April 14, 2000

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
Amendment No. 28 to the ISO Tariff
Summer Trial Load Participation Programs

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")[1] respectfully submits for filing six copies of an amendment ("Amendment No. 28") to the ISO Tariff. Amendment No. 28 would modify the Tariff to provide a mechanism for the recovery of costs incurred by the ISO in connection with programs that it is instituting on a trial basis during the summer of 2000 to increase participation by Load resources in the ISO's markets. Replacement Tariff sheets are provided in Attachment A to this filing. Black-lined Tariff provisions, marked to show the proposed changes, are provided in Attachment B.

I. BACKGROUND

A. The Importance of Demand Responsiveness

The ISO's Ancillary Service markets and Imbalance Energy markets were designed to permit both Generation resources and Load resources to participate on an equal basis. With some exceptions, however, few Load resources have

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[1] Capitalized terms not otherwise defined are used in the sense given in the Master Definitions Supplement, ISO Tariff Appendix A.

chosen to participate in the ISO's markets. The lack of greater Load participation has been a cause for continuing concern.

The ISO's independent Market Surveillance Committee ("MSC") noted the absence of Load responsiveness as an important factor contributing to the lack of competitiveness in those markets and in forward electric Energy markets during certain conditions. For example, the October 18, 1999 Report on Redesign of California Real-Time Energy and Ancillary Services Markets, prepared by Frank A. Wolak, chairman of the MSC, explains that:

> an essential element of a smoothly functioning competitive market for electricity is a price-responsive demand-side of the market. When final customers -- residential, commercial, and industrial -- can respond in real-time to spot prices for energy and ancillary services, the market itself provides an appropriate and effective check on the ability of supply-side participants to raise prices to inefficient levels.[2]

The Commission has also recognized the importance of the ISO's process for developing Demand responsiveness to prices.[3] For this reason, progress toward the implementation of effective Demand responsive programs has been identified by the ISO Governing Board as a critical factor in determining the level of bid caps in the ISO's markets.

In addition, capacity reserve margins are expected to be smaller than desired this summer. In a report issued in July 1999, the staff of the California Energy Commission projected barely adequate reserve margins for the summer of 1999 followed by projected demand growth that outpaced planned capacity additions.[4] The ISO's Assessment of Resource Adequacy of the Cal-ISO Control Area, completed in March 2000, similarly projected deficient reserve margins within the next few years, based on existing generating capacity and import capability.[5] Greater participation by Loads in the ISO's Ancillary Service markets could provide additional resources during this period. Indeed, the California

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[2] *See Report on Redesign of California Real-Time Energy and Ancillary Services Markets* at 128. This report was filed in Docket Nos.ER98-2843 *et al.* on October 19, 1999.

[3] *See, e.g., California Independent System Operator Corp.*, 88 FERC ¶ 61,182 at 61,590-91 (1999) (approving the *pro forma* Participating Load Agreement developed by the ISO as an "important step" in that process).

[4] Cal. Energy Com'n Staff, *High Temperatures & Electricity Demand: An Assessment of Supply Adequacy in California: Trends & Outlook* (July 1999) ("*HEAT Report*"). A copy of this report may be obtained from the Commission's web site at <<www.energy.ca.gov/reports/index.html>>.

[5] A copy of the ISO's resource adequacy assessment is provided as Attachment C.

Energy Commission's report described an increasing role for interruptible Loads in assuring reliability.[6]

When the ISO determines that resources are projected to be insufficient to ensure the ISO's ability to comply with Applicable Reliability Requirements, it is authorized by Section 2.3.5.1 of the ISO Tariff to develop market mechanisms to solicit additional resources and to enter into contracts resulting from those mechanisms. The ISO Governing Board has authorized the ISO to exercise this authority to procure additional Load resources for the summer of 2000 through competitive solicitations, both to increase the resources available this summer and to test the necessity and adequacy of measures to encourage greater Load participation in the ISO's markets.

B. Demand Responsiveness Programs

To obtain additional resources to maintain adequate reserves during the summer peak season and to determine whether greater participation by Load resources can be encouraged through modifications to the ISO's existing market mechanisms, the ISO has worked with interested stakeholders to develop two trial programs for the summer of 2000. After a stakeholder meeting on February 22, 2000 and several follow-up discussions with prospective participants, the two Summer 2000 Load Programs were approved by the ISO Governing Board at its March 2000 meeting. The two programs approved by the ISO Governing Board are the Summer 2000 Market Participating Load Trial Program ("Ancillary Service Load Program") and the Summer 2000 Demand Relief Program.[7]

1. Ancillary Service Load Program

The first program is designed to address concerns raised by stakeholders that it is difficult for Load resources to comply with certain technical requirements applicable to Load resources supplying Non-Spinning Reserve, Replacement Reserve and Supplemental Energy to the ISO's markets. The ISO and stakeholders have worked for several months on a set of "Technical Standards" for the Ancillary Service Load Program to facilitate Load participation in those markets without compromising the ability of the ISO to rely on those resources to maintain reliability.

