

September 27, 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
Amendments to the ISO Tariff**

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 an original and six copies of an amendment ("Amendment No. 22") to the ISO Tariff. Amendment No. 22 would modify the Tariff in several respects. The modifications include the following:

- Changes related to the implementation of Firm Transmission Rights ("FTRs") through an auction to be conducted in November 1999, including a requirement that FTR Holders provide the ISO with information on affiliated California Market Participants to assist in the monitoring of the FTR market.
- Modifications to the Existing Transmission Contract ("ETC") scheduling template that will provide for validation of ETC schedules.
- Changes required to implement the creation of a new Congestion Management Zone between the Northern Zone ("NP15") and the Southern Zone ("SP15") on the ISO

¹ 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.

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Controlled Grid.

- Changes to allocate the costs of Reliability Must-Run ("RMR") Units located outside the Service Area of a utility that is a party to the Transmission Control Agreement (*i.e.*, a "Responsible Utility"). The costs would be allocated to the Responsible Utility or Utilities whose Service Areas that are contiguous to the Service Area in which the RMR Unit is located.
- Changes to enhance settlement and billing under the ISO Tariff that were developed through the ISO's stakeholder "Settlement Improvement Team" and include the following:
 - modification of the methods used to calculate and allocate transmission losses in the Imbalance Energy and Unaccounted for Energy ("UFE") settlements;
 - establishment of a "placeholder" mechanism for disputes that are recurring in nature - the placeholder mechanism would allow Scheduling Coordinators to submit a dispute once and preserve their rights for similar disputes on subsequent statements;
 - the development of a process by which Scheduling Coordinators may dispute new or modified charges or credits that appear for the first time on the Final Settlement Statement; and
 - establishment of provisions regarding the allocation of awards payable to or from the ISO pursuant to good faith negotiations and/or the Alternative Dispute Resolution ("ADR") process.
- Certain non-substantive changes to provisions of the ISO Tariff relating to RMR Contracts that the ISO had agreed to make in its Answer to Comments on Amendment No. 15 to the ISO Tariff.

Revised Tariff sheets reflecting the changes proposed herein are contained in Attachment A.

I. THE PROPOSED AMENDMENTS

The proposed modifications to the ISO Tariff are the products of various stakeholder processes conducted over a number of months, including required action by the ISO Governing Board.

A. FTR Implementation

This amendment is required to assist the ISO in monitoring for the potential exercise of market power relating to FTRs. In November 1999, the ISO will conduct its initial auction for FTRs. An FTR is a contractual right that will have the attributes of both financial contracts and of physical transmission rights. FTRs will entitle their owners to share in the distribution of Usage Charge revenues received by the ISO (in the Day-Ahead and Hour-Ahead Markets) in connection with Inter-Zonal Congestion during the period for which the FTR is issued. FTRs will also entitle the registered FTR Holder to certain priorities (in the Day-Ahead Market only) for the transmission of Energy across a congested Inter-Zonal Interface. ISO Tariff provisions governing the creation, distribution and use of FTRs were submitted to the Commission in Amendment No. 9 to the ISO Tariff, filed on June 6, 1998, as modified on December 4, 1998. The ISO's original plan for FTR implementation, as reflected in Amendment No. 9, would have limited the initial release of FTRs to 25 percent of the new firm uses net of Existing Transmission Contract ("ETC") rights, based on the Western Systems Coordinating Council non-simultaneous path rating on each Inter-Zonal Interface and direction.

On May 3, 1999, the Commission issued an order conditionally accepting Amendment No. 9 and the ISO's proposal for implementing FTRs.² On August 2, 1999, the Commission issued an order acting on requests for rehearing and clarification of its May 3 Order on Amendment No. 9 and FTR implementation.³ In the August 2 Order, the Commission approved the ISO's proposal to defer implementation of FTRs such that the initial release of FTRs would be for the period from February 1, 2000 through March 31, 2001. The August 2 Order also granted the ISO's request for clarification that the ISO's revised proposal to initially release 100 percent of available FTRs at a 99.5 percent availability level (net of ETC rights) satisfied the May 3 Order.

