UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	))	Docket No. ER04-389-000

SUPPLEMENT TO ANSWER TO PROTESTS AND COMMENTS OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

Pursuant to Rules 212 and 213 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission ("Commission"), 18 C.F.R. §§ 385.212 and 385.213, the California Independent System Operator Corporation ("ISO") hereby files the instant Supplement to its Answer to Protests and Comments that was filed on February 17, 2004 in the captioned proceeding.

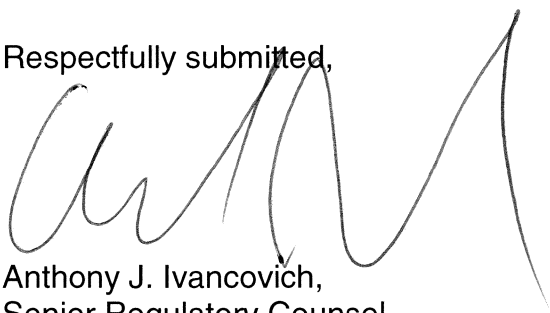
In its Answer to Protests and Comments, the ISO stated that it had reevaluated its approach to developing a generic dynamic scheduling policy and that it would undertake its best efforts to develop a dynamic scheduling program as soon as possible. The ISO stated that it strongly desired to make a Section 205 filing with the Commission by April 1, 2004. The ISO also indicated that it intended to circulate a dynamic scheduling proposal for stakeholder review and comment by March 1, 2004.

On March 1, 2004, the ISO posted on the its website a White Paper titled "*Proposed Framework For Development Of Dynamic Transfers Policy.*" A copy of the White Paper is attached hereto. The White Paper sets forth the ISO's initial proposal regarding the terms that would be incorporated into the dynamic scheduling policy. The White Paper also sets forth an implementation schedule

for the ISO's dynamic transfers policy (including a specified stakeholder process). Although the ISO's original goal was to make a Section 205 filing by April 1, the ISO has subsequently concluded that such a filing date would not allow for an adequate stakeholder process to address the complex (and often technical issues) associated with dynamic scheduling. Accordingly, the ISO has now established May 1, 2004 as the target date for making its dynamic scheduling filing. As reflected in the White Paper, this will allow for multiple meetings with stakeholders to discuss the issues and allow the ISO to circulate the proposed tariff language to stakeholders for comment.

For the reasons set forth herein and in the ISO's February 17, 2004 Answer to Protests and January 9, 2004 filing ("Filing"), the ISO requests that the Commission accept the three letter agreements effective on the dates specified in the Filing. The ISO intends to work closely with stakeholders and file a generic dynamic scheduling policy by May 1, 2004.

Respectfully submitted,



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Filed: March 2, 2004

ATTACHMENT A

CALIFORNIA ISO WHITE PAPER

PROPOSED FRAMEWORK FOR DEVELOPMENT OF DYNAMIC SCHEDULING POLICY

March 1, 2004

BACKGROUND

Over the course of its existence, the ISO has had a variety of experiences with dynamic transfers into the ISO Control Area from System Resources. The ISO inherited a number of dynamic scheduling functionalities already in existence at the time of the ISO Operations Date. The ISO also implemented several years ago the ISO's Standards for Imports of Regulation (posted on the ISO Home Page at http://www.caiso.com/docs/2000/05/09/20000509165702192.pdf), to formalize the process for delivering Regulation imports into the ISO Control Area from System Resources. In addition, the ISO recently filed three letter agreements with the Federal Energy Regulatory Commission in Docket No. ER04-389 that set forth some basic requirements for dynamic scheduling from System Resources on an interim pilot program basis.

However, other than the ISO's Standards for Imports of Regulation, the ISO does not currently have a formal policy on implementation and operation of dynamic transfers into the ISO Control Area from System Resources. As market interest in dynamic functionalities for transfers into the ISO Control Area has intensified recently, the need for formalization of ISO's policies and practices in that regard has become apparent. Additionally, in 2003 two entities representing generators external to the ISO Control Area inquired about the possibility for those generators to not only to establish dynamic links to the ISO but also to procure all applicable Control Area services from the ISO and as a consequence be treated as if they were within the ISO Control Area. These types of arrangements are referred to Pseudo/Remote Ties and are NOT a part of this White Paper. This type of dynamic transfer functionality will be dealt with at a later date.

DYNAMIC TRANSFERS POLICY DEVELOPMENT PROPOSAL

In response to the above-described increase in market interest, the ISO has initiated an effort to develop a comprehensive policy framework for implementation, operation and settlement of Energy and Ancillary Services to be delivered dynamically from System Resources external to the ISO Control Area. The ISO will utilize in its policy framework development effort the ISO's collective experience gained from, among other things, (1) operating pre-existing dynamic scheduling functionalities, (2) the Regulation dynamic scheduling functionalities implemented in accordance with the ISO Tariff and the Standards for Import of Regulation, and (3) operating non-Regulation dynamic scheduling functionalities with the three entities with whom the ISO has executed letter agreements.

