

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

San Diego Gas & Electric Company,)	
)	
Complainant)	
)	
v.)	Docket Nos. EL00-95-____, et al.
)	
Sellers of Energy and Ancillary)	
Services Into Markets Operated)	
by the California Independent)	
System Operator and the)	
California Power Exchange,)	
)	
Respondent .)	
)	
California Independent System)	Docket No. ER02-1656-____
Operator Corporation)	

**EMERGENCY MOTION FOR LIMITED EXTENSION OF
CURRENT PRICE MITIGATION REGIME AND
REQUEST FOR EXPEDITED CONSIDERATION**

Pursuant to Rules 212 and 2008(a) of the Federal Energy Regulatory Commission's ("Commission's") Rules of Practice and Procedure, 18 C.F.R. §§ 385.212, 385.2008(a) (2002), the California Independent System Operator Corporation ("ISO") hereby submits its Emergency Motion for Limited Extension of Current Price Mitigation Regime ("Emergency Motion"). For the reasons described below, the ISO respectfully submits that good cause exists for permitting a limited extension of the existing price mitigation regime established in the West to the earlier of (1) through 2359 hours on October 30, 2002 or (2) five (5) days after the Commission is satisfied that the Automated Mitigation

Procedures have been successfully tested¹. This will enable the ISO to complete development and thorough testing of the Automated Mitigation Procedures (“AMP”) approved by the Commission in its July 17, 2002 order in this docket. California Independent System Operator Corporation, *et al.* 100 FERC ¶ 61,060. Because of the imminent deadlines, the ISO respectfully requests expedited consideration of this motion and further requests the Commission limit the comment period on this emergency motion to no more than three (3) days.

I. The Current Price Mitigation Regime

The current price mitigation regime was established through a series of orders concerning the California markets issued in Docket Nos. EL00-95, *et al.* On April 26, 2001, the Commission issued an order on prospective price mitigation providing, among other things, that the price mitigation regime described in the order was to go into effect on May 29, 2001 and come to an end on May 28, 2002.² On June 19, 2001, the Commission issued a further order on prospective price mitigation.³ The June 19, 2001 Order modified the price mitigation regime described in the April 26, 2001 Order and provided, among

¹ The ISO notes that Commission intends to staff an office at the ISO on or near October 1, 2002. The ISO can provide on-site staff with a clear understanding of the progress of the Automated Mitigation Procedures testing.

² See *San Diego Gas & Electric Company v. Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator and the California Power Exchange*, 95 FERC ¶ 61,115, at 61,364, 61,366 (2001) (“April 26, 2001 Order”). The April 26, 2001 Order instituted a new mitigation plan to replace the structure established in a Commission order issued on December 15, 2000, *San Diego Gas & Electric Company v. Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator and the California Power Exchange*, 93 FERC ¶ 61,294 (2000).

³ *San Diego Gas & Electric Company v. Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator and the California Power Exchange*, 95 FERC ¶ 61,418 (2001) (“June 19, 2001 Order”).

other things, that the modified price mitigation regime was to go into effect on June 20, 2001 and come to an end on September 30, 2002.⁴

On May 1, 2002, the ISO submitted its Comprehensive Market Design (“MD02”) proposal in the captioned dockets.⁵ Among other things, the ISO requested that the current price mitigation regime be extended, or, if the Commission refused to extend the price mitigation regime, that the Commission accept the alternative mitigation measures requested by the ISO, including the AMP proposal, to be effective October 1, 2002.⁶ On July 17, 2002, the Commission issued an order on the MD02 submission stating, among other things, that the Commission would not extend the current price mitigation regime beyond September 30, 2002, but would approve the proposed AMP program (as modified) effective October 1, 2002.⁷

II. ISO Efforts to Implement the AMP Program

Since receiving direction from the Commission in the July 17, 2002 Order, the ISO has worked diligently to implement the AMP program by October 1, 2002. In this effort, it has even exceeded the timelines dictated by the Commission in the July 17, 2002 Order. Having been directed by the

⁴ See June 19, 2001 Order, 95 FERC at 62,567. In an order issued on July 25, 2001, the Commission made the mitigation measures described in the June 19, 2001 Order (with some adjustment based on the recommendations of Chief Administrative Law Judge Wagner) retroactive to October 2, 2000, with regard to the calculation of refunds. See *San Diego Gas & Electric Company v. Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator and the California Power Exchange*, 96 FERC ¶ 61,120 (2001). Additionally, the Commission has issued a number of other orders concerning the price mitigation regime in Docket Nos. EL00-95, *et al.*

⁵ The May 1, 2002 MD02 filing was subsequently supplemented by additional filings submitted in the captioned dockets.