The ISO's planned release of an increased level of FTRs to comply with the Commission's May 3 and August 2 Orders reintroduced concerns of the ISO's Department of Market Analysis ("DMA" or "Market Analysis") and some Market Participants about potential negative impacts of FTR scheduling on the efficiency of Inter-Zonal transmission capacity allocation and the Zonal Market Clearing Prices for Energy in the Day-Ahead Market. Specifically, the increased release raised concerns as to whether any Market Participant might be able to control enough of the Inter-Zonal Interface to influence the Congestion price or to create disincentives for Scheduling Coordinators to submit Adjustment Bids, an issue that had been deferred when the ISO Governing Board initially approved the more limited 25 percent release proposed in Amendment No. 9. The ISO reviewed these concerns internally and in stakeholder forums, and considered a number of options for addressing the potential exercise of market power in scheduling of FTRs,

² *California Independent System Operator Corp.*, 87 FERC ¶ 61,143 (1999) ("May 3 Order").

³ *California Independent System Operator Corp.*, 88 FERC ¶ 61,156 (1999) ("August 2 Order").

including the establishment of "position limits" on the amount of FTRs that a single entity could own or limits on FTR scheduling.

The DMA recommended an approach that included the establishment of position limits based on 25 percent of average ATC for the initial release of FTRs and after-the-fact monitoring for compliance with these simplified limits. This issue was discussed at the August 25 meeting of the ISO's Market Issues/ADR Committee, at the August 26 meeting of the ISO Governing Board, and at a subsequent meeting of the Committee. As a result of these discussions, the ISO has concluded that it is not necessary to establish position limits in the first year. This decision was based on the estimated cost associated with implementing position limits, the administrative complexity of providing exemptions for appropriate holdings above the recommended 25 percent of FTRs on an interface, and the ability of Market Participants to switch transactions to the Hour-Ahead Market if FTRs are "hoarded." The ISO has, however, allocated additional resources for Market Analysis to exercise its existing monitoring authority to closely monitor the FTR Market. Specifically, Market Analysis will monitor the FTR Market, including FTR auction results and secondary market activity, to determine whether any entity is "hoarding" FTRs or purposely overscheduling FTRs to create "phantom" Congestion, thereby manipulating Congestion prices. Prior to conducting the FTR auction, the ISO will remind bidders that if the ISO detects such activity, it will take whatever action it deems appropriate under its existing authority to remedy the exercise of market power or to prevent gaming.⁴

Amendment No. 22 would revise the ISO Tariff to enhance the ISO's monitoring of the FTR Market. It would require FTR Holders to provide the ISO with information concerning affiliated entities that are also FTR Holders or California Market Participants.

Amendment No. 22 would establish this requirement for all entities which are "Affiliates" as defined in the amendment.⁵ This information would be required in paper form as part of the registration of FTRs. This information is necessary in order for the DMA to appropriately monitor the market for the behaviors described above.

Amendment No. 22 would also modify Section 9.8.1 of the ISO Tariff to require that both an FTR Holder of record and a transferee must register the transfer of an FTR. The FTR design has always contemplated that both parties to a transfer of FTRs would provide registration information, and the FTR software was designed to require such dual notification. This amendment remedies a flaw in the existing Tariff Section 9.8.1.

⁴ See, e.g., the ISO Market Monitoring & Information Protocol; *Pacific Gas and Electric Co. et al.*, 81 FERC ¶ 61,122 at 61,552-54 (1997) (the "October 30 Order").

⁵ The definition proposed in Amendment No. 22 is similar to that discussed by the Commission in its *Morgan Stanley* order, which defines "affiliates" as companies or persons "that directly, or indirectly through one or more intermediaries, control or are controlled by, or are under common control with, the [subject] company." The Commission has also clarified that a voting interest of 10 percent "creates a rebuttable presumption of control for purposes of determining the existence of an affiliate relationship." *Morgan Stanley Capital Group Inc., et al.*, 69 FERC ¶ 61,175 at 61,693 n.4 (1994), *order on reh'g*, 72 FERC ¶ 61,082 at 61,436-37 (1995).

