

SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

THE WASHINGTON HARBOUR
3000 K STREET, NW, SUITE 300
WASHINGTON, DC 20007-5116
TELEPHONE (202) 424-7500
FAX (202) 424-7643
WWW.SWIDLAW.COM

NEW YORK OFFICE
THE CHRYSLER BUILDING
405 LEXINGTON AVENUE
NEW YORK, NY 10174
(212) 973-0111 FAX (212) 891-9598

November 30, 2004

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: California Independent System Operator Corporation
Docket No. ER05-____ - 000
Amendment No. 64 to the ISO Tariff**

Dear Secretary Salas:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, and Sections 35.11 and 35.13 of the regulations of the Federal Energy Regulatory Commission ("Commission"), 18 C.F.R. §§ 35.11, 35.13, the California Independent System Operator Corporation ("ISO") respectfully submits for filing an original and six copies of an amendment ("Amendment No. 64") to the ISO Tariff.¹ Amendment No. 64 revises the ISO Tariff to defer financial settlement of the Uninstructed Deviation Penalties ("UDP") specified in Section 11.2.4.1.2 of the ISO Tariff.

I. BACKGROUND

On May 1, 2002, the ISO filed a proposal to implement UDP and a new real-time economic dispatch system. The Commission accepted the ISO's proposal in an order issued July 17, 2002. *California Independent System Operator Corporation*, 100 FERC ¶ 61,060. The Commission conditioned the implementation of UDP on the ISO's implementing a system to allow for real-time reporting of outages and de-rates, and the ISO's accommodating multiple ramp rates. *Id.* at P 141.

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.

On July 8, 2003, the ISO submitted Amendment No. 54 to the ISO Tariff ("Amendment No. 54"). Amendment No. 54 was intended to provide details for the implementation of certain of the market redesign elements initially proposed in the May 1, 2002 filing (the "Phase 1-B" redesigns), including UDP.

On October 22, 2003, the Commission issued an order accepting much of Amendment No. 54 and directing the ISO to file complying tariff language within 30 days. *California Independent System Operator Corporation*, 105 FERC ¶ 61,091. The ISO submitted its compliance filing on November 21, 2003.

On March 2, 2004, the ISO submitted Amendment No. 58 to the ISO Tariff ("Amendment No. 58"). Amendment No. 58 was intended to: (1) clarify how the Tolerance Band will be applied to condition bid cost recovery and the application of UDP within and outside of a Waiver Denial Period; (2) clearly define constrained output generation; (3) clarify how UDP will be applied to dynamically scheduled System Resources; and (4) ensure that the same data is used to represent a unit's operating characteristic for both market and Reliability Must-Run ("RMR") dispatch and settlements.

On August 5, 2004, the Commission issued an order accepting in part and rejecting in part the Amendment No. 58 tariff modifications. *California Independent System Operator Corporation*, 108 FERC ¶ 61,141. The Commission directed the ISO to: permit RMR owners to specify different minimum load and start-up lead time values for RMR contract service, and for market bids; allow dynamically scheduled System Resources to report outages through the ISO's computer-based scheduling and logging program ("SLIC"); clarify that out-of-market transactions with dynamically scheduled System Resources will be subject to UDP; clarify that dynamically scheduled Qualifying Facilities that are not under a Participating Generator Agreement are exempt from UDP; clarify that deviations by System Resources caused by the action of another control area are not subject to UDP; and clarify that out-of-market transactions are subject to UDP only if the time, duration, and amount are agreed upon in advance. The Commission also directed the ISO to make certain changes with respect to treatment of constrained output generators.

On August 3, 2004, the ISO filed Amendment No. 62 to the ISO Tariff ("Amendment No. 62") to make several modifications in support of the implementation of a Real-Time Market Application ("RTMA") and UDP. These modifications included, *inter alia*, tariff changes to suspend UDP until the first day for the month that begins two months after the RTMA and UDP are put in service.

On September 10, 2004, the ISO filed a Motion for Leave to File Answer Two Days Out of Time and Answer to Motions to Intervene, Comments, and Protests of Amendment No. 62 ("ISO Answer"). The ISO offered changes to several elements of Amendment No. 62 to respond to comments and protests, including: modification of the ISO's proposal to suspend UDP during start-up and subtract the Uninstructed Imbalance Energy Payment; an extension of the proposed exemption from UDP for units that are unable to shut down in 20 minutes; and suspension of UDP for deviations that are attributable to automatic response to a system disturbance.