⁶ See Transmittal Letter for May 1, 2002 MD02 Filing at 39-41, 45-47.

⁷ See *California Independent System Operator Corporation*, 100 FERC ¶ 61,060, at PP 64-76 and ordering paragraph (A) (2002) (“July 17, 2002 Order”).

Commission to issue a request for bids (“RFB”) for an independent entity to calculate reference prices by August 15, 2002, the ISO issued that RFB on August 9, 2002, received responses back on August 23, 2002, and selected a vendor on August 30, 2002, a full two weeks before the selection date contemplated in the Commission’s order.⁸ Despite this initial acceleration of the process, the ISO needs limited additional time to complete the work and testing required for implementation. The ISO strongly opposes changing the existing \$91.87/MWh price cap to \$250/MWh until the AMP can be properly installed, tested and implemented. The market must not be exposed to such an abrupt change in the price cap without adequate, and properly tested, market mitigation measures in place.

In preparation for software changes, the ISO developed and delivered to the software vendor on August 9, 2002 a detailed statement of work for the AMP program. The code from the vendor was delivered back to the ISO on September 10, 2002. The ISO completed unit testing on September 13, 2002, and is currently completing integration testing as well as initiating two days of market tests with Scheduling Coordinators on September 19 using simulated data. These tests used simulated data instead of actual data because the independent entity calculating reference levels is not expected to process the initial actual bid data provided by the ISO and provide reference level prices to the ISO until Monday, September 23, 2002.

⁸ See July 17, 2002 Order, 100 FERC at P 70.

In the current testing process, the ISO has identified flaws both in the AMP software and in the Imbalance Energy dispatching system⁹ with which the AMP software must interface. Consistent with past experience, the ISO expects that market testing will uncover additional problems that will require further software modifications. The ISO anticipates that the independent entity will establish initial test reference prices for individual Market Participants using actual data by September 23, 2002, and that the ISO will continue market testing the week of September 23, 2002 using such actual reference level prices and, if possible, using modified software that corrects the problems identified in prior testing. September 25, 2002 is expected to be the first day Market Participants will be able to see reference levels determined using actual data, since the ISO anticipates that it will require one day to review the initial results before using them in subsequent market testing.

The additional time that the ISO is requesting to implement AMP will allow for necessary quality checks for both: (1) the reference prices for the individual market participants and (2) the performance of the AMP software code. In addition to allowing adequate time to correct the software problems and conduct market tests with the repaired software, the delay will allow Market Participants to receive a settlement statement which will allow them to see the impacts of the Locational Market Power Mitigation (“LMPM”) features of AMP.

If the ISO is required to adhere to the October 1, 2002 date, these quality checks and the simulated billing statement will be omitted. The result will likely

⁹ The ISO’s Balancing Energy Ex Post Pricing, or “BEEP” system.

be a tremendous volume of billing disputes that will result in an enormous drain on ISO and Market Participant resources over the upcoming months, resources that are already stretched thin requiring to support the MD02 stakeholder process, the Commission's standardized market design rulemaking, and the California refund proceeding, as well as ongoing market activities.

Moreover, many Scheduling Coordinators rely on third party vendors to implement ISO market changes. The requested delay will provide any third party software vendors engaged by the Scheduling Coordinators with additional time to integrate these changes into legacy systems.

An extension of the AMP implementation date is also warranted because such extension will permit adequate time for Scheduling Coordinators to provide the Independent Entity Reference Level Calculator (Potomac Economics, Ltd.) with supplemental data describing energy limitations and other factors that could affect their reference price level calculations.¹⁰ Allowing for additional time and an iterative process between Scheduling Coordinators and Potomac Economics, Ltd. to finalize this information will minimize the number of disputes that arise as the result of mitigation.