In addition, Amendment No. 22 would modify Section 9.4.2.1 of the ISO Tariff to define the criteria used by the ISO to determine the starting price in the primary FTR auction for a new Inter-Zonal Interface that previously had been a transmission path or group of transmission paths within an existing Zone. Such a new Inter-Zonal Interface can be created when the ISO exercises its authority under Section 7.2.7 of the ISO Tariff to create a new Congestion Management Zone. Since no Usage Charges are collected for Congestion on a transmission path or paths within a Zone, the seed price for such a new Inter-Zonal Interface would be based on the corresponding Grid Operation Charges collected by the ISO in the most recent twelve-month period over the transmission paths in question in the relevant direction. The need for this change is increased by the ISO's proposed creation of a new Congestion Zone, as discussed below.

Amendment No. 22 would also revise certain provisions of Section 9 to eliminate now outdated references to the ISO's original proposal for the timing of the release of FTRs and the quantity to be released.

There is also another outstanding matter related to the implementation of FTRs on which the ISO has requested Commission action. In the transmittal letter submitted on December 4, 1998 with revisions to Amendment No. 9, the ISO requested guidance from the Commission on three questions associated with the operation of secondary markets for FTRs:

- (1) Whether the price caps applicable to the reassignment of point-to-point transmission rights obtained under an Order No. 888 pro forma tariff⁶ would apply in the case of secondary market transactions in FTRs;
- (2) Whether an FTR Holder's resale of FTRs in the secondary market constitutes a sale of transmission service that is subject to the Commission's jurisdiction under Part II of the Federal Power Act (to the extent an FTR Holder is a public utility), and, if the Commission concluded that the resale of FTRs is subject to the Commission's jurisdiction, guidance regarding the means by which an FTR Holder can satisfy the Commission's requirements applicable to such transfers;⁷ and

⁶ *Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities*, Order No. 888, 61 Fed. Reg. 21,540, 21,576 (May 10, 1996), FERC Stats. & Regs. [Regs. Preambles 1991-1996] ¶ 31,036 (1996), *clarified*, 76 FERC ¶ 61,009 and 76 FERC ¶ 61,347 (1996), *order on reh'g*, Order No. 888-A, 62 Fed. Reg. 12,274 (Mar. 14, 1997), III FERC Stats. & Regs. ¶ 30,048 (1996), *order on reh'g*, Order No. 888-B, 81 FERC ¶ 61,248 (1997), *order on reh'g*, Order No. 888-C, 82 FERC ¶ 61,046 (1998), *appeals pending*.

⁷ *See Enron Power Marketing, Inc.*, 81 FERC ¶ 61,277 (1997).

- (3) How the requirements of the Commission's regulations regarding OASIS posting would apply to secondary market transactions in FTRs.

In the May 3 Order, the Commission deferred consideration of the requested guidance.⁸ In the August 2 Order, the Commission further indicated that it would provide guidance on these matters in a future order.⁹ The ISO believes that resolution of these issues is necessary to minimize uncertainty regarding the secondary market for FTRs and thereby ensure that they are auctioned and trade at full value. The ISO therefore requests that the Commission provide guidance on these issues at the earliest practicable time.

B. ETC and FTR Scheduling Templates

In connection with the implementation of FTRs, the ISO has modified its scheduling software and developed scheduling templates for FTRs. These software changes created the first opportunity for the ISO to incorporate automatic validation of ETC schedules in its scheduling systems. Consistent with the provisions of the ISO Tariff, the ISO has honored all Existing Contracts since it commenced operation on March 31, 1998.¹⁰ Because the rules applicable to ETCs were substantially clarified in the October 30 Order, shortly before start-up, the ISO was required to make certain software and Tariff accommodations to facilitate ETC scheduling late in the start-up process.¹¹ From inception, the ISO scheduling software has been unable to validate ETC schedules to ensure that the schedules submitted do not exceed the scheduling entity's contractual rights. The software created an opportunity for entities with ETCs to "link" an ETC schedule to a schedule for new firm uses. The ISO's current scheduling software automatically assigns the "linked" new firm use schedule the same scheduling priority as the ETC schedule. This allows entities with rights under ETCs to improperly obtain heightened priority for their new firm use schedules to the detriment of other entities scheduling new firm uses.¹² It is important to note, however, that to date, the ISO has not seen evidence that entities with rights under ETCs have engaged in such unauthorized "upgrading" of new firm use schedules on any significant basis. Rather, the opportunity exists and must be corrected.