On October 1, 2004, the Commission issued an order accepting in part and rejecting in part the tariff revisions proposed in Amendment No. 62. *California Independent System Operator Corporation*, 109 FERC ¶ 61,006. In addition to accepting each of the above-noted changes proposed in the ISO Answer, the October 1, 2004 order accepted the tariff revisions proposed by the ISO to suspend UDP for two months.

II. PROPOSED CHANGES

The ISO proposes to modify Section 11.2.4.1.2 to extend indefinitely the suspension of UDP. The ISO anticipates that the duration of this additional suspension will be between one and two months. The ISO will submit another tariff amendment pursuant to Section 205 of the FPA approximately 10 days in advance of the proposed effective date for the implementation of UDP. Accordingly, the ISO will request waiver of the 60-day notice period.

The instant proposal is consistent with commitments the ISO has made in earlier filings. In that regard, in the transmittal letter for Amendment No. 62 (at 9), the ISO indicated that, although it did not expect to make any changes to the Phase 1-B software during the proposed two-month suspension period for UDP, "the ISO will immediately notify the Commission and Market Participants should any concerns arise and take appropriate action thereafter." The ISO also emphasized this commitment to notify the Commission of any unexpected circumstances in its Answer, where the ISO stated that "if a problem arises, the ISO will consult with Market Participants (as it has done extensively through the whole Phase 1-B development and testing process) and, if the problem warrants, the ISO will request action from the Commission to further suspend UDP as needed." ISO Answer at 17. The ISO also requested that "the Commission adopt the two-month suspension period secure in the understanding that the ISO will take appropriate action should the need arise." *Id.*

The redesigned Imbalance Energy Market implemented with Phase 1-B is an integrated design that allows operating constraints to be specified in substantially more detail than was previously allowed. For example, different ramp rates may be specified for different operating levels for each Generating

Unit, and the ISO issues automated Dispatch Instructions consistent with these operating constraints to direct changes in output every five minutes. The ISO "clears" the market every five minutes, executing all economic trades among suppliers – which means that the ISO may dispatch resources in both directions, even if there is no congestion in the ISO Control Area. With the old system (BEEP), the ISO generally dispatched resources in a single direction unless otherwise required for Congestion Management.

The ISO's RTMA calculates the Energy expected in each 5-minute Dispatch Interval from resources based on Hour-Ahead Schedules and ISO Dispatch Instructions. The UDP provides an incentive that is critical under this integrated design to follow Dispatch Instructions and deliver expected Energy in each 10-minute Settlement Interval. Since the ISO is dispatching resources every 5 minutes, compliance by each supplier with instructions issued in accordance with their bids and Schedules is essential for the ISO to be confident that the resulting aggregate Imbalance Energy response will provide the system relief that is required to allow the ISO to meet applicable control performance standards and transmission operating limits.

Since Phase 1-B was implemented on October 1, 2004, the ISO has experienced data and system issues that have rendered the ISO unable to provide timely and accurate advisory results on what deviations would have been subject to UDP. During the first several days after implementation of Phase 1-B, numerous revisions to the calculation of expected Energy were required when verbal instructions or RMR Dispatch Notices were not properly included in RTMA's calculation of expected Energy. Normally, these revisions are completed within 96 hours (4 days) of the Trading Day. Due to the volume and complexity of the adjustments, there were delays in making these revisions, and some of the advisory results were published before these revisions were complete. It is important to emphasize that all of these revisions have been and will be made before Preliminary Settlement Statements are issued to Scheduling Coordinators.

A small number of Scheduling Coordinators have also had difficulty establishing and maintaining connections to the ISO's Automatic Dispatch System. As explained above, compliance with Dispatch Instructions is a critical premise that underpins the Phase 1-B changes. The ISO take very seriously any problem with ISO systems that might contribute to a Scheduling Coordinator's inability to establish and maintain the connection necessary to receive Dispatch Instructions. Although the ISO has made progress and is continuing to work diligently to determine the cause or causes of these connectivity problems, no comprehensive solution has yet been developed. Before proceeding with financial settlement of UDP, the ISO will seek to verify that the root cause or causes do not lie within ISO systems. In any event, necessary accommodations

will be in place to assure that no Scheduling Coordinator is penalized for an instruction that was not properly communicated by the ISO.

