency Motion, And Comments Following Technical Conference issued on December 20, 2004 in the above-captioned proceeding (“December 20 Order”).

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

In the December 20 Order, the Commission conditionally accepted the ISO's compliance filing, including the ISO's proposed format for the submission of fuel cost allowance ("FCA") claims ("FCA Template"). In addition, the Commission further attempted to explain certain principles of the FCA allocation methodology. The sections of the Commission's order for which the ISO seeks clarification are discussed below.

II. DISCUSSION

A. Net vs. Gross Calculation of FCA Claims

The ISO requests that the Commission clarify that the calculation and allocation of fuel cost allowances relating to uninstructed energy will be based on each Scheduling Coordinator's net sales of uninstructed energy each 10-minute interval, consistent with the ISO's normal settlement process set forth in the ISO Tariff, and the approved refund calculation methodology.

In the December 20 Order, the Commission concluded that FCAs should be calculated and allocated on a gross basis. December 20 Order at P 21. However, as a general principle, the Commission stated that "because the FCA claims are direct offsets to refund liabilities owed by sellers, the approach to calculating FCA claims should match the methodology for determining refund liability." December 20 Order at 19. The ISO therefore requests that the Commission clarify that the FCA for uninstructed energy should be calculated based on net sales or purchases of uninstructed energy during each 10-minute interval by each Scheduling Coordinator ("SC"), as is done in the ISO's normal settlement process pursuant to the ISO Tariff, and in the refund calculation methodology.

As the Commission acknowledged in its discussion of the allocation of FCA claims to buyers, uninstructed energy is netted as part of the ISO's Tariff. December 20 Order at P 32. Consistent with this normal settlement process, refund obligations were also calculated by the ISO based on each Scheduling Coordinator's *net* deviation during each 10-minute interval. Thus, the ISO believes that under the principle that "the approach to calculating FCA claims should match the methodology for determining refund liability", it follows that FCAs for uninstructed energy should be calculated and allocated based on each Scheduling Coordinator's net sales or purchases of uninstructed energy for each 10-minute interval.

In addition, any attempt to deviate from the normal ISO settlement and refund process in order to calculate and allocate the FCA for uninstructed energy on the basis of gross uninstructed deviations raises a number of additional problems and issues that would further complicate the already complex process devised by the Commission for price mitigation.

In response to the agenda provided by FERC staff for the October 7 Technical Conference, the issue of how to treat uninstructed energy was identified by the ISO as one of the key issues that would need to be addressed if the Commission adopted the "gross" approach for calculation and allocation of FCA claims. Specifically, the ISO noted that because uninstructed deviations are settled on a net basis for each SC's entire portfolio of supply and demand as part of the ISO's normal settlement process, there is no sales transaction price for positive uninstructed energy from individual Generating Units during intervals

when the SC's overall portfolio-level uninstructed deviation was negative. Under such circumstances, the SC is treated as a net buyer of uninstructed energy, and is simply charged based on its net negative deviation. Similarly, as part of the ISO's refund calculations, the SC in this scenario would simply receive a refund based on its net negative deviation.

This scenario is further illustrated in Table 1, which has been reproduced from the ISO's presentation at the October 7 Technical Conference. In this example, an SC has a net positive deviation of 10 MWh one interval, and a net negative deviation of 10 MWh during a second interval. During Interval 1 the SC is paid for the net 10 MWh of uninstructed energy at the ISO's Market Clearing Price ("MCP") for decremental energy in the ISO's Real Time Market (\$50/MWh in this example). During Interval 2 the SC is charged for the net 10 MWh of negative uninstructed deviation based on the ISO's Market Clearing Price for incremental energy in the ISO's Real Time Market (\$250/MWh in this example), plus any additional cost allocations for costs above the incremental MCP incurred during the "soft cap" period (*i.e.* Charge Code 481).

Table 1. Illustrative Example of SC with Net Negative Deviation

	Interval 1	Interval 2
Unit 1	100	100
Unit 2	100	100
Unit 3	(100)	(100)
Unit 4	(90)	(110)
Net Sale (purchase)	10	(10)
Transaction Price	\$50	\$250
Incremental price *	\$250	\$250
Decremental MCP	\$50	\$50

Although Units 1 and 2 have positive uninstructed deviation during both intervals, during the second interval there is no sales price upon which to base FCA calculations under the “gross” approach, because the SC was not a net seller of uninstructed energy to the ISO. In this example, the SC was charged \$250/MWh for the 10 MWh of net negative deviation for the SC’s portfolio of loads and resources during Interval 2, and there was no sale of uninstructed energy from Unit 1 or 2 at either the \$250/MWh incremental MCP or the \$50/MWh decremental MCP. In addition, because no sale of energy occurs in the ISO’s settlement system during Interval 2 by this SC, no refund obligation is calculated as part of the ISO’s refund calculations. Thus, calculating this SC’s fuel cost allowance for uninstructed deviations based on the gross uninstructed deviations of each unit would not make sense, because the uninstructed energy produced by Units 1 and 2 would not have any specific sales price, nor would this energy represent a “mitigated sale” of energy.