The extensive upgrades to the scheduling software necessary to accommodate implementation of FTRs provided the ISO with an opportunity to add a validation function for ETC scheduling, which would eliminate the opportunity for such "upgrades." The modified software would ensure that ETC scheduling priority is assigned consistent with contractual rights. The software would also offer additional flexibility in the submission of ETC schedules and allow ETC schedulers to schedule multiple uses of the same resource, whereas previously an ETC scheduler was required to schedule a resource as either all

⁸ May 3 Order, 87 FERC at 61,582.

⁹ August 2 Order, 88 FERC at 61,528.

¹⁰ See Section 2.4.4 *et seq.* of the ISO Tariff; October 30 Order, 81 FERC at 61,470-71.

¹¹ October 30 Order, 81 FERC at 61,470-74.

¹² For example, if an entity with an ETC has a schedule A→B→C, and the Scheduling Coordinator claims an ETC right for the "A→B" portion of the schedule, the entire schedule, from A→B→C is given the ETC priority.

ETC or all new firm use. These software modifications are already well along in development.

The ISO worked with ETC holders extensively to accommodate their concerns that the new software not interfere with their ETC rights and substantially modified the design to meet ETC holder comments. In addition, the ISO has deferred seeking approval of this amendment from the March quarterly Tariff filing until the September quarterly Tariff filing to allow additional time to address stakeholders' concerns. The software changes and Tariff changes preserve all existing ETC priorities in scheduling and rights to schedule outside normal ISO scheduling timelines, while ensuring that new firm uses are not susceptible to inappropriate curtailments. In addition, the ISO has committed to working with ETC schedulers to ensure that they receive timely information on transmission derates and other system anomalies that may effect their scheduling rights. For example, under the new templates, ETC schedulers are required to submit revised schedules within two hours of a transmission line derate. Absent the submission of revised schedules, any scheduled amounts that are in excess of an ETC holder's revised (*i.e.*, after the derate) rights will be treated as new firm uses by the ISO, and therefore be subject to Usage Charges. This requirement and the associated timeline is the same as that proposed, and accepted by the Commission in Amendment No. 13, for the ISO's "TO Debit" solution¹³ and will apply to new firm users and ETC rightsholders alike. As part of the resolution of this issue the ISO has committed to provide ETC schedulers with timely information on their revised rights, thereby facilitating timely submission of revised ETC schedules that would enable ETC rightsholders to avoid exposure to Usage Charges. Moreover, once these revised "placeholder" schedules are submitted, ETC rightsholders will still be able to exercise, if applicable, their existing within-the-hour scheduling flexibility.

Amendment No. 22 would revise the ISO's Scheduling Protocol and Schedules and Bids Protocol to implement the revisions to the scheduling templates for ETCs as well as the new templates developed for FTRs.

C. Settlement Improvement Team

In order to address the concerns of Market Participants regarding the ISO settlements process, the ISO in November 1998 began a stakeholder process, designated the Settlement Improvement Team ("SIT"), to investigate the issues underlying these concerns and to evaluate options for addressing the issues. Amendment No. 22 includes

¹³ *California Independent System Operator Corp.*, 86 FERC ¶ 61,122 (1999).

a number of proposals developed through the SIT.¹⁴ With the exception of the Tariff revisions relating to the allocation of ADR-related awards, all of these proposals will require software modifications and the development of revised procedures for implementation. As explained below, the ISO is therefore requesting that these proposals be made effective upon the later of 60 days from filing or notice that the software modifications are ready for implementation.

1. Transmission Loss Calculation Improvements

The ISO's current Transmission Loss model utilizes Scheduling Coordinator Day-Ahead and Hour-Ahead resource and Demand schedules for system power flow modeling. This power flow model generates forecasted Transmission Losses from these schedules, which are converted to Generator Meter Multipliers ("GMMs") and Tie Meter Multipliers ("TMMs") for each Generator and interchange import schedule for each trading hour. This methodology is the means by which Control Area losses are apportioned under the ISO Tariff. Transmission Losses are apportioned to Generation, sources and imports.

