

**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. EL00-95-000
EL00-95-002
EL00-95-003

Investigation of Practices of the California
Independent System Operator and the
California Power Exchange

Docket Nos. EL00-98-000
EL00-98-002
EL00-98-003

Public Meeting in San Diego, California

Docket No. EL00-107-000

Reliant Energy Power Generation, Inc.,
Dynergy Power Marketing, Inc.,
and Southern Energy California, L.L.C.,
Complainants,

v.

California Independent System Operator
Corporation,
Respondent.

Docket No. EL00-97-000

California Electricity Oversight Board,
Complainant,

v.

All Sellers of Energy and Ancillary Services
Into the Energy and Ancillary Services Markets
Operated by the California Independent System
Operator and the California Power Exchange,
Respondents.

Docket No. EL00-104-000

California Municipal Utilities Association,
Complainant,

v.

All Jurisdictional Sellers of Energy and Ancillary
Services Into Markets Operated by the California
Independent System Operator and the
California Power Exchange,
Respondents.

Docket No. EL01-1-000

Californians for Renewable Energy, Inc. (CARE),
Complainant,

v.

Docket No. EL01-2-000

Independent Energy Producers, Inc., and all
Sellers of Energy and Ancillary Services Into
Markets Operated by the California Independent
System Operator and the California Power
Exchange; All Scheduling Coordinators Acting
on Behalf of the Above Sellers; California
Independent System Operator Corporation; and
California Power Exchange Corporation,
Respondents.

Puget Sound Energy, Inc.,
Complainant,

v.

Docket No. EL01-10-000

All Jurisdictional Sellers of Energy and/or Capacity
at Wholesale Into Electric Energy and/or Capacity
Markets in the Pacific Northwest, Including
Parties to the Western Systems Power Pool
Agreement,
Respondents.

**STATUS REPORT OF THE CALIFORNIA INDEPENDENT
SYSTEM OPERATOR CORPORATION CONCERNING
CONGESTION MANAGEMENT REDESIGN PROPOSAL**

I. BACKGROUND

On January 30, 2001, the California Independent System Operator Corporation ("ISO") filed in the above-captioned proceeding a motion ("the January 30 Motion") requesting that the Commission defer the requirement that the ISO file, by January 31, 2001, a redesign of its congestion management system and require that, in the alternative, the ISO file, by March 31, 2001, a status report including, to the extent practicable, a schedule for a definitive

submission.¹ In the January 30 Motion, the ISO explained that deferral of the submission of a congestion management redesign proposal was necessary because of the profound changes to the California wholesale electricity markets mandated by the Commission's November 1, 2000, and December 15, 2000, orders in this proceeding.²

On March 30, 2001, the ISO submitted a status report in accordance with the commitment made in its January 30, 2001 motion ("March 30 Status Report"). In the March 30 Status Report, the ISO informed the Commission that, at that time, it was focussing its efforts on a proposed plan of near-term modifications to and expansion of its operational practices and market rules (the "Market Stabilization Plan") intended to stabilize operations of the ISO Controlled Grid and mitigate the exercise of market power in the California wholesale electric markets. The ISO also acknowledged the need for longer-term modifications to the ISO's congestion management system, but explained that determining a schedule for the submission of a definitive congestion management redesign proposal could only occur after the ISO and the State of California addressed the

¹ Concomitant with this motion, the ISO posted on its web site a "Congestion Management Reform Draft ISO Proposal," dated January 26, 2001, which represented the culmination of a 10-month effort by the ISO to develop a comprehensive redesign of congestion management as ordered by the Commission in January 2000. However, events in the California markets during the second half of 2000 dramatically altered the context in which this proposal had been developed.

² The Commission's December 15, 2000, order also directed the ISO to examine long-term market redesign issues, including: "(1) the adoption of security-constrained unit commitment dispatch; (2) the use of simultaneous rather than sequential auctions; (3) the creation of an installed capacity market; (4) the establishment of reserve requirements; and (5) demand-side response programs." *San Diego Gas & Electric Co. v. Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator and the California Power Exchange, et al.*, 93 FERC ¶ 61,294 at 62.017 (2000). The ISO continues to recognize the need to consider such issues and notes that the resolution of such issues may have a substantial impact on the ISO's long-term congestion management design.

substantial near-term challenges facing the California wholesale electric markets during the Summer 2001 peak season. In the March 30 Status Report, the ISO therefore requested a continued deferral of the filing date for the submission of a congestion management reform proposal subject to the submission, by no later than July 31, 2001, of a status report detailing further developments related to congestion management reform.

