

January 5, 2005

Via Electronic Filing

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. ER05-277-000**

Dear Secretary Salas:

Enclosed please find the Answer of the California Independent System Operator Corporation to Motions to Intervene and Comments, submitted in the captioned docket.

Please contact the undersigned with any questions. Thank you for your attention to this matter.

Respectfully submitted,

/s/ Bradley R. Miliauskas
Bradley R. Miliauskas

Counsel for the California
Independent System Operator
Corporation

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**California Independent System) Docket No. ER05-277-000
Operator Corporation)**

**ANSWER OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR
CORPORATION TO MOTIONS TO INTERVENE AND COMMENTS**

I. INTRODUCTION AND SUMMARY

On November 30, 2004, the California Independent System Operator Corporation (“ISO”)¹ filed Amendment No. 64 to the ISO Tariff (“Amendment No. 64”) in the captioned proceeding. Amendment No. 64 proposed to indefinitely defer the implementation of the Uninstructed Deviation Penalty (“UDP”) previously authorized by the Commission. See Transmittal Letter for Amendment No. 64 at 1-3. The ISO explained in the transmittal letter accompanying Amendment No. 64 that UDP is an essential element of the integrated market design the ISO implemented under Phase 1B of the Market Redesign and Technology Upgrade Project (“MRTU”). UDP provides a critical incentive for suppliers to follow Dispatch Instructions and deliver expected Energy in each 10-minute Settlement Interval. Recognizing the significant changes associated with the ISO’s transition to the new Real-Time Market Application (“RTMA”), the ISO sought to delay financial settlement of UDP for two months through Amendment No. 62 to the ISO Tariff (“Amendment No. 62”), submitted in Docket ER04-1087, to allow Market Participants an opportunity to

¹ Capitalized terms not otherwise defined herein shall have the meaning set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff.

calibrate their systems and processes to the new ISO software before financial penalties went into effect.

As noted in the Amendment No. 64 transmittal letter (at 5), the ISO planned to provide advisory results regarding the deviations outside the applicable Tolerance Bands that would have been subject to UDP within two weeks of the Trading Day. This schedule was intended to maximize the number of Trading Days for which Market Participants would have the benefit of advisory results during the two-month grace period originally contemplated when Amendment No. 62 was filed.² System and data issues, however, made it difficult to publish accurate advisory results on this accelerated schedule. Transmittal Letter for Amendment No. 64 at 5. Consequently, in Amendment No. 64 the ISO sought to indefinitely delay implementation of UDP, and further explained that it would make a separate filing under Section 205 of the Federal Power Act to make UDP effective on a date certain. *Id.* at 3.

Since the ISO filed Amendment No. 64, the ISO has republished advisory results for UDP based on high-quality data for each Trading Day in October 2004.³ Results have been made available to the responsible Scheduling

² As noted in the Amendment No. 64 transmittal letter, with a two-week lag between the Trading Day and publication of advisory results, Market Participants would have the benefit of approximately six weeks of advisory results during the two-month delay contemplated in Amendment No. 62, while publication on the ISO settlements timeline would have provided only about one week of advisory results. Transmittal Letter for Amendment No. 64 at 5.

³ The expected Energy values on which the republished advisory results were based are consistent with those included in Preliminary Settlement Statements in at least 99 percent of all Settlement Intervals. The minor differences are due to the advisory UDP results not being produced as part of the routine Settlement Statement production process, as actual financial settlement of UDP is not now occurring. Once the ISO initiates financial Settlement of UDP, the expected Energy values used for the calculation of UDP will agree with those included in

Coordinators for every resource subject to UDP for these Trading Days. As of the date of the instant filing, the ISO does not anticipate seeking a date earlier than February 1, 2005 to initiate financial settlement of UDP, by which time the ISO will have published two full months of high-quality advisory UDP results. The ISO will provide the two full months of high-quality advisory results before the end of January 2005. In summary, the ISO will have provided accurate advisory results for a duration exceeding that contemplated in Amendment No. 62 as accepted by the Commission, before the earliest date on which the ISO will seek to begin financial settlement of UDP.⁴

In the Amendment No. 64 transmittal letter, the ISO also noted that some Scheduling Coordinators were experiencing intermittent connectivity problems with the ISO's Automated Dispatch System ("ADS"). Transmittal Letter for Amendment No. 64 at 4. The ISO has isolated the apparent root cause of these software problems, and is testing a fix. In any event, the ISO has a strong interest in ensuring that Dispatch Instructions are successfully communicated and that expected energy calculations are accurate. Reliable operation of the ISO Control Area requires the ISO to continuously balance loads and resources; the ISO dispatches resources every five minutes to help assure that balance. If participants are unable to establish or maintain connectivity, or instructions are inaccurate or are not successfully communicated, then the ISO's ability to efficiently balance the system is compromised. The ISO therefore has a strong

Preliminary Settlement Statements in all cases.