Since the Transmission Loss model uses Day-Ahead and Hour-Ahead Schedules to model system power flows, errors in Transmission Loss calculations can occur if the Scheduling Coordinator's forward schedules either underschedule or overschedule Load relative to real time operations. In practice, the ISO has observed that Scheduling Coordinators periodically over or underschedule Load. The ISO's current Transmission Loss model is therefore less accurate than it could be. In Amendment No. 22, the ISO proposes to reduce the potential for inaccuracy by implementing a new Transmission Loss model to calculate Transmission Losses in the Imbalance Energy and UFE settlements through the use of real time power flows instead of the forward schedules submitted by Scheduling Coordinators.¹⁵

2. Transmission Loss Allocation Methodology

A related proposal concerns how Transmission Losses are allocated to each Utility Distribution Company ("UDC") for calculations of UFE under the ISO Tariff. The Transmission Loss factor in UFE calculations is currently determined by applying the sum of all GMMs and TMMs for the ISO Control Area to the individual Generators and net

¹⁴ In the Commission's August 16, 1999 order approving Amendment No. 17 to the ISO Tariff, the Commission conditioned the acceptance of certain modifications to the ISO Payments Calendar on the completion of a study ordered by the ISO Governing Board of options to shorten the settlement process. *California Independent System Operator Corp.*, 88 FERC ¶ 61,182 (1999). The ISO is still undertaking this evaluation through the SIT and expects to report on this evaluation at the October meeting of the ISO Governing Board.

¹⁵ The ISO notes that the proposed Tariff revisions related to Transmission Loss calculation and allocation, as set forth in Attachments D and E to this filing, are blacklined against certain Tariff provisions as they would be modified by the ISO's compliance filings in Docket No. ER99-1971. The Commission has not yet acted on those compliance filings. The ISO commits to revise the proposed Tariff provisions in Attachments D and E, if necessary, to reflect Commission action on the compliance filings in that docket.

import interties attributable to the UDCs. Although this approach accurately reflects total Transmission Losses for the Control Area, it may result in some transfer of UFE responsibility between UDCs. UFE is calculated for each UDC by subtracting the sum of the Loads, exports, and calculated Transmission Losses from the sum of Generation and imports. Transmission Losses accruing to each resource are currently calculated based on Control Area flow and are not calculated on a UDC-specific basis. In Amendment No. 22, the ISO proposes to adopt the use of a UDC branch group loss apportionment methodology for UFE calculations. This methodology utilizes actual transmission conductor loss values by UDC branch group, and would therefore more accurately reflect Transmission Losses associated with each UDC.

3. "Placeholder" Mechanism for Settlement Disputes

Some Market Participants have requested that the ISO develop a process by which they could preserve their rights with respect to recurring or repetitive disputes of settlement statements without the need to contest every settlement statement involving such disputes. The ISO Tariff currently requires that a Market Participant raise disputes or exceptions for every applicable settlement statement, a process that may be burdensome to both Market Participants and the ISO. Through the SIT process, stakeholders requested that the ISO create a "placeholder" mechanism by which a Scheduling Coordinator, Black Start Generator or Participating Generator may request that the ISO treat a dispute or exception as recurring in nature, thereby alleviating the need to raise the dispute or exception for subsequent settlement statements. The ISO has developed such a mechanism and submits Tariff revisions to implement this proposal with Amendment No. 22.

4. Disputes of Incremental Changes on Final Settlement Statements

The ISO provides Scheduling Coordinators with both Preliminary and Final Settlement Statements. Modified charges or credits may appear on a Final Settlement Statement that did not appear on the corresponding Preliminary Settlement Statement. These changes are primarily due to the ISO's response to disputes on Preliminary Settlement Statements which require reallocations to the Final Settlement Statements of other Scheduling Coordinators. Currently, the ISO Tariff does require that Scheduling Coordinators advise the ISO of any errors in a Preliminary Settlement Statement within eight Business Days.¹⁶ This deadline for raising disputes is vital to provide both certainty and finality to the market, which may be required to meet the cost of any subsequent adjustment. While the ISO has in the past corrected errors that appear for the first time on Final Settlement Statements on a case-by-case basis, the ISO Tariff does not set out a formal process for Scheduling Coordinators to dispute such subsequent modifications,

