

July 30, 1999

The Honorable David P. Boergers  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D.C. 20426

**Re: California Independent System Operator Corporation,  
Docket No. ER99-\_\_\_\_-000  
Amendment No. 20 to the ISO Tariff and  
Request for Waiver of Notice Requirements**

Dear Secretary Boergers:

Pursuant to Section 205 of the Federal Power Act (AFPA), 16 U.S.C. § 824d, and Sections 35.11 and 35.13 of the Commission's regulations, 18 C.F.R. §§ 35.11, 35.13, the California Independent System Operator Corporation (AISO)<sup>1</sup> respectfully submits for filing an original and six copies of an amendment ("Amendment No. 20") to the ISO Tariff. Amendment No. 20 would make certain technical changes to the ISO Tariff to correctly state the manner in which charges for one Ancillary Service will be determined following the implementation of the Rational Buyer protocol approved by the Commission in its May 26, 1999 order in Docket Nos. ER98-2843-005, *et al.*<sup>2</sup> Because the ISO expects very shortly to complete testing of the software through which the Rational Buyer protocol and certain other elements of the ISO's Ancillary Service Market Redesign will be implemented, the ISO requests waiver of the notice requirements of Section 35.3 of the Commission's regulations, 18 C.F.R. § 35.3, to permit Amendment No. 20 to take effect as of the later of August 9, 1999 or the date specified in the notice that the ISO has committed to issue to notify Market Participants that the Rational Buyer protocol is ready for implementation. The ISO further requests that the Commission act on Amendment No. 20 in an expedited manner.

**I. BACKGROUND AND REASONS FOR FILING**

On March 1, 1999, the ISO submitted Amendment No. 14 to the ISO Tariff, representing principally the first phase of the comprehensive redesign of the ISO's Ancillary Service markets in compliance with the Commission's order in

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

<sup>2</sup> *AES Redondo Beach, L.L.C., et al.*, 87 FERC ¶ 61,208 (1999) (the "May 26 Order").

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*AES Redondo Beach L.L.C., et al.*, 85 FERC & 61,123 (1998). One of the principal components of the Ancillary Service Market Redesign was the introduction of the Rational Buyer protocol, which permits the ISO to increase purchases of higher quality Ancillary Service capacity to meet its requirements for a lower quality Ancillary Service, when doing so is expected to reduce its total Ancillary Service costs.

The amendments to the ISO Tariff implementing the Rational Buyer protocol included modifications to the provisions governing the ISO's procurement of Ancillary Services, as well as changes to the provisions governing the determination of payments and charges to Scheduling Coordinators that participate in the ISO's Ancillary Services markets. The latter provisions implemented two policy determinations of the ISO Board of Governors: First, the ISO Board determined that purchasers of a higher quality service, such as Regulation, should not be responsible for paying for incremental quantities of the service procured under the Rational Buyer approach to meet requirements for lower quality services. Second, the ISO Board determined that, for each Ancillary Service, the same price should be paid by buyers and to sellers, even though the quantity purchased might differ from the quantity sold, due to adjustments under the Rational Buyer protocol.

In the May 26 Order, the Commission accepted the amendments that implement the Rational Buyer protocol, subject to certain conditions.

In reviewing and testing the software through which the Rational Buyer protocol would be implemented, the ISO has determined that the provisions governing the settlement of Replacement Reserves – the lowest quality Ancillary Service to which the Rational Buyer protocol applies – are erroneous. Under Section 2.5.28.4 of the ISO Tariff, as revised in Amendment No. 14, the user rate for Replacement Reserve is based on the actual payments to suppliers of Replacement Reserve in the Day-Ahead and Hour-Ahead Markets, after Rational Buyer substitutions, net of revenues received from Scheduling Coordinators buying back Ancillary Service capacity in the Hour-Ahead Market, divided by the amount of the service procured by the ISO (less the amount self-provided by Scheduling Coordinators). However, when substitutions under the Rational Buyer protocol cause the amount of Replacement Reserve procured by the ISO to differ from the original requirements upon which settlement is to be based, the revenues to be collected through Replacement Reserve charges in the numerator of this formula will be incorrect. In addition, the denominator of the formula incorrectly reduces the amount of Replacement Reserve procured by the ISO -- which already nets out amounts self-provided by Scheduling Coordinators -- by the total amount self-provided. In effect, the portion of the ISO's

Replacement Reserve obligation that is self-provided by Scheduling Coordinators is deducted twice. The formula thus produces an erroneous calculation of the Replacement Reserve user rate whenever there are Rational Buyer substitutions or any portion of the ISO's Replacement Reserve requirement is self-provided by Scheduling Coordinators.

