

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

San Diego Gas & Electric Company,)	
Complainant,)	
)	
v.	)	Docket Nos. EL00-95-058
	)	EL00-95-062
	)	EL00-95-053
Sellers of Energy and Ancillary Services	)	EL00-95-031
Into Markets Operated by the California	)	EL01-68-012
Independent System Operator and the	)	EL01-68-013
California Power Exchange,)	
Respondents)	
Investigation of Practices of the California	)	Docket Nos. EL00-98-051
Independent System Operator and the	)	EL00-98-047
California Power Exchange	)	EL00-98-042
	)	EL00-98-038
	)	EL00-98-033
	)	EL00-98-009

**MOTION FOR CLARIFICATION AND REQUEST FOR
EXPEDITED CONSIDERATION OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR
CORPORATION**

Pursuant to section 313(a) of the Federal Power Act, 16 U.S.C. § 825I(a), and section 212 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.212, the California Independent System Operator Corporation (“ISO”)¹ respectfully submits this Motion for Clarification and Request For Expedited Consideration of the Federal Energy Regulatory Commission’s (“Commission”) “Order On Rehearing, Reconsideration, and Clarification”² issued on July 11, 2002 in the above-referenced dockets. Specifically, the ISO requests that the

¹ Capitalized terms not otherwise defined herein are used in the sense given in the Master Definitions Supplement, Appendix A to the ISO Tariff.

² 100 FERC ¶ 61,050 (2002) (“July 11 Order”)

Commission clarify: (1) whether entities will be able to submit bids above the \$91.87/MWh cap imposed by the July 11 Order, and, if such bids are accepted by the ISO, such bids would be subject to refund and justification, and (2) whether the ISO should continue to use proxy prices either to Dispatch Generating Units during System Emergencies or for Imbalance Energy Market bids of available capacity as required under the Must Offer Obligation.

I. Background

A. Justification of Bids Above the Mitigated Market Clearing Price

On April 26, 2001, the Commission issued an order establishing a prospective mitigation and monitoring plan for the wholesale spot markets operated by the ISO.³ The Commission prescribed a specific method for calculating a mitigated reserve deficiency Market Clearing Price (“MCP”) during periods of reserve deficiency.⁴ The mitigation plan established in the April 26 Order allowed generators to submit bids above the mitigated MCP, and to be paid what they bid, “subject to refund and justification.” *Id.* The Commission explained the required above-clearing price justification as follows:

At the end of each month in which a generator submits a bid higher than the market clearing price, the generator must file with the Commission and the ISO, within seven days of the end of the month, its complete justification, including a detailed breakdown of all of its component costs, for each transaction exceeding the market clearing price established by the proxy bid. This justification must be based on a showing of actual marginal costs higher than the market-clearing price.

³ San Diego Gas & Electric Co. *et al.*, 95 FERC ¶ 61,115 (2001) (“April 26 Order”).

⁴ April 26 Order at 61,359. The Commission stated that its plan would “establish price mitigation for available capacity in real time when there is a reserve deficiency during emergency stages beginning with Stage 1” which it defined as “applicable to all conditions defined by the ISO as beginning when reserves fall below 7.5%.” 95 FERC at 61,358.

Id. (footnote omitted).

On June 19, 2001, the Commission acted on requests for rehearing and clarification of the April 26 Order, and Commission expanded the mitigation plan to encompass the whole Western Systems Coordinating Council (“WSCC”) (now, the Western Electric Coordinating Council) at all times.⁵ The June 19 Order retained the provision allowing generators to justify above mitigated MCP bids. 95 FERC at 62,547.

On December 19, 2001, the Commission issued an Order requiring “the ISO to modify its Tariff to make recalculation of the mitigated prices triggered when reserves in California fall below 7 percent.”⁶ The ability of generators to justify bids above the MCP was retained in this order, as well, but the Commission clarified that generators would be required to justify only those bids above the mitigated MCP that are accepted. 97 FERC at 62,365.

Finally, in the July 11 Order, the Commission discontinued the mitigated MCP system of the April 26 Order, and imposed a \$91.87/MWh “hard cap”. 100 FERC, slip op. at 11.

B. Proxy Prices

In the April 26 Order, the Commission established price mitigation for bids in the ISO’s Real Time Imbalance Energy Market during System Emergencies. Specifically, the Commission ordered “price mitigation for all

⁵ San Diego Gas & Electric Co. *et al.*, 95 FERC ¶ 61,418 (2001) (“June 19 Order”).

⁶ San Diego Gas & Electric Co. *et al.*, 97 FERC ¶ 61,293 at 62,364 (2001) (“December 19 Order”).

generators in California, including non-public utility generators, with available capacity during periods of reserve deficiency, defined as emergency situations beginning at stage 1 (i.e., when reserves are 7.5 percent or less). “ 95 FERC at 61,358.