The process for development of the ISO's policy for dynamic schedules from System Resources appears to be fairly straightforward, as the ISO and Market Participants have considerable experience dealing with dynamic scheduling functionalities and associated issues. Consequently, the ISO proposes to pursue a definitive policy development path regarding this portion of the dynamic transfers policy – with a goal of having this portion of the policy filed with FERC by May 1, 2004 (see table below). Set forth below in this White Paper for stakeholder review and comment are the ISO's initial proposals for terms that would be incorporated in this dynamic scheduling policy.

However, the ISO does not have any experience in implementing and operating the types of dynamic transfers that would be necessary to allow generators external to the ISO Control Area to be treated as if they were ISO intra-Control Area resources. Consequently, in a separate White Paper discussing the issue of Pseudo/Remote Ties, the ISO will solicit the input of all interested stakeholders to join the ISO in an effort to design the Pseudo/Remote Tie concept for the purpose of implementation on a pilot basis only.

The ISO must stress that, whatever the design of the dynamic transfers policy turns out to be, it must be consistent with the NERC Dynamic Transfer White Paper that NERC is expected to publish on or about March 24, 2004. It is important to note in that regard that NERC's investigation of the August 14, 2003 disturbance in the Northeast is considering whether improperly implemented and/or operated dynamic transfer schemes may have been a factor.

PROPOSED SCHEDULE FOR ISO DYNAMIC SCHEDULING POLICY

A summary of the ISO's proposed approach for the process of development of a comprehensive design of the ISO's policy on dynamic scheduling from System Resources is set forth in the following timetable:

IMPLEMENTATION SCHEDULE FOR DYNAMIC SCHEDULING POLICY	
PROPOSED TIME FRAME	**DYNAMIC SCHEDULING**
March 1, 2004	White Paper issued and public process begins.
March 10, 2004	Stakeholder meeting and teleconference (dynamic scheduling to be discussed along with other issues).
March 11, 2004	Stakeholder meeting and teleconference.
March 24, 2004	Anticipated date of release of NERC Dynamic Transfer White Paper. ISO and stakeholders to verify compliance of their policy development with NERC
Late-March or early- April 2004	Stakeholder meeting and teleconference, as appropriate.
April 8, 2004	ISO Management decision on final policy for Board approval.
Mid-April 2004	Draft ISO Tariff language distributed for comment.
April 22, 2004	ISO Governing Board approval.
End of April 2004	ISO Tariff language prepared.
May 1, 2004	Planned ISO Tariff filing

SUMMARY OF PROPOSED DYNAMIC SCHEDULING POLICY

Dynamic imports of Energy and Ancillary Services will be *allowed from any resource external to the ISO Control Area* provided that (A) implementation is consistent with NERC/WECC policies, (B) all ISO operating, technical, and business requirements for the dynamic functionality are met, and (C) operating agreements with the resources as well as the resources' host and intermediary Control Areas are duly executed.

A. Consistency with NERC/WECC

- Scheduling and operation of dynamic scheduling functionalities must comply with all applicable NERC and WECC policies and requirements regarding inter-Control Area scheduling.

- Scheduling and operation of dynamic scheduling functionalities must be consistent with the NERC Dynamic Transfer White Paper and any resulting NERC standards and/or policies.

- All new dynamic functionality implementations may be subject to NERC peer review (NERC's ongoing investigation of the August 14, 2003 disturbance in the Northeast is considering whether improperly implemented Dynamic Transfers may have contributed to the disturbance).

B. ISO operating, technical, and business requirements

- **<u>Operating</u>**

  1. Firm transmission must be reserved for the dynamic schedule across the entire transmission path external to the ISO Control Area.

  2. All dynamic schedules associated with newly implemented dynamically scheduled System Resources must be electronically tagged (e-tagged).

  3. Formal inter-Control Area dynamic schedules may be issued only by the dynamically scheduled System Resource's host Control Area and must be routed through the EMSs of all intermediary Control Areas (such schedules would be considered "wheel-through" schedules by intermediary Control Areas).

4. The ISO will treat dynamically scheduled Energy as a resource contingent firm import (the ISO will procure WECC Minimum Operating Reliability Criteria (MORC)-required Operating Reserves for loads served by dynamically scheduled System Resources.

5. All Energy schedules associated with dynamically scheduled imports of Spinning Reserve and Non-Spinning Reserve will be afforded similar treatment (i.e. resource contingent firm).

6. The dynamic signal must be time-integrated by the sending (host) Control Area for every operating hour.

7. The Day-Ahead (DA) and Hour-Ahead (HA) dynamic Energy and Ancillary Services schedules, plus the Supplemental Energy schedules, if any, will place the associated capacity of that dynamically scheduled System Resource under the operating jurisdiction of the ISO.

8. Unless the dynamically scheduled System Resource is implemented as a directly-telemetered load-following functionality or is base-loaded Regulatory Must Take Generation or it responds to an ISO intra-hour Dispatch Instruction, the dynamic schedule representing such resource must follow WECC-approved practice of 20-minute ramps centered at the top of the hour.