## **II. THE PROPOSED AMENDMENTS**

Amendment No. 20 does not modify the policies underlying the Rational Buyer protocol approved in the May 26 Order or the manner in which Ancillary Services will be procured under that approach. In Amendment No. 20, the ISO proposes only changes to Section 2.5.28.4 of the ISO Tariff and Section 2.2.3 of Appendix C to the Settlements and Billing Protocol to correct inconsistencies in nomenclature, including the errors described above, and thereby to ensure that payments and charges for Replacement Reserve are determined correctly, in accordance with the policy determinations of the ISO Board of Governors and consistent with the Commission's May 26 Order. In the revised equation to determine the user rate for Replacement Reserve capacity, the revenue to be collected is the sum of the original Replacement Reserve requirements for the Day-Ahead and Hour-Ahead Markets, before adjustment under the Rational Buyer protocol, multiplied in each case by the relevant Market Clearing Price. The denominator is the sum of the original requirements for Replacement Reserve capacity in the Day-Ahead and Hour-Ahead markets.

As revised, the formula produces a weighted average user rate that conforms to the objectives of the Board of Governors and the Commission's order. First, the prices used in calculating the user rate are the same market clearing prices paid to suppliers. Second, the weights used in calculating the user rate are the original requirements for Replacement Reserve, before Rational Buyer substitutions.

## **III. REQUESTED EFFECTIVE DATE, REQUEST FOR WAIVER OF 60 DAY PRIOR NOTICE REQUIREMENT, AND REQUEST FOR EXPEDITED CONSIDERATION**

The ISO respectfully requests, pursuant to Section 35.11 of the Commission's regulations, 18 C.F.R. § 35.11, that the Commission accept Amendment No. 20 for filing and permit it to become effective on the later of: (1) August 9, 1999; or (2) the date specified in the notice posted on the ISO Home Page that the software to implement the Rational Buyer protocol is available and

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the protocol will become effective.<sup>3</sup> The ISO currently expects the Rational Buyer software to be ready for implementation on August 9, 1999 and will post an appropriate notice on the ISO's Home Page.

Good cause exists for waiving the prior notice requirements of Section 35.3 of the Commission's regulations. Unless modified in accordance with Amendment No. 20, the ISO Tariff will specify an incorrect user rate for Replacement Reserve once the Rational Buyer protocol is implemented next week. The ISO developed and prepared Amendment No. 20 promptly after discovering the errors in the formula proposed in Amendment No. 14 and accepted in the May 26 Order. As the Commission recognized there, the Rational Buyer protocol "will allow the ISO to reduce the cost of meeting its Ancillary Service requirements." May 26 Order, 87 FERC at 61,808. The ISO does not believe that the public interest would be served either by delaying the implementation of the Rational Buyer protocol until the usual notice period is provided for the Tariff amendments necessary to correct the erroneous formula or by applying an incorrect formula to the determination of Replacement Reserve charges.

The ISO further requests that the Commission expedite its consideration of Amendment No. 20 to the extent possible to minimize the extent of any uncertainty created by the ISO's interim implementation of the corrected formula for Replacement Reserve charges.

In order to ensure that parties are swiftly informed of the ISO's proposal in Amendment No. 20, the ISO commits to take the following steps today. First, the ISO will provide all Market Participants with notice of the filing of Amendment No. 20 with the Commission by electronic mail to be sent on this date, with this filing attached. The ISO will also e-mail electronic copies of this filing letter and all attachments to the designated contact in all Scheduling Coordinator Service Agreements. The electronic documents will also be posted on the ISO Home Page.

In addition, the ISO has served copies of this letter, and all non-confidential attachments, on the Public Utilities Commission of the State of California, the California Energy Commission, the California Electricity Oversight

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<sup>3</sup> In the May 26 Order, the Commission accepted the ISO's proposal that the Rational Buyer Tariff modifications become effective seven days after the ISO posts on the ISO Home Page a notice specifying that the software to implement the Rational Buyer protocol is ready and the date on which the modifications will become effective. As explained above, the ISO currently expects to implement the Rational Buyer protocol on August 9, 1999.

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Board, and on all parties with effective Scheduling Coordinator Service Agreements under the ISO Tariff.

#### **IV. NOTICES**

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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#### **IV. SUPPORTING DOCUMENTS**

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

Attachment A	Revised Tariff Sheets
Attachment B	Black-lined Tariff provisions showing the proposed revisions
Attachment C	Notice of this filing, suitable for publication in the Federal Register (also provided in electronic format).

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An additional copy of this filing is enclosed to be marked with your filing stamp and returned to our messenger. If there are any questions concerning this filing, please contact the undersigned.

Respectfully submitted,

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