¹⁶ Amendment No. 17 changed the notice period from ten days to eight Business Days. See *California Independent System Operator Corp.*, 88 FERC ¶ 61,182 (1999). A market notice of the implementation of this timing change effective October 1, 1999 is being submitted to the Commission in a separate filing in Docket No. ER99-3289.

or “incremental changes,” that appear for the first time on Final Settlement Statements. Because the ISO Tariff is silent on the matter, the process and timelines for addressing concerns related to incremental changes on Final Settlement Statements have not been well understood and have been the subject of some concern by Market Participants. Accordingly, stakeholders requested that the ISO develop Tariff language to address this issue.

The ISO agrees that it is important that Market Participants have the opportunity to dispute, in a timely manner, such incremental changes. Moreover, the ISO believes it is critical that the process and timeline for addressing such changes promote certainty and finality, and that the rules for addressing errors be clear and well understood. Establishing rules for addressing incremental changes in Final Settlement Statements also serves to reiterate the existing rules and timeline regarding Preliminary Settlement Statements. By making it clear that the rules applicable to disputes of Final Settlement Statements relate solely to new or modified charges, the ISO makes it equally clear that disputes of Preliminary Settlement Statements must still be submitted within eight Business Days of issuance of a Preliminary Settlement Statement in accordance with existing ISO Tariff language. Accordingly, the ISO proposes revisions to the ISO Tariff that will set forth clearly the rules and timelines for Scheduling Coordinators to dispute incremental changes that appear for the first time on a Final Settlement Statement.

The proposed Tariff revisions also eliminate a small discrepancy relating to the dispute process for charges in Preliminary Settlement Statements. Currently, Section 11.6.1.2 provides that Scheduling Coordinators must give the ISO notice of a dispute within eight Business Days from receipt of a Preliminary Settlement Statement, while the Settlement and Billing Protocol provides that notice must be given within eight Business Days from the issuance of a Preliminary Settlement Statement. To eliminate this discrepancy, Amendment No. 22 would revise Section 11.6.1.2 to require notice within eight Business Days of issuance of a settlement statement, consistent with the Settlement and Billing Protocol. Generally, the effect of this change should be minimal since settlement statements are communicated electronically. Requiring notice within eight Business Days from issuance reduces the possibility that Scheduling Coordinators will seek additional time to file disputes due to a failure to download settlement statements in a timely manner.

5. Allocation of Good Faith Negotiation/ADR Awards

As an entity that collects no monies on its own account (except for operating expenses), the ISO's role in the settlement process is primarily as a clearinghouse for Market Participants. Funds that the ISO receives from one Market Participant are passed on to another Market Participant or Participants. Changes in a charge to one Scheduling Coordinator require offsetting changes in charges or credits to other Scheduling Coordinators. In most cases, when a Scheduling Coordinator disputes a Preliminary Settlement Statement and the dispute is granted, the ISO adjusts for the disputed amount

in all Scheduling Coordinator Final Settlement Statements for the applicable period. When the dispute is denied and the Scheduling Coordinator pursues the options of good faith negotiation or Alternative Dispute Resolution ("ADR") procedures, the ISO may find itself in the position of owing additional monies to that Scheduling Coordinator, to be paid for by other Scheduling Coordinators, or of receiving additional revenue from that Scheduling Coordinator, to be credited to other Scheduling Coordinators. The ISO Tariff does not specifically address how to allocate amounts payable by or to the ISO pursuant to good faith negotiations or the ADR process to other Scheduling Coordinators. In Amendment No. 22, the ISO proposes Tariff revisions that describe the process the ISO will undertake in allocating such amounts.

D. Creation of a New Congestion Management Zone

Section 7.2.7 of the ISO Tariff governs the creation, modification and elimination of Congestion Management Zones. Section 7.2.7.2.1 gives the ISO the authority to create a new Zone if it finds that, within a Zone, the cost to alleviate Congestion on a path over a 12 month period "is equivalent to at least 5 percent of the product of the rated capacity of the path and the weighted average Access Charge of the Participating TOs." In order for a new Zone to be an Active Zone, Section 7.2.7.3.1 requires that a workably competitive Generation market exist on both sides of the relevant Inter-Zonal interface to be created for a substantial portion of the year.