9. In real time the dynamic schedule MAY NOT exceed the maximum value established by the combination of the DA/HA accepted Energy and Ancillary Services schedules plus any accepted Supplemental Energy bids (the composite value of the dynamic schedule derived from the DA/HA-accepted schedules plus any Supplemental Energy bids represents not only the estimated dynamically scheduled System Resource's Energy but also TRANSMISSION reservation on the associated ISO inter-tie).

10. The ISO may, at its discretion, either limit or forego procuring any or all Ancillary Services at the particular Control Area ties to ensure that Operating Reserves are adequately dispersed throughout the ISO Control Area as required by MORC.

- **Technical**

1. The communication and telemetry requirements set forth in the ISO's Standards for Imports of Regulation will apply to all dynamic schedules, except for those dynamic functionalities established prior to the ISO Operations Date.

2. Operator(s) of the dynamically scheduled System Resource must have the ability to automatically and/or manually override the associated dynamic schedule in order to respond to the operating orders of the ISO or the host Control Area.

3. The Control Area hosting a dynamically scheduled System Resource must have a mechanism implemented to automatically and/or manually override the associated dynamic signal.

4. Proper incorporation of the dynamic signal into all involved Control Areas' ACE equations will be required.

5. If there is no dynamic schedule in the DA/HA or Supplemental Energy Markets, the dynamic signal must be at "zero" ("0") except when in response to ISO's Dispatch Instructions associated with accepted Ancillary Services and/or Supplemental Energy bids.

6. If the operator(s) of the dynamically scheduled System Resource desire to participate in ISO's Regulation market, all provisions of the ISO's Standards for Imports of Regulation shall apply.

- **Business**

1. Energy delivered in association with dynamically scheduled System Resources will be subject to all provisions of the ISO's Imbalance Energy markets, including Uninstructed Deviation Penalties (UDP) (just as is the case with ISO intra-Control Area Generating Units).

2. Dynamically scheduled and delivered Ancillary Services will be subject to the ISO's compliance monitoring and remedies, just as any ISO intra-Control Area Generating Units.

3. All DA/HA submitted dynamic schedules shall be subject to ISO Congestion mitigation and as such MAY NOT exceed their transmission reservations in real time (with the exception of intra-hour Dispatch Instructions of the Energy associated with accepted Ancillary Services or Supplemental Energy bids).

4. All dynamically scheduled and delivered Energy shall be subject to the standard ISO transmission loss calculation associated with the particular tie (TMMs).

5. Any transmission losses attributed to the dynamic schedule on transmission system(s) external to the ISO Control Area will be the responsibility of the owner(s)/operator(s) of the dynamically scheduled System Resource.

6. A predetermined "Pmax-like" **fixed** value, possibly with a MW cap for each operating hour, will be established for every dynamically scheduled System Resource to be used as the basis for the UDP calculation. The ISO will propose to stakeholders a mechanism that will be used for establishing such individual "Pmax-like" values.

7. A dynamically scheduled System Resource and its schedules must be permanently associated with a particular tie (the ISO may, from time to time and at its discretion, allow for a change in such pre-established association of the dynamically scheduled System Resource with a particular ISO tie).

8. Resources providing Ancillary Services to the ISO Control Area must be certified by the ISO prior to providing such services.

9. Only one dynamically scheduled System Resource may be associated with any one physical resource.

10. The ISO's potential treatment of dynamically scheduled System Resources for local market power mitigation will need to be addressed.

C. Operating Agreements

1. An operating agreement for the operation of dynamic functionality with a "nonperformance" termination clause must be executed between the ISO and the owner(s)/operator(s) of the dynamically scheduled System Resource.

2. An Interconnected Control Area Operating Agreement (ICAOA) or a special agreement particular to the operation of the dynamic functionality must be executed between the ISO and all affected Control Areas (host and all intermediary Control Areas).

CALIFORNIA ISO

California Independent
System Operator

March 2, 2004

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

Re: Docket No. ER04-389-000
California Independent System Operator Corporation

Dear Secretary Salas:

Enclosed for electronic filing please find a Supplement to Answer to Protests and Comments of The California Independent System Operator Corporation to Protests and Comments in the above captioned docket.

Thank you for your assistance in this matter.

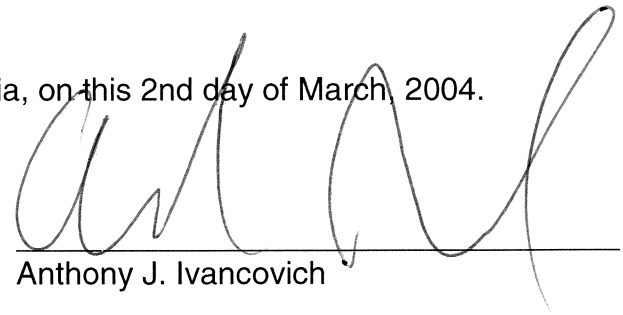
Respectfully submitted,

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 docket.

Dated at Folsom, California, on this 2nd day of March, 2004.



Anthony J. Ivancovich