⁴ Under Amendment No. 62, only six weeks of advisory results were planned to be

incentive to assure that instructions are accurate, and that they are promptly and accurately communicated. The ISO will provide a full explanation of the ADS connectivity issues in the future Section 205 filing the ISO will submit to make UDP effective. Several parties have submitted timely motions to intervene and comments concerning Amendment No. 64.⁵ The ISO does not oppose the intervention of any party. Some parties filed interventions that offered no comments, while other parties filed comments supporting the Commission's acceptance of Amendment No. 64. The EOB notes that "UDP is an important tool to encourage accuracy in scheduling power" and that UDP should be implemented as soon as possible, but supports the ISO's request for a delay. EOB at 3. Powerex supports the ISO's filing and urges the Commission to accept Amendment No. 64 and make it effective December 1, 2004 as requested by the ISO. Powerex at 3. Duke, the State Water Project, and Williams also support the ISO's request to extend the UDP grace period by indefinitely suspending the UDP tariff language. Duke at 2; State Water Project at 1-2; Williams at 6. No party opposes Amendment No. 64, although some parties ask the Commission to place additional, unnecessary conditions on the ISO's implementation of UDP. These requests are addressed below.

available to suppliers before financial settlement of UDP was initiated.

⁵ The following entities filed timely motions to intervene and comments: the California Department of Water Resources State Water Project ("State Water Project"); California Electricity Oversight Board ("EOB"); Cities of Redding and Santa Clara, California, and the M-S-R Public Power Agency; Duke Energy North America, LLC and Duke Energy Marketing America, LLC (together, "Duke"); Modesto Irrigation District; Pacific Gas and Electric Company ("PG&E"); Powerex Corp. ("Powerex"); West Coast Power LLC and Williams Power Company, Inc. (together, "Williams"). Calpine Corporation submitted a motion to intervene out-of-time.

II. ANSWER

Several parties argue that the ISO should provide some duration of valid advisory results prior to implementing UDP. PG&E requests that the ISO provide at least 30 days of valid advisory results before submitting a new effective date for financial settlement of UDP. PG&E at 4. The EOB supports a “60-day trial period.”⁶ Williams requests that the Commission direct the ISO to provide at least a two-month continuation of the suspension period once the Phase 1B issues that prompted Amendment No. 64 are resolved. Williams at 7. Duke similarly requests that after the software and connectivity issues have been resolved, the ISO should provide an additional 60 days to allow participants to determine how Generating Units will respond to the RTMA. Duke at 3.⁷

⁶ The EOB correctly explains that the ISO filed Amendment No. 64 due to “data and system issues”, but erroneously concludes that it would take the ISO “another one or two months” to begin providing “timely and accurate data on scheduling deviations.” EOB at 3. The EOB suggests that a 10-day period for advisory results may be insufficient, and contends that the ISO should “continue to provide parties with a 60-day trial period, during which the CAISO will provide accurate and timely data regarding deviations which would have subjected parties to UDP, had UDP been in effect.” *Id.* at 4. As explained in Section I, above, the ISO will provide two full months of high-quality advisory results before the end of January 2005.

⁷ Duke further argues (at 3) that as of December 21, 2004, it had received no useful or accurate information about how its units might be affected by RTMA and UDP. Based on recent discussions among ISO and Duke technical staff, the ISO now understands that Duke acknowledges that as of December 21, 2004, republished advisory results were available to Duke for Trading Days including October 1 through October 18.

The principal reason the ISO filed Amendment No. 64 to provide for a temporary suspension of UDP was to ensure that Market Participants would have two full months of high-quality advisory results. As noted above, the ISO will have published two full months of high-quality advisory results before the earliest date that financial settlement of UDP will be proposed. Accordingly, the Commission should decline to impose any additional conditions on the ISO in this proceeding.

Certain parties filed comments advocating that the Commission impose additional filing requirements or take action in advance of the ISO's upcoming Section 205 filing through which the ISO will seek to establish a date certain for UDP to go into effect. Duke requests that the Commission reject the ISO's proposal to submit another tariff amendment seeking implementation of UDP within 10 days of filing, and Williams similarly objects to the ISO's proposed filing making UDP effective. Duke at 2; Williams at 6-7. Duke further argues that the circumstances giving rise to Amendment No. 64 suggest that the Commission should require a more detailed filing by the ISO to demonstrate that software and connectivity issues have been satisfactorily resolved. Duke at 2-3. The ISO need not make any additional findings regarding the conditions necessary for UDP to become effective. As the Commission noted in the proceeding concerning Amendment No. 62:

We agree that a two month period is a sufficient amount of time for generators to make adjustments to reflect the ISO's implementation of Phase 1B modifications. With respect to Duke's request, we previously conditioned our approval of Uninstructed Deviation Penalties, subject to the ISO's implementation of software improvements that would allow more accurate representation of ramp rates at various operating points of a generating unit, and real-time communication of a generator's outages, derates and operating problems. . . . [W]e reject Duke's requests that the Commission direct the ISO to make a more detailed filing.

California Independent System Operator Corporation, 109 FERC ¶ 61,006, at P 32 (2004). In its Section 205 filing proposing to implement UPD, the ISO will explain how it has fully complied with the Commission's prior direction. The ISO will also describe how the connectivity issues have been addressed. In any event, the proper forum for addressing these matters will be in the proceeding initiated by the Commission in response to the ISO's proposed tariff amendment seeking to make UDP effective. As that filing has not been made, it is inappropriate for the parties to prejudge that filing. No evidence has been presented to suggest that additional conditions should be imposed on the ISO's implementation of UDP.

III. CONCLUSION

Wherefore, for the foregoing reasons, the ISO respectfully requests that the Commission accept Amendment No. 64 as filed, without further condition.

Respectfully submitted,

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Date: January 5, 2005

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list for the captioned proceeding, in accordance with Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California, on this 5th day of January, 2005.

/s/ Anthony J. Ivancovich
Anthony J. Ivancovich