Since the ISO commenced operations on March 31, 1998, transmission Path 26 has been congested in the north to south direction during many hours. The ISO has managed Congestion on Path 26 by increasing the output of resources south of Path 26 and decreasing the output of resources north of Path 26. This has resulted in substantial Intra-Zonal Congestion Management costs. The ISO conducted an analysis of the costs of managing Intra-Zonal Congestion on Path 26, and determined that these costs were sufficient to satisfy the Tariff standard for creation of a new Zone. The ISO also determined that a workably competitive Generation market would exist on both sides of a Path 26 Inter-Zonal Interface. The ISO presented these findings to the ISO Governing Board with a recommendation that the Board approve the creation of a new Congestion Management Zone between Path 15 and Path 26 by converting Path 26 to an Inter-Zonal Interface.¹⁷ By a resolution approved on August 26, 1999, the ISO Governing Board approved the creation of the new Congestion Management Zone.¹⁸ As a result, Congestion on Path 26 will be resolved in the forward markets according to the ISO's Inter-Zonal Congestion Management procedures, with the costs of relieving that Congestion allocated to Scheduling Coordinators who schedule across it.

¹⁷ See August 18, 1999 Memorandum to the ISO Governing Board, provided as Attachment J to this filing. The August 18 Memorandum also includes an analysis conducted by the DMA on the potential for increased exercise of market power if a new Active Zone is created. This analysis supports the creation of a new Zone.

¹⁸ This resolution is provided as Attachment K to this filing.

In Amendment No. 22, the ISO submits a number of conforming revisions to the ISO Tariff to reflect the creation of this new Zone. Specifically, Amendment No. 22 would modify Appendix I to the ISO Tariff to list the three Active Zones that will be in effect, the Northern Zone (NP15), the Central Zone (ZP26), and the Southern Zone (SP15).¹⁹

E. Allocation of Costs for RMR Units Outside the Service Area of a Responsible Utility

Section 5.2.8 of the ISO Tariff provides that the costs incurred by the ISO under an RMR Contract shall be payable to the ISO by the Responsible Utility in whose Service Area the RMR Unit is located.²⁰ A number of Generating Units that were designated as RMR Units through the 1999 Local Area Reliability Service ("LARS") process were not clearly within the Service Area of a Responsible Utility. This raised the broader policy issue of whether the ISO should be able to designate as RMR Units those Generating Units that are outside the Service Area of any Responsible Utility but whose output could support the reliability of the ISO Controlled Grid, and if so, who should be responsible for the costs associated with such RMR Units. The ISO determined that excluding out-of-Service Area Generating Units from consideration in the LARS process could result in higher RMR costs. Indeed, it would be inconsistent with efforts to expand the options for meeting needs for RMR generation through the LARS process. The ISO also has concluded that the costs for an RMR Unit located outside the Service Area of any Responsible Utility should be assigned to the Responsible Utility or Utilities whose Service Areas are contiguous to the Service Area in which the Generating Unit is located. Where there is more than one such Responsible Utility, this assignment will be based on the proportion of benefits that each Responsible Utility receives from the RMR Unit, as determined by the ISO. This approach was discussed with stakeholders and approved by the ISO Governing Board. Tariff revisions to implement this approach are included in Amendment No. 22.

F. RMR Changes the ISO Had Agreed to Make in Response to Comments on Amendment No. 15

Lastly, Amendment No. 22 includes two Tariff revisions that the ISO had agreed to make in its Answer to Comments on Amendment No. 15. On April 17, 1999, the ISO submitted Amendment No. 15 to the ISO Tariff in order to implement portions of the RMR Settlement filed on April 2, 1999 in Docket Nos. ER98-441 *et al.* A number of parties submitted comments on Amendment No. 15, including Pacific Gas and Electric Company ("PG&E"). On May 12, 1999, the ISO filed its Answer to Motions to Intervene and Comments on Amendment No. 15. In the May 12 Answer, the ISO agreed to make two

¹⁹ The Southern Zone is retaining the designation "SP15" so that existing documents using this designation for the Southern Zone will not be impacted by the ISO's action.

