

December 1, 2000

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

Re: Docket Nos. ER98-3594-____

Dear Secretary Boergers:

Enclosed please find an original and fourteen copies of a report entitled *The Firm Transmission Rights Market: Review of the First Nine Months of Operation, February 1, 2000 – October 31, 2000* ("FTR Market Report") submitted by the California Independent System Operator Corporation ("ISO") in compliance with the orders issued by the Commission in this proceeding on May 3, 1999, *California Independent System Operator Corp.*, 87 FERC ¶ 61,143 (the "May 3 Order"), and August 2, 1999, *California Independent System Operator Corp.*, 88 FERC ¶ 61,156 (the "August 2 Order"). The enclosed FTR Market Report was prepared by the ISO's Department of Market Analysis ("DMA") at the request of the ISO Market Surveillance Committee ("MSC"). Also enclosed with this filing are an original and fourteen copies of a document prepared by the MSC entitled *An Assessment of the February through October 2000 California ISO*

Firm Transmission Rights Market (“MSC Opinion”). The MSC Opinion addresses the FTR Market Report and provides the MSC’s assessment of the initial performance of the FTR market. For reasons explained below, the ISO is also requesting that it be permitted to respond to directives in the May 3 and August 2 Orders to file proposals for modifications to the FTR market as part of its comprehensive proposal to redesign its Congestion Management system.

The ISO’s proposal for initial implementation of Firm Transmission Rights (“FTRs”) was filed in the above-captioned proceeding on June 30, 1998, as subsequently modified on December 4, 1998. The Commission accepted this proposal, subject to certain conditions, in the May 3 Order. These conditions included a directive that the MSC prepare a “thorough assessment of the FTR market” based on the initial release of FTRs, to be submitted to FERC by October 1, 1999. 87 FERC at 61,582. The Commission also directed the ISO to prepare proposals for a number of modifications to its FTR market by the same date. Specifically, the Commission directed that the ISO use its experience with the initial release of FTRs to develop a proposal with respect to long-term transmission rights, through either a modified FTR proposal or some other proposal. *Id.* at 61,572. The Commission also directed the ISO to review its proposed measure of capacity for FTRs and to develop a proposal to sell FTRs for all available capacity. *Id.* at 61,576.

Due to Year 2000 compliance issues and other implementation concerns, the Commission subsequently approved a revised FTR implementation schedule, under which FTRs were initially auctioned and released for the period from February 1, 2000 through March 31, 2001. August 2 Order, 88 FERC at 61,524. Consistent with this

revised implementation schedule, the Commission also ordered that the reports and proposals mandated in the May 3 Order should now be filed by December 1, 2000. *Id.*

The enclosed FTR Market Report and MSC Opinion review the first nine months of FTR market operation and are provided to comply with the Commission's directive to prepare an assessment of California's initial experience with the FTR market. The ISO has been addressing the Commission's directives that the ISO develop proposals for FTR modifications in the context of a broader Congestion Management reform process.

As the Commission is well aware, the ISO has been engaged in an extensive stakeholder process since the spring of this year concerning the redesign of the ISO's Congestion Management system.¹ The design and attributes of the FTR market are directly linked to the overall design of the ISO's Congestion Management system. Various modifications to the FTR market have therefore been developed and presented to stakeholders as part of the Congestion Management redesign process. The proposed FTR modifications that have been developed to date in that process are discussed in Section 6 of the enclosed FTR Market Report.

The Commission recently addressed the timing of the ISO's Congestion Management redesign filing in its November 1, 2000 Order Proposing Remedies for California Wholesale Electric Markets.² The November 1st Order would have the ISO complete its Congestion Management redesign effort under the guidance of a new and independent ISO Governing Board for filing by April 2, 2001. It would be premature to submit any proposals to modify the ISO's FTR market before the redesign of the Congestion Management system is finalized. Accordingly, the ISO requests that it be

¹ The Commission directed that such a redesign effort be undertaken in its January 7, 2000 Order in Docket No. ER00-555, *California Independent System Operator Corporation*, 90 FERC ¶ 61,006.

² *San Diego Gas & Electric Co. v. Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator and the California Power Exchange*, 93 FERC ¶ 61,121.

The Honorable David P. Boergers
December 1, 2000
Page 4

permitted to respond to directives in the May 3 and August 2 Orders to file proposals for modifications to the FTR market as part of its comprehensive proposal to redesign its Congestion Management system.

The FTR Market Report is provided as Attachment A to this transmittal letter. The MSC Opinion is provided as Attachment B. Attachment C is form of notice for this filing. An electronic copy of the form of notice is provided on diskette. Also enclosed are two additional copies of this filing to be date-stamped and returned to the messenger. Thank you for your attention to this matter.

Respectfully submitted,

Kenneth G. Jaffe
David B. Rubin
Sean A. Atkins
Attorneys for the California Independent
System Operator Corporation

cc: Service List

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing documents upon each person designated on the official service list compiled by the Secretary in the above captioned docket, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.2010 (2000).

Dated at Washington, D.C. on this 1st day of December, 2000.

Sean A. Atkins