In order to test the effectiveness of these revisions for these purposes, the ISO will apply a set of special Technical Standards to Participating Loads taking part in the trial program for June 15 to October 15, 2000. Under the proposed

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6 *HEAT Report* at 66-67.

7 Additional detail concerning these programs is set forth in the memorandum prepared by ISO management for the Governing Board, which is contained in Attachment D.

trial program, the ISO will relax scan rates for EMS telemetry, relax “No-Pay” provisions relating to payment for "uninstructed deviations", and change the meter data requirements. The ISO has initially targeted summer 2000 Load participation at 400 MW for Non-Spinning Reserve, 400 MW for Replacement Reserve, and 1,000 MW for Supplemental Energy. Load resources participating in this program will receive payment in accordance with the provisions of the ISO Tariff applicable to these products.

The final Technical Standards applicable to the Ancillary Service Load Program were issued to all Market Participants on February 29, 2000, together with a request to submit proposals to the ISO by March 23, 2000.[8] The ISO has tentatively selected five proposals, subject to a number of conditions, including the provision of more detailed information with respect to these proposals and the satisfaction of certain contractual requirements. The five proposals tentatively selected offer up to a potential maximum total of 152.5 MW of Non-Spinning Reserve, 467.5 MW of Replacement Reserve and 467.5 MW of Supplemental Energy.

2. Demand Relief Program

During development of the Ancillary Service Load Program, several participants expressed interest in some form of Load program, even though the nature of their businesses precluded their provision of Ancillary Services or Supplemental Energy, as those markets are currently structured. They indicated that they could not adjust their Demands as flexibly as resources participating in those markets are required to do in order to respond to the ISO’s Dispatch instructions, which are issued every ten minutes. These participants stated that, while Demand can generally respond fairly quickly, response within ten minutes may be difficult to achieve at times. Furthermore, participants stated that once a Demand product is called by the ISO (*i.e.*, Demand is curtailed), it may be difficult to bring the Demand "back" quickly (*i.e.*, to restore the Demand in response to a decremental Dispatch instruction from the ISO).[9] They could, however, curtail Demand for periods extending over several hours, upon request, thereby reducing the ISO’s needs for additional Energy and Ancillary Services during peak hours.

To facilitate the participation of these resources in support of grid reliability, the ISO developed, with active assistance from Market Participants, a trial Demand Relief Program for summer 2000. This program seeks to enlist

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[8] These Technical Standards are included in the Request for Proposals contained in Attachment E.

[9] Pursuant to current ISO practice, once a resource has been "incremented", the bid associated with that resource is automatically placed in the ISO’s "decremental" or "dec" merit order stack and must be available to respond to an ISO Dispatch instruction to decrement.

individuals or groups willing to provide a net demand reduction for a specified time upon request. The ISO will be seeking a net cumulative Demand reduction of approximately 1000 MW during the summer 2000 peak period (June 15, 2000 through October 15, 2000). Consistent with the provisions of Section 2.3.5.1.3 of the Tariff, the ISO will not call on resources in the Demand Relief Program until all Generation has been exhausted or when doing so will reduce the costs of satisfying Applicable Reliability Criteria. The ISO can call upon the participants in this Demand Relief program to provide the specified Demand reduction only after such conditions exist. That is, the Demand Relief program may be implemented following the ISO's declaration of a Warning or Stage 1 Emergency Condition[10] and prior to the activation of the existing UDC curtailable and interruptible Load management programs.

On March 24, 2000, the ISO issued a Request for Bids for participation in the Demand Relief Program, which is provided as Attachment F. Responses were received on April 13, 2000 and are still being evaluated. The ISO intends to present the bid evaluations and a recommended procurement for approval at the ISO Governing Board meeting to be held on April 26-27, 2000.

Under the proposed contract for the supply of Demand Relief service, included in the Request for Bids, Load resources would be compensated for providing capacity to the ISO through a fixed monthly payment for each month in which the Load commits to curtail Demand upon Dispatch by the ISO. Monthly capacity payments to the Load would be reduced to the extent it fails to reduce Demand when requested in accordance with the contract. If the Load is actually dispatched by the ISO, it will be compensated for Energy it provides through the Imbalance Energy market, but will not set the price in that market. Consistent with Section 2.3.5.1.3, the ISO will not exercise its rights under contracts with Loads participating in this program in order to influence Energy market prices.

