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September 11, 2000

## **VIA MESSINGER, E-MAIL AND MAIL**

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. ER00-\_\_\_\_\_ - \_\_\_\_\_  
Amendment No. 30 to the ISO Tariff and  
Requests for Expedited Consideration and Waiver of Notice Period**

Dear Secretary Boergers:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, and Section 35.13 of the Commission's regulations, 18 C.F.R. § 35.13, the California Independent System Operator Corporation ("ISO")<sup>1</sup> respectfully submits for filing an original and six copies of an amendment ("Amendment No. 30") to the ISO Tariff.

## **I. BACKGROUND AND REASONS FOR THE PROPOSED AMENDMENT**

In San Diego Gas & Electric Company, et al., 92 FERC ¶ 61,172 (2000), the Commission expressed concern over the extent of reliance that was being placed on real time purchases of energy to meet load that was reasonably predictable. In an effort to ameliorate the consequences of an over-dependence on real-time markets, the Commission "direct[ed] the ISO to immediately institute a more forward approach to procuring the resources necessary to reliably operate the grid." Order at 11. This filing is in direct response to that Commission directive.

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<sup>1</sup> Capitalized terms not otherwise defined are used in the sense given in the Master Definitions Supplement, ISO Tariff Appendix A.

The ISO is in total agreement with the Commission's observation that a reasonable supply portfolio would make use of forward contracting as a hedge against price volatility. The ISO also agrees with the Commission's sentiment that fulfillment of this forward contracting responsibility best resides with load-serving entities. Toward this end, the management of the ISO has urged that California utilities be given the broad authority to forward contract that prudent portfolio management requires, and has urged the utilities to utilize any such authority. Unfortunately, and for reasons not at all apparent to the ISO, the utilities thus far have been denied that authority. While it is still critical that the authority be conferred by the California Public Utilities Commission at the earliest possible date, it may already be too late to garner for consumers the benefits of forward contracting for this summer and fall peak season.

In light of this void, the Commission's directive to the ISO is entirely understandable and the ISO does intend to be responsive. The ISO already has begun to explore the forward commitments that it may be able to place under contract. It should be understood, however, that it is doing so most reluctantly. It was intended that the ISO secure, on behalf of Scheduling Coordinators, only the necessary reliability services and very limited energy necessary to fine-tune the balance between supply and demand. The balancing requirement was intended to have the ISO in the market for no more than a very small percentage of the total energy required to serve load during any hour.

The ISO continues to believe that its market activities should be constrained to an absolute minimum and that, most particularly, it should not be competing against load-serving entities for the energy needed to satisfy load that is reasonably predictable.

Nevertheless, consistent with the Commission's directive in San Diego, the ISO has begun to examine the opportunities that may be available to it to forward contract. The ISO Tariff amendments submitted with this filing are necessary to permit the ISO to go forward. The ISO does not, however, read that directive as a requirement that it forward contract if, in its judgment, appropriate prices and contractual terms are unavailable or if the load-serving entities receive and exercise the authority to discharge a responsibility that more properly is theirs. Accordingly, what the ISO seeks are the tools necessary to enable it to contract if available forward commitments appear reasonable.

## **II. PROPOSED TARIFF REVISIONS**

The ISO proposes to amend two provisions of the ISO Tariff. First, the ISO proposes to amend section 2.3.5.1.5 of the ISO Tariff to clarify the ISO's authority to contract without first soliciting bids. While that provision does not in terms specify, as a precondition to contracting, that a competitive solicitation be conducted, clarification of any ambiguity is appropriate. Apart from the fact that a formal bid solicitation process would be inconsistent with the time imperatives, particularly if it is possible to obtain

relief for the remaining weeks of the peak season, individual negotiation is likely to produce better results for consumers.

Second, the ISO proposes to amend section 2.3.5.1.8 of the ISO Tariff. This revision, including the addition of a new section 2.3.5.1.9, would allocate the costs of any forward contracts to those Scheduling Coordinators who are responsible for the incurrence of the costs – to those who deviate, in real-time, from schedules, in proportion to their deviations. Fairness, as well as providing appropriate economic incentives to Scheduling Coordinators to align their forward and real-time schedules, dictates this allocation. To the extent that the allocation is not sufficient to make the ISO whole for the costs it incurs, any remaining balance would be incrementally flowed through the neutrality clause (Tariff Section 11.2.9) as episodic charges incurred by the ISO for the benefit of all market participants.

### **III. EFFECTIVE DATE AND REQUESTS FOR WAIVER AND EXPEDITED CONSIDERATION**

If the ISO is to move forward in response to the Commission's directive it is imperative that it be able to do so immediately. Underscheduling of load continues to be a problem today, even during periods of relatively light load. Moreover, it is not unusual for California to experience unseasonably warm fall weather.

Accordingly, the ISO respectfully requests waiver of the sixty day notice requirement, pursuant to Section 35.3 of the Commission's regulations, 18 C.F.R. § 35.3, and immediate acceptance of the proposed ISO Tariff changes. As explained below, the ISO is providing electronic notice of this filing to all Scheduling Coordinators and other Market Participants. The ISO also requests that the Commission give expedited consideration to this filing, so that it may issue an initial ruling on this filing at the earliest possible date.

### **IV. NOTICE AND SERVICE OF DOCUMENTS**

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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Copies of this filing, including all attachments, have been served upon the Public Utilities Commission of California, the California Energy Commission, the California Electricity Oversight Board and all parties with effective Scheduling Coordinator Agreements under the ISO Tariff.

## **V. SUPPORTING DOCUMENTS**

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

- Revised Tariff sheets (Attachment A);<sup>2</sup>
- Black-lined Tariff sheets showing changes to implement the proposed Amendment (Attachment B);
- A form of notice suitable for publication in the Federal Register (Attachment C), which is also provided in electronic form on the enclosed diskette.

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<sup>2</sup> The ISO notes that the revised tariff sheets do not follow precisely the format described in Designation of Electric Rate Schedule Sheets, Order No. 614, FERC Stats. & Regs. Preambles ¶ 31,096 (2000). The ISO will file revised tariff sheets that adhere to this format in a future filing.

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An additional copy of this filing is enclosed to be date-stamped and returned to our messenger. If there are any questions concerning this filing, please contact the undersigned.

Respectfully submitted,

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Charles F. Robinson  
General Counsel  
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