A final benefit of the limited extension is that there will be sufficient time to stabilize the software platform and load the AMP software in an environment that minimizes the likelihood for additional problems after implementation. If problems with the AMP software are not discovered until after the AMP are

¹⁰ The ISO sent out a market notice requesting this additional information on September 17, 2002. Potomac Economics, Ltd.'s letter requesting this information can be found at <http://www.caiso.com/docs/2002/09/17/2002091713120120224.pdf>.

implemented, the result might be unjust and unreasonable prices in the ISO's markets, the need for retroactive settlement adjustments and market re-runs, and other problems that may be avoided through prudent implementation.

Furthermore, the application of the Commission's Must Offer Obligation notwithstanding, the ISO has observed that Market Participants often choose not to participate in the ISO's markets following significant changes to the ISO's markets if they do not have confidence in such changes. The ISO, as a net importer of electricity, cannot afford the loss of participation in its markets. The delay requested should provide enough time for thorough testing to instill confidence that the AMP software is performing as intended.

For these reasons, the ISO submits that good cause exists to warrant an extension of the current price mitigation regime so that the price mitigation regime will end on earlier of (1) through 2359 hours on October 30, 2002, or (2) five (5) days after the Commission is satisfied that the AMP have been successfully tested.

Should the Commission choose to act on any of the protests filed by market participants on the ISO's August 21, 2002 Tariff filing in compliance with the Commission's July 17, 2002 Order, particularly on the issue of whether bids below \$91.87/MWh would ever be mitigated by the AMP, the ISO requests that the Commission act expeditiously. If the Commission modifies the ISO's as-filed AMP, the ISO requests an additional two (2) week extension of the existing price mitigation beyond the extension requested in the instant Emergency Motion from the time the Commission notifies the ISO of the modification. Such extension

would be necessary to develop, implement and adequately test the required software code changes with Market Participants.

III. Motion for Expedited Consideration

In order to properly implement the Commission's mitigation methodology, the ISO respectfully requests expedited consideration of this motion.

Accordingly, the ISO respectfully requests the Commission to shorten the fifteen-day period for answers to three (3) days. Moreover, the ISO notes that, concurrently with the instant filing, it is also filing an update to the MD02 filing contained in Amendment No. 44, as filed on May 1, June 17 and 28, 2002, to clarify and modify certain details of the MD02 provisions that must be modified in the near future. Because of the imminent deadlines, the ISO has requested in the update filing that should the Commission grant the requested extension of the existing price mitigation as proposed herein, the requested effective dates of the several Tariff clarifications in the update filing be modified to become effective on the day after the extended price mitigation expires.

IV. Conclusion

WHEREFORE, the ISO respectfully requests that the current price mitigation regime established in the West be extended so that the price mitigation regime will end at the earlier of (1) through 2359 hours on October 30, 2002, or (2) five (5) days after the Commission is satisfied that the AMP have been successfully tested.

Respectfully submitted,

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Attorneys for the California Independent System Operator Corporation

Dated: September 20, 2002



September 20, 2002

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

**Re: San Diego Gas & Electric Company v. Sellers of Energy and
Ancillary Services Into Markets Operated by the California
Independent System Operator and the California Power
Exchange
Docket No. EL00-95-____, et al.**

**California Independent System Operator Corporation
ER02-1656-____**

Dear Secretary Salas:

Enclosed for electronic filing, please find the Emergency Motion For
Limited Extension Of Current Price Mitigation Regime And Request For
Expedited Consideration

Thank you for your assistance in this matter.

Respectfully submitted,

Anthony J. Ivancovich
Counsel for the California Independent
System Operator Corporation

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the Emergency Motion For Limited Extension Of Current Price Mitigation Regime And Request For Expedited Consideration upon each person designated on the official service list compiled by the Secretary in the above-captioned dockets.

Dated at Folsom, California, on this 20th day of September, 2002.

Anthony J. Ivancovich