II. PROPOSED TARIFF REVISIONS

As noted above, the ISO is authorized by Section 2.3.5.1 of the ISO Tariff to enter into contracts with resources that respond to market solicitations held by the ISO to provide resources necessary to ensure its ability to satisfy Applicable Reliability Criteria. Where the contracts provide for the supply of Ancillary Services and/or Supplemental Energy, the ISO will recover the costs from Scheduling Coordinators buying those products through the existing ISO Tariff provisions applicable to those markets. Costs incurred in the Summer 2000 Ancillary Service Load Program will be recovered in this manner. Accordingly, no revisions to the ISO Tariff are required to implement this program.

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[10] A Warning or Stage 1 Emergency occurs when the ISO has exhausted all available market generation, but prior to implementation of the UDC interruptible load programs.

In the Summer 2000 Demand Relief Program, however, the ISO will not be procuring one of the established Ancillary Services. Instead, it will be procuring the commitment of the Load to curtail Demand upon notice by the ISO in accordance with the contract. The ISO accordingly proposes to add a new subsection to Section 2.3.5.1 (Section 2.3.5.1.8) to provide that, when costs incurred under a contract entered into under that section are not recovered through an existing Tariff provision, they will be charged to Scheduling Coordinators in proportion to their metered Demands (including exports) during the hour in which the costs are incurred. This tracks the manner in which the obligations of each Scheduling Coordinator for Operating Reserve and Regulation are determined in accordance with Section 2.5.20.1 of the ISO Tariff. It also appropriately recognizes that resources procured by the ISO to maintain grid reliability benefit all Loads that rely on the ISO Controlled Grid. A corresponding provision describing the appropriate settlement of these costs is also proposed for addition to Section 11.2 of the ISO Tariff.[11]

As noted above, the ISO only received responses to its Request for Bids for participation in the Summer 2000 Demand Relief Program on April 13. Until it has analyzed those bids and selected candidates for contracting, the amount of charges that could be recovered through the proposed new ISO Tariff provisions with respect to the Demand Relief Program cannot reliably be projected.

III. EFFECTIVE DATE

The ISO proposes an effective date for the proposed ISO Tariff revisions of June 15, 2000, slightly more than sixty days after the date of this filing. As noted above, that is the date upon which the ISO plans to begin procuring services under the Summer 2000 Trial Load Participation Programs.

[11] The proposed new Tariff sections apply to all contracts entered into under the ISO's authority under Section 2.3.5.1, excluding only those where compensation is provided under another ISO Tariff provision. They therefore would also apply to any contracts for Generation that the ISO enters into to ensure the adequacy of resources for reliability. The ISO has also issued a request for proposals for Generation that could come on line to serve the San Francisco Bay Area this summer. If it proposes a different method for allocating the costs of any resulting contracts, the ISO will file the appropriate Tariff amendments as promptly as possible.

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 transmittal letter and 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);
- Black-lined Tariff provisions showing proposed changes (Attachment B);
- Memorandum for the ISO Governing Board on Load Participation in ISO Markets (Attachment C);
- Assessment of Resource Adequacy of the Cal-ISO Control Area (Attachment D);
- Request for Proposals for Summer 2000 Ancillary Service Load Program (Attachment E);
- Request for Bids for Summer 2000 Demand Relief Program (Attachment F); and
- A form of notice suitable for publication in the Federal Register (Attachment G), which is also provided in electronic form on the enclosed diskette.

Two additional copies of this filing are 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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NOTICE OF FILING SUITABLE FOR PUBLICATION IN THE FEDERAL REGISTER

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	**)** **)**	**Docket No. ER00-____-___**

Notice of Tariff Change

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Take notice that on April 14, 2000, the California Independent System Operator Corporation (ISO) tendered for filing a proposed amendment (Amendment No. 28) to the ISO Tariff. Amendment No. 28 includes proposed changes to the ISO Tariff that provide for the recovery of costs incurred in contracts executed pursuant to Section 2.3.5.1 of the ISO Tariff, in connection with the implementation of a trial demand participation program for the summer of 2000.

The ISO states that this filing has 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.

Any person desiring to be heard to protest said filing should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 or 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. §§ 385.211, 385.214). All such motions or protests must be filed in accordance with § 35.9 of the Commission's regulations. Protests filed with the Commission will be considered by it in determining the appropriate action to be taken but will not serve to make the protestants parties to the proceeding. Any person wishing to become a party must file a motion to intervene. Copies of this filing are on file with the Commission and are available for public inspection in the Public Reference Room. This filing may also be viewed on the Internet at http://www.ferc.fed.us/online/rims.htm (call 202-208-2222 for assistance).