²⁰ Responsible Utility is defined as "[t]he utility which is a party to the [Transmission Control Agreement] in whose Service Area the Reliability Must-Run Unit is located."

non-substantive changes which PG&E had proposed. First the ISO agreed to add the term "Responsible Utility invoice" which had been inadvertently omitted from the first sentence of Section 5.2.7.1.3. The ISO also agreed to make certain revisions to Section 5.2.7.2 in order to make that provision consistent with Section 5.2.7.1.4, as modified by Amendment No. 15. The Commission accepted Amendment No. 15 by a letter order issued in Docket No. ER99-2407 on May 28, 1999.²¹ The letter order did not direct the ISO to make a compliance filing. Nonetheless, the ISO still believes it is appropriate to make the revisions to which it had agreed in its May 12 Answer. The ISO therefore submits these revisions as part of Amendment No. 22.

II. EFFECTIVE DATES

As discussed above, because the software modifications necessary to implement a number of the ISO Tariff revisions proposed in Amendment No. 22 are still in development, the ISO requests that the following categories become effective on the later of November 26, 1999, or at least ten days after the ISO posts notice on the ISO Home Page that the modified software is ready for use: modifications to the ETC scheduling template, changes required to implement the creation of a new Congestion Management Zone, and all but one category of Tariff revisions developed through the SIT process, including modification of the methods used to calculate and allocate transmission losses in the Imbalance Energy and Unaccounted for Energy ("UFE") settlements, establishment of a "placeholder" mechanism for disputes that are recurring in nature, and the addition of a process for disputing "incremental changes on a Final Settlement Statement. The ISO respectfully requests that all other Tariff revisions included in this filing be made effective on November 26, 1999, or sixty days after filing.

²¹ 87 FERC ¶ 61,229 (1999).

III. 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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The ISO has served copies of this letter, and all attachments, on the Public Utilities Commission of the State of California, the California Energy Commission, the California Electricity Oversight Board, and on all parties with effective Scheduling Coordinator Service Agreements under the ISO Tariff. In addition, the ISO is posting this transmittal letter and all attachments on the ISO's Home Page.

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 revisions relating to implementation of FTRs
Attachment C	Black-lined Tariff provisions showing revisions that implement modified ETC scheduling templates and new FTR scheduling templates
Attachment D	Black-lined Tariff provisions showing revisions relating the use of a more accurate model for calculation of Transmission Losses
Attachment E	Black-lined Tariff provisions showing revisions relating to the use of a more accurate methodology for allocating Transmission Losses to UDCs for calculation of UFE
Attachment F	Black-lined Tariff provisions showing revisions that establish a "placeholder" mechanism for settlement statement disputes
Attachment G	Black-lined Tariff provisions showing revisions that implement a process for Scheduling Coordinators to dispute "incremental changes between a Preliminary Settlement Statement and a Final Settlement Statement

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Attachment H	Black-lined Tariff provisions showing revisions relating to the allocation of amounts payable to or from the ISO pursuant to good faith negotiations or the ADR process
Attachment I	Black-lined Tariff provisions showing revisions relating to the creation of a new Congestion Management Zone
Attachment J	August 18, 1999 Memorandum to the ISO Governing Board on the addition of a new Congestion Management Zone to address Path 26 Intra-Zonal Congestion
Attachment K	Resolution of the ISO Governing Board, dated August 26, 1999, approving the creation of a new Congestion Management Zone
Attachment L	Black-lined Tariff provisions showing revisions relating to allocation of costs for RMR Units Outside of a Responsible Utility's Service Area
Attachment M	Black-lined Tariff provisions showing non-substantive revisions which the ISO had agreed to make in its Answer to Comments on Amendment No. 15
Attachment N	Notice of this filing, suitable for publication in the Federal Register (also provided in electronic format).

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,

N. Beth Emery
Vice President and General Counsel
Roger E. Smith, Senior Regulatory Counsel
The California Independent
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CERTIFICATE OF SERVICE

I hereby certify that I have this day served this document upon the Public Utilities Commission of California, the California Energy Commission, the California Electricity Oversight Board, and upon all parties with effective Scheduling Coordinator Service Agreements under the ISO Tariff, 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, D.C., this 27th day of September, 1999.

Sean A. Atkins