Given delays in the availability of corrected data, ISO staff had very little opportunity to review the advisory UDP results before they were made available to Scheduling Coordinators. Some Scheduling Coordinators have indicated that they have been unable to validate the Energy quantities that would have been subject to UDP. Review of advisory results by Scheduling Coordinators and ISO staff have been useful in identifying both ISO data quality issues and additional training required by staff of some Scheduling Coordinators. However, the advisory results have not been of the high quality that the ISO intended, and the errors described above have reduced their value in assisting Scheduling Coordinators with system and performance validation after the Phase 1-B changes.

The ISO's initial commitment to publishing advisory results two weeks after the operating day was intended to provide approximately six weeks of advisory UDP results during the two month grace period. If the ISO had planned to publish advisory results contemporaneously with Preliminary Settlement Statements, then only about one week of advisory results would have been available during the two-month grace period. Since the ISO now proposes to seek an extension of the grace period, the benefit of providing accelerated advisory results is substantially diminished, and the ISO will republish advisory results using settlement quality data. Advisory results for early October will be republished beginning the week of November 29, 2004.

Although the ISO believes an extension of the UDP grace period is appropriate, it notes that there are potential costs to such an extension. First, the ISO expects that conformance to final Schedules and to ISO Dispatch Instructions will improve when penalties for uninstructed deviations are in place. Improved compliance in the Imbalance Energy market will better allow the ISO to operate within Applicable Reliability Criteria. Additionally, since no penalties are collected, the Scheduling Coordinators that schedule accurately and avoid excessive deviations will not benefit from the distribution of UDP proceeds. On the other hand, based on operational experience to date, the ISO does not believe that a limited extension of the UDP grace period will threaten reliability, and further believes that no significant financial consequences will result from extending the UDP grace period. In light of these considerations, the ISO believes that an extension of the two-month suspension period is appropriate.

III. EFFECTIVE DATE

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. 64 for filing and permit it to become effective on December 1,

2004. This effective date is necessary in order to prevent UDP from going to effect on December 1, 2004 in accordance with the terms of Section 11.2.4.1.2.

Granting the waiver requested herein will allow the ISO to implement UDP after such implementation is practicable. No significant financial consequences will result from the December 1, 2004 effective date, and the acceptance of Amendment No. 64 will not result in any increase in rates or charges. Granting the requested waiver, therefore, is appropriate.

IV. COMMUNICATIONS

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:

Charles F. Robinson
Anthony J. Ivancovich
Counsel for
The California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, California 95630
Tel: (916) 351-4400
Fax: (916) 608-7296

David B. Rubin
Swidler Berlin Shereff
Friedman, LLP
3000 K Street, N.W.
Washington, D.C. 20007
Tel: (202) 424-7516
Fax: (202) 424-7647

V. SERVICE

The ISO has served copies of this transmittal letter, and all attachments, on the California Public Utilities Commission, the California Energy Commission, the California Electricity Oversight Board, all parties with effective Scheduling Coordinator Service Agreements under the ISO Tariff, and all parties in the proceedings in Docket No. ER03-1046 (concerning Amendment No. 54), Docket No. ER04-609 (Amendment No. 58), and Docket No. ER04-1087 (concerning Amendment No. 62). In addition, the ISO is posting this transmittal letter and all attachments on the ISO Home Page.

VI. ATTACHMENTS

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

Attachment A	Revised ISO Tariff sheet
Attachment B	Black-lined ISO Tariff provision

Attachment C Notice of this filing, suitable for publication in the
Federal Register (also provided in electronic format).

Two extra copies of this filing are also enclosed. Please stamp these copies with the date and time filed and return them to the messenger. Please feel free to contact the undersigned if you have any questions concerning this matter.