Therefore, in the April 26 Order, the Commission adopted a price mitigation plan under which:

“each gas-fired generator in California (both those signing PGAs and covered non-public utility gas-fired generators) will file with the Commission and the ISO (on a confidential basis) the heat rate and emission rate for each generating unit . . . The ISO will use these heat rates to calculate a marginal cost for each generator [the Generator’s “Proxy Price”] by using a proxy for the gas costs, emission costs, and a \$2.00 adder for operation and maintenance expenses.”⁷

95 FERC at 61,358-59.

Thus, the April 26 Order established a method for calculation of proxy prices for Generating Units. The proxy prices then are used for merit order Dispatch and calculation of the single MCP in the ISO’s Imbalance Energy Market during System Emergencies.

In its May 25, 2001 “Order Providing Clarification And Preliminary Guidance On Implementation Of Mitigation And Monitoring Plan For The California Wholesale Electric Markets,” 95 FERC ¶ 61,275 (2001), the Commission directed the ISO to use each relevant average hourly mitigated

⁷ In subsequent orders, the Commission increased to \$6.00/MWh the adder for operation and maintenance expenses and modified the source and calculation of the proxy price for natural gas.

Imbalance Energy Price to calculate the market clearing price for Ancillary Services.

In its June 19 Order, the Commission instituted a two-part approach to price mitigation for spot markets to cover all hours in California and the WSCC. Specifically, the Commission directed that the ISO and the WSCC employ a maximum MCP for spot market sales in all non-emergency (or non-reserve deficiency) periods that is eighty-five percent (85%) of the highest ISO hourly MCP established when the last Stage 1 System Emergency was in effect. 95 FERC at 62,548.

In the July 11 Order, the Commission established “as of the first trading hour on the day following the date this order issues, an MMCP of \$91.87/MWh as a hard price cap which will remain in effect until the expiration of the Commission’s price mitigation measures on the last trading hour on September 30, 2002.” July 11 Order, slip op. at 12.

The other use the ISO makes of proxy bids relates to the Must Offer Obligation. Specifically, should a Generating Unit subject to the Must Offer Obligation fail to bid any available capacity into the ISO Imbalance Energy Market, the ISO will, through the BEEP stack, insert proxy price bids for such capacity.⁸

⁸ The ISO proposed this use of proxy prices in its May 11, 2001 compliance filing submitted in response to the April 26 Order, and the Commission adopted the proposal in its December 19 Order.

II. Request for Clarification

The July 11 Order did not specify whether generators would be able to justify bids that are above the new price cap. under the new mitigation scenario. In the interest of price certainty, the ISO requests that the Commission clarify whether bids above the \$91.87/MWh cap should be accepted subject to justification and refund, or if such bids simply should be rejected.

In addition, by fixing the MCP cap at \$91.87/MWh, the Commission necessarily halted the ISO's calculation of the Non-Emergency Clearing Price Limit based upon proxy prices for bids Dispatched during System Emergencies. Moreover, the Commission was clear that the fixed cap is to be used for all hours through September 30, 2002. Therefore, the ISO is concerned whether proxy prices should be used in System Emergencies. Given that the July 11 Order did not specify whether the ISO nonetheless should continue to employ proxy prices during a System Emergency, the ISO seeks clarification on this point. Also, inasmuch as the July 11 Order is narrowly focused on the MCP only, the ISO believes that the Commission did not intend that the ISO stop using proxy prices for available capacity that is to be bid into the Imbalance Energy Market in accordance with the Must Offer Obligation. Accordingly, the ISO requests that the Commission clarify whether the ISO should continue this other use of proxy prices.

III. Request For Expedited Consideration

In order to implement the Commission's mitigation methodology properly, and to avoid uncertainty on the part of Market Participants, the ISO respectfully requests expedited consideration of this motion. Accordingly, the ISO requests that the Commission shorten the fifteen-day period for answers to seven days or such other period as it deems appropriate.

IV. Conclusion

Wherefore, for the reasons discussed above, the ISO respectfully requests that the Commission clarify its intent with regard to cost justification for bids above \$91.87/MWh cap and whether proxy prices should be used for Dispatch in the ISO Imbalance Energy Market during System Emergencies or for available capacity bids under the Must Offer Obligation.

Respectfully submitted,

Charles F. Robinson
Margaret A. Rostker
The California Independent System
Operator Corporation
151 Blue Ravine Road
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Tel: (916) 608-7147

Dated: July 18, 2002



July 18, 2002

The Honorable Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 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 Nos. EL00-95-031, EL00-95-053, EL00-95-058, EL00-95-062, EL01-68-012, EL01-68-013**

**Investigation of Practices of the California Independent System Operator and the California Power Exchange
Docket Nos. EL00-98-009, EL00-98-033, EL00-98-038, EL00-98-042, EL00-98-047, EL00-98-051**

Dear Secretary Salas:

Enclosed for electronic filing please find the Motion for Clarification and Request for Expedited Consideration of The California Independent System Operator Corporation in the above-referenced dockets.

Thank you for your assistance in this matter.

Respectfully submitted,

Margaret A. Rostker
Counsel for The California Independent
System Operator Corporation

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in the above-captioned dockets.

Dated at Folsom, California, on this 18th day of July, 2002.

Margaret A. Rostker