A second issue illustrated by the example in Table 1 is that even during intervals when an SC is a net seller of uninstructed energy, the sum of positive deviations from individual Generating Units within the SC’s portfolio may exceed the total net positive uninstructed energy sold by the SC. This scenario is represented in Interval 1 of the example in Table 1. During Interval 1, Units 1 and 2 both have a positive deviation of 100 MWh, but the SC has a net positive deviation of only 10 MWh. For the same reasons as articulated above, the ISO requests that the Commission clarify that in this scenario, the amount of uninstructed generation from Units 1 and 2 used in the calculation of FCAs

should be limited by the amount of the uninstructed energy transaction that actually occurred between the SC and the ISO (in this example, 10 MWh).²

The ISO also requests that the Commission clarify that the ISO should allocate FCAs associated with uninstructed energy based on each Scheduling Coordinator's net purchases of uninstructed energy for each 10 minute interval. In the December 20 Order, the Commission indicated that "the methodology used to allocate FCA amounts should match the methodology used to calculate FCA claims," December 20 Order at P 19, and also "to the extent that any market participant, including generators, relied on the mitigated spot markets to purchase energy, we believe that such participant should thus bear a proportionate share of the total FCA amount." *Id.* at P 30. As explained above, calculating FCAs for uninstructed energy based on each Scheduling Coordinator's net purchases of uninstructed energy for each 10-minute interval, rather than the "gross" deviations associated with individual load schedules and resources, is most consistent with the manner in which uninstructed energy is settled under the ISO Tariff, and treated in the refund process. Thus, the Commission should clarify that the allocation of FCAs for uninstructed energy will also be performed on a "net" basis.

Again, the example in Table 1 highlights one of the key problems with deviating from the settlement process in the ISO Tariff and the refund process in order to allocate FCAs for uninstructed energy on the basis of gross uninstructed deviations of individual loads or resources. In this example although Units 3 and

² Moreover, even if the Commission seeks to base FCA for uninstructed deviations on gross uninstructed deviations of each unit, the SC's total potential "mitigated sales" of uninstructed energy under this scenario would be just 10 MWh.

4 have negative instructed deviations during both intervals, the SC's overall portfolio has a positive deviation of 10 MWh during Interval 1, so that, under the ISO Tariff, the SC is treated as a seller of 10 MWh of uninstructed energy (at the decremental MCP of \$50/MWh) during this interval. Again, because the SC is treated as a net seller of 10 MWh in this interval, there is no "purchase quantity" and no "purchase price" for the negative uninstructed deviation of Units 3 and 4 during this interval. In addition, because no purchase of uninstructed energy occurs in the ISO settlement system during Interval 1 by this SC, no refund is calculated as part of the ISO's refund calculations for the negative uninstructed deviations of Units 3 and 4 in this example.

B. Mitigated v Non-Mitigated Spot Transactions

The ISO requests that the Commission clarify that, consistent with the ISO Tariff, the purchase price for uninstructed energy, for purposes of fuel cost allowance calculations and allocations, equals the market clearing price plus any charge type 481 charges for supply costs in excess of the \$250/\$150 soft caps.

In the December 20 Order, the Commission stated that "only mitigated purchases should be allocated a FCA charge incurred in each time interval and that the FCA amount is limited so that the final purchase price after mitigation (MMCP + FCA amount) is not greater than the original market clearing price." December 20 Order at 40.

Due to the \$250/\$150 "soft caps" in place during much of the refund period, the total purchase price for uninstructed energy prior to price mitigation exceeded the real time MCP, with total charges for net uninstructed energy being equal to the sum of the MCP plus an allocation for costs of energy purchased at

prices above the MCP in the ISO Real Time Market (i.e. Billing Code 481).

Therefore, the ISO requests that the Commission clarify that, for purposes of performing FCA calculations, the purchase price for uninstructed energy must be based on the sum of the MCP plus any Charge Type 481 charges.

In addition, the ISO notes, and brings to the Commission's attention, the fact that implementing the Commission's requirements concerning the allocation of FCAs to mitigated purchases would require calculations performed on a 10-minute interval basis, because both MCPs and Charge Type 481 charges vary on a 10-minute interval basis. In order to reconcile the above requirements with the Commission's previous ruling that FCA allocations should be performed on a hourly basis, the ISO will need to first identify mitigated purchase quantities on a 10-minute interval basis, and then aggregate these data to an hourly level in order to allocate hourly FCA totals.