On July 31, 2001, the ISO submitted a subsequent status report (“July 31 Status Report”) in accordance with the commitment made in its March 30 Status Report. In the July 31 Status Report, the ISO informed the Commission that a substantial portion of the ISO’s resources for the past three months has been devoted to assessing the changes to the ISO’s markets and operations mandated by the Commission’s April 26, 2001,³ and June 19, 2001,⁴ orders in this proceeding, determining the steps necessary to comply with those orders, implementing the software modifications and revised procedures needed to implement those orders, notifying Market Participants of these changes, and identifying aspects of the orders that may require clarification or modification. The ISO also explained that the challenges created by the energy crisis in

³ *San Diego Gas & Electric Company v. Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator Corporation and the California Power Exchange, et al.*, 95 FERC ¶ 61,115 (2001) (“April 26 Order”). In the April 26 Order, the Commission established a mitigation and monitoring plan intended to address the potential for unjust and unreasonable prices in the ISO’s markets due to the imbalance of supply and demand in California and the ability of suppliers of electricity in those markets to exercise market power and held that the mitigation and monitoring plan established by that order superseded those elements of the ISO’s proposed Market Stabilization Plan relating to market power mitigation.

⁴ *San Diego Gas & Electric Company v. Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator Corporation and the California Power Exchange, et al.*, 95 FERC ¶ 61,418 (2001) (“June 19 Order”). The mitigation and monitoring plan established for the California wholesale markets in the April 26 Order was significantly modified and expanded by the Commission’s June 19 Order.

California have also required the commitment of additional resources to satisfy the ISO's primary responsibility – maintaining the reliability of the ISO Controlled Grid. In the July 31 Status Report, the ISO therefore requested a continued deferral of the filing date for the submission of a congestion management reform proposal subject to the submission, by October 31, 2001, of a status report detailing further developments related to congestion management reform.

The ISO now submits the following status report in accordance with the commitment made in its July 31 Status Report.

II. THE NEED FOR A CONTINUING EXTENSION

Over the last several months, the ISO has continued to devote substantial resources towards implementing the changes to the ISO's markets and operations mandated by the Commission's April 26 and June 19 Orders. The ISO notes that this task has been somewhat complicated by some of the open issues raised by those orders and reiterates its request that the Commission provide further guidance concerning the ISO's implementation of those orders, as requested in the ISO's prior filings in this proceeding.

The most significant demand on the ISO's resources since July of this year, however, has resulted from the Commission's July 25, 2001, order in this proceeding.⁵ In the July 25 Order, the Commission established the methodology for calculating refunds related to transactions in the spot markets operated by the ISO and the California Power Exchange during the period beginning on

⁵ *San Diego Gas & Electric Company v. Sellers of Energy and Ancillary Service Into Markets Operated by the California Independent System Operator Corporation and the California Power Exchange, et al.*, 96 FERC ¶ 61,120 (July 25, 2001) ("July 25 Order").

October 2, 2000. It also established an evidentiary hearing proceeding in order to further develop the factual record in Docket No. EL00-95-031, *et al.*, so that refunds may be calculated.

The proceedings initiated by the July 25 Order have required the ISO to devote the bulk of its available resources to the formidable task of recreating hourly market conditions over a period of nearly a year as well, as providing additional data and analyses in support of the refund proceeding. In addition, ISO staff have continued to be involved with numerous other efforts, including participation in the negotiations on refunds and related issues established by the Commission, as well as negotiations and litigation related to the ISO's Grid Management Charge, the transmission Access Charge, and various related issues. These efforts are in addition to the resources that must be committed to the ISO's primary responsibility – maintaining the reliability of the ISO Controlled Grid.

The ISO has not lost sight of the need for modifications to the ISO's congestion management system. As noted in the March 30 and July 31 Status Reports, however, a longer-term congestion management redesign proposal must take into account all of the recent changes to the California wholesale electric markets, including those mandated by the Commission's April 26 and June 19 Orders, as well as various efforts and initiatives being undertaken by the State to resolve the current crisis that confronts California and its electric consumers. The ISO has continued to explore potential reforms that would modify and improve the ISO's current congestion management system in the

near-term, taking into account any new developments related to congestion management. For example, the ISO has recently observed that the addition of new generation interconnected to the ISO Controlled Grid has increased the incidences of intra-zonal congestion on some portions of the ISO Controlled Grid. The ISO has discussed this issue with Commission staff and is currently exploring what steps, if any, are necessary to address this development.

In addition, as noted in the July 31 Status Report, the ISO has established a Market Advisory Group that has met to consider possible reforms to the ISO's congestion management procedures. If adopted by the ISO, any of these reforms that require modifications to the ISO Tariff would be filed with the Commission pursuant to Section 205 of the Federal Power Act.

The ISO notes that the June 19 Order also requires the ISO to file on or before March 26, 2002, a report on market conditions in the ISO's markets. June 19 Order, 95 FERC at 62,567. The ISO anticipates that a consideration of its methodology for managing transmission congestion would be included in that assessment of market conditions. The ISO believes it is appropriate to report to the Commission on further developments related to congestion management reform in conjunction with the report required by the June 19 Order.

III. CONCLUSION

For the foregoing reasons, the ISO respectfully requests that the filing date for the submission of a congestion management reform proposal continue to be deferred subject to the submission, by no later than March 30, 2002, of a

status report detailing further developments related to congestion management reform.

Respectfully submitted,

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Dated: October 31, 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 and in Docket No. ER00-555, 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 31st day of October, 2001.

David B. Rubin