Respectfully submitted,

Charles F. Robinson
General Counsel
Anthony J. Ivancovich
Associate General Counsel
The California Independent
System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400
Fax: (916) 608-7296



David B. Rubin
Bradley R. Miliauskas
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N.W., Suite 300
Washington, D.C. 20007
Tel: (202) 424-7516
Fax: (202) 424-7643

ATTACHMENT A

Resource recovers its Energy Bid costs for the quantity of Energy delivered. Payments for unrecovered bid costs for portions of Energy associated with bids above the Maximum Bid Level are subject to recall if such bids have not been adequately justified pursuant to Section 28.1.2.

11.2.4.1.2 Penalties for Uninstructed Imbalance Energy

Beginning with Settlement Statements for the first Trading Day that this Section 11.2.4.1.2 is made effective by FERC order, the ISO shall charge Scheduling Coordinators Uninstructed Deviation Penalties for Uninstructed Imbalance Energy resulting from resource deviations outside a Tolerance Band from their Dispatch Operating Point, for dispatched resources, or their Final Hour-Ahead Schedule otherwise. The Dispatch Operating Point will take into account the expected Ramping of a resource as it moves to a new Hour-Ahead Schedule at the top of each hour and as it responds to Dispatch Instructions. The Uninstructed Deviation Penalty will be applied as follows:

- a) The Uninstructed Deviation Penalty for negative Uninstructed Imbalance Energy will be calculated and assessed in each Settlement Interval. The Uninstructed Deviation Penalty for positive Uninstructed Imbalance Energy will be calculated and assessed in each Settlement Interval in which the ISO has not declared a staged System Emergency;

ATTACHMENT B

11.2.4.1.2 Penalties for Uninstructed Imbalance Energy

Beginning with Settlement Statements for on the first Trading Day that this Section 11.2.4.1.2 is made effective by FERC order, ~~day of the month that is two months after the software that determines Uninstructed Deviation Penalties is put in service,~~ the ISO shall charge Scheduling Coordinators Uninstructed Deviation Penalties for Uninstructed Imbalance Energy resulting from resource deviations outside a Tolerance Band from their Dispatch Operating Point, for dispatched resources, or their Final Hour-Ahead Schedule otherwise. The Dispatch Operating Point will take into account the expected Ramping of a resource as it moves to a new Hour-Ahead Schedule at the top of each hour and as it responds to Dispatch Instructions. The Uninstructed Deviation Penalty will be applied as follows:

* * *

ATTACHMENT C

NOTICE OF FILING SUITABLE FOR PUBLICATION
IN THE FEDERAL REGISTER

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System) Docket No. ER05-____-000
Operator Corporation)

Notice of Filing

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Take notice that, on November 30, 2004, the California Independent System Operator Corporation (ISO) tendered for filing a revision to the ISO Tariff, Amendment No. 64, for acceptance by the Commission. The ISO states that the purpose of Amendment No. 64 is to indefinitely suspend the effective date of Uninstructed Deviation Penalties. The ISO further states that a separate revision to the ISO Tariff will be subsequently filed seeking a specific effective date for the tariff language governing Uninstructed Deviation Penalties. The ISO is requesting the amendment to be made effective on December 1, 2004.

The ISO states that this filing has been served on the Public Utilities Commission, the California Energy Commission, the California Electricity Oversight Board, parties in Docket Nos. ER03-1046, ER04-609, and ER04-1087, and parties with effective Scheduling Coordinator Agreements under the ISO Tariff.

Any person desiring to intervene or to protest this filing should file with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 CFR 385.211 and 385.214). Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party must file a motion to intervene. All such motions or protests should be filed on or before the comment date, and, to the extent applicable, must be served on the applicant and on any other person designated on the official service list. This filing is available for review at the Commission or may be viewed on the Commission's web site at <http://www.ferc.gov>, using the **eLibrary** (FERRIS) link. Enter the docket number excluding the last three digits in the docket number field to access the document. For assistance, please contact FERC Online Support at FERCOnlineSupport@ferc.gov or toll-free at (866)208-3676, or for TTY, contact (202)502-8659. Protests and interventions may be filed electronically via the Internet in lieu of paper; see 18 CFR

385.2001(a)(1)(iii) and the instructions on the Commission's web site under the "e-Filing" link. The Commission strongly encourages electronic filings.

Comment Date: _____