C. The ISO's Proposed Template

The ISO requests that the Commission clarify that it intends to retain 10-minute interval data in the FCA template for both instructed and uninstructed energy sales.

The December 20 Order indicates that "unless the CAISO can explain otherwise, we thus see no reason why 10-minute interval data is [sic] necessary and direct the CAISO to remove the variable from its template." December 20 Order at 80. As explained in the previous filings by the ISO, FCA calculations for most sales of instructed and uninstructed energy in the ISO Markets must be made on a 10-minute basis because transaction prices and quantities (both before and after mitigation) are settled and vary on a 10-minute basis. The only

exception to this general rule is for some imports, which had a constant sales price and quantity each interval within an hour, and are to be mitigated based on the hourly MMCP. Thus, although the Commission has indicated that FCA claims should be allocated to mitigated purchases on an hourly basis, the calculation of most sales of instructed and uninstructed energy in the ISO Markets must be made on a 10-minute basis. To the extent that a supplier's claims involve imports with a constant transaction price for all intervals within hour, the 10-minute interval file could be omitted from the template.³

Therefore, the ISO requests that the Commission clarify that suppliers should include 10-minute interval data in the FCA template for both instructed and uninstructed energy sales, except in cases where a supplier's FCA claim involves imports with a constant transaction price for all intervals within an hour.

D. PX Transactions and Disaggregation of SC IDs

The ISO requests that the Commission clarify the role of the PX with respect to the allocation of FCAs relating to the PX markets and participants for which the PX served as Scheduling Coordinator.

Several aspects of the December 20 Order appear to require that the California Power Exchange ("PX") assume a direct role in the allocation of FCA amounts to its participants. First, the December 20 Order indicates that FCA calculations and allocations should be done separately for the PX and ISO markets. December 20 Order at P 36. In addition, consistent with other

³ The ISO notes that, contrary to the impression created by filings made by some parties, not all imports represent hourly transactions made at a single price for the entire hour. Specifically, while most out-of-market transactions were made on an hourly basis, energy dispatched from imports of Spinning, Non-spinning and Replacement Reserve are settled at the MCP for instructed energy, which typically varies each 10-minute interval. In addition, any uninstructed energy resulting from the inability of an import providing operating reserve to ramp down within an hour during intervals when the resource is not dispatched for instructed energy is also settled at the 10-minute MCP.

calculations in the refund proceeding, the December 20 Order prohibits disaggregation of any SC ID in performing allocations of FCAs. December 20 Order at 58. Because the PX served as the SC for multiple participants, including the state's three major investor-owned utilities, the bulk of energy purchases in the ISO's Real Time Market through January 2001 appear as transactions for which the PX served as the SC with the ISO. Thus, in order to comply with the above requirements in the Commission's December 20 Order, it will be necessary for the ISO to allocate FCAs for purchases of ISO spot market energy to the PX, and for the PX to then allocate these charges to participants for whom the PX served as the SC. For the PX Day Ahead and Hour Ahead markets, the PX may allocate FCA claims directly, because no netting of PX and ISO sales and purchases is permitted.⁴

For these reasons, the ISO requests that the Commission clarify the role of the PX with respect to the allocation of FCA amounts related to the PX markets and participants for which the PX served as the Scheduling Coordinator with the ISO, consistent with the foregoing discussion.

⁴ The ISO notes that while ISO staff may be able to perform many calculations for the PX Day Ahead market and stood ready to perform calculations based on netting of ISO and PX market sales and purchase, calculating actual final sales and purchase prices for PX transactions during January 2001, when a "\$150 soft cap" was in effect would require substantial additional resources on the part of the ISO.

III. CONCLUSION

For the reasons discussed above, the ISO requests that the Commission grant the requested clarifications, or in the alternative, grant rehearing as requested above.

Respectfully Submitted,

/s/ Gene L. Waas

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January 19, 2005



January 19, 2005

BY ELECTRONIC TRANSMISSION

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

**Re: California Independent System Operator Corporation
And California Power Exchange
Docket Nos. EL00-98-096
San Diego Gas & Electric Co., et al.
Docket Nos. EL00-95-109**

Dear Secretary Salas:

Enclosed for electronic filing please find a Request for Clarification or, in the alternative, Rehearing of the California Independent System Operator Corporation in the above-referenced docket.

Thank you for your assistance in this matter.

Very truly yours,

/s/ Gene L. Waas
Gene L. Waas

Counsel for the California Independent
System Operator Corporation

Enclosures

cc: All parties of record

CERTIFICATE OF SERVICE

I hereby certify that I have on this 19th day of January 2005, served copies of the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

/s/ Gene L. Waas
Gene L. Waas