

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

California Independent System	)	Docket Nos.	ER02-1656-017
Operator Corporation	)		ER02-1656-018
	)		ER02-1656-019
	)		ER04-928-000
	)		and
Public Utilities Providing Service in	)		
California under Sellers' Choice	)		EL04-108-000
Contracts	)		

**MOTION FOR EXTENSION OF TIME**

Pursuant to Rules 212 and 2008 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.212 and § 385.2008 (2004), the California Independent System Operator Corporation ("CAISO")<sup>1</sup> moves for an extension of the deadline for filing tariff language pursuant to the Commission's June 17, 2004 Order on Further Development of the California ISO's Market Redesign<sup>2</sup> and Establishing Hearing Procedures, 107 FERC ¶ 61,274 (2004) ("June 17 Order") and the Commission's Order on Rehearing of the California ISO's Market Redesign, issued on September 20, 2004, 108 FERC ¶ 61,254 (2004) ("September 20 Order"). Specifically, the CAISO requests that the Commission grant an extension of time -- until November 30, 2005 -- for the CAISO to file the Tariff language on the seven market design elements identified in the June 17 Order. The CAISO proposes herein to file a comprehensive MRTU Tariff that will include **all** MRTU Tariff language, not just the limited Tariff language required by the

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<sup>1</sup> Capitalized terms not otherwise defined herein have the meaning set forth in the ISO Tariff Master Definitions Supplement, Appendix A.

<sup>2</sup> The ISO's market redesign has been termed "Market Redesign and Technology Update" or "MRTU".

June 17 Order, by November 30, 2005. As explained below, good cause supports the motion because the extension of time will permit the CAISO to finalize the market design elements, ensure that the tariff revisions that were the subject of the June 17 Order are well integrated into the overall tariff, engage in a meaningful stakeholder process to review the proposed comprehensive MRTU tariff language, and still provide approximately a year between the CAISO's requested filing date and the proposed implementation date of the redesigned market.

## **I. Background**

On May 1, 2002, the CAISO filed a proposal to redesign the California electricity market fundamentally. On July 17, 2002, the Commission issued an order accepting in part, rejecting in part, and directing modifications of the CAISO's proposal.<sup>3</sup>

On July 22, 2003, the CAISO filed a revised conceptual proposal. On October 28, 2003, the Commission issued a guidance order approving, in principle, many of the conceptual design elements submitted by the CAISO.<sup>4</sup> The Commission also sought additional information and explanation of some elements of the CAISO's proposal; and established technical conferences to address other issues. After two technical conferences, a series of comments and reply comments between Market Participants, state agencies and the CAISO, on May 11, 2004 the CAISO filed revised proposals on elements discussed at the technical conferences.<sup>5</sup>

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<sup>3</sup> *California Independent System Operator Corporation*, 100 FERC ¶ 61,060 (2002).

<sup>4</sup> *California Independent System Operator Corporation*, 105 FERC ¶ 61,140 (2003).

<sup>5</sup> See "Comments of the California Independent System Operator Corporation Regarding Technical Conference", Docket No. ER02-1656-017, filed May 11, 2004 ("May 11 Revised Proposal").

On June 17, 2004, the Commission issued an order addressing seven issues from the revised proposal: the proposed must offer obligation, Residual Unit Commitment (“RUC”), the hour-ahead market, ancillary services, constrained output generators (“COGs”), marginal losses, and virtual bidding.<sup>6</sup> The Commission also commented on the progress of other significant issues, such as existing transmission contracts (“ETCs”), sellers’ choice contracts, and congestion revenue right (“CRR”) allocation. On September 20, 2004, the Commission issued an Order on Rehearing.<sup>7</sup>

In the June 17 Order, FERC directed the CAISO to file tariff language on the seven specified elements by December 15, 2004. Various parties filed requests for rehearing and/or clarification on FERC’s substantive guidance on such matters as the flexible offer obligation/real time must offer obligation and related waiver; the application of the flexible offer obligation to extra-long start-up time units; start-up and minimum load (“SU/ML”) payments; re-bidding Day-Ahead RUC Energy prices; netting of start-up and minimum load costs; self-provision of RUC; mitigation of RUC; whether the hour-ahead market should be of a simplified or financially binding design; ancillary services procurement; constrained output generators; the appropriateness of marginal losses for the California market; the level of detail in the CAISO proposal on marginal losses; the distribution of surplus revenue from marginal losses; alternate proposals for intermittent resources; and virtual bidding.

In the September 20 Order, the Commission addressed those requests for rehearing. The Commission modified or clarified its guidance on five issues: the

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<sup>6</sup> *California Independent System Operator Corporation*, 107 FERC ¶ 61,274 (2004) (“June 17 Order”).

<sup>7</sup> *California Independent System Operator Corporation*, 108 FERC ¶ 61,254 (2004) (“September 20 Order”).

application of the flexible offer obligation to extra-long start-up time units (P 17); SU/ML payments (P 19); self-provision of RUC (P 32); the level of detail in the CAISO proposal on marginal losses (P 62); alternate proposals for intermittent resources (P 69); and virtual bidding (P 73). The Commission reserved decision on aspects of three issues: mitigation measures for the California markets (P 24); whether the hour-ahead market should be of a simplified or financially binding design (P 46); and ancillary services procurement (P 50). Finally, the Commission affirmed its rulings on other issues, including the waiver process (P 15); netting of start-up and minimum load costs (P 30); mitigation of RUC (P 34); constrained output generators (P 55); the appropriateness of marginal losses for the California market (P 60); and the distribution of surplus revenue from marginal losses (P 66);

Despite the modifications and additions to its directives and findings in the June 17 Order, the Commission's September 20 Order left in place the December 15 filing date for the revised tariff language on the seven specified issues. Moreover, the Commission stated that it expected the December 15 filing to provide not only language on the seven issues specified in the June 17, but also language indicating how they fit in the context of the overall Integrated Forward Market. P 77.

## **II. Motion for Extension of Time**

In the June 17 Order, the Commission required the CAISO to file tariff language on the seven design elements within 180 days. June 17 Order at Ordering Paragraph (A). In the September 20 Order, the Commission reiterated and expanded this requirement. September 20 Order at Ordering P A. The 180-day period ends on December 15, 2004. The CAISO respectfully requests that the Commission extend the

deadline for submitting the required tariff language in accordance with the CAISO's proposed schedule and work plan for submitting a comprehensive MRTU Tariff, as described in the next section. Extending the tariff filing deadline in accordance with the CAISO's schedule and work plan will lead to a more comprehensive and integrated tariff drafting process and submission, provide an opportunity for extensive stakeholder review, allow the CAISO to incorporate the Commission's rulings on the conceptual filings the CAISO will make in the first quarter of 2005, and provide adequate time for Commission consideration of the tariff (as well as any necessary compliance filings) prior to implementation of the new market design.

**A. The Extension Will Allow for a More Comprehensive Tariff Submission**

The Commission's June 17 and September 20 Orders require the CAISO to submit tariff language covering seven issues: the must offer obligation, residual unit commitment, the hour-ahead market, ancillary services procurement, constrained output generators, marginal losses, and virtual bidding. While the CAISO appreciates and shares the Commission's desire to finalize the details with respect to these targeted design elements, the CAISO submits that it would be more practical and efficient to finalize the remaining design concepts and submit a comprehensive and integrated tariff at a later date.

First, the CAISO recognizes that several key features of the revised market design need to be finalized. These include the process for allocating CRRs, the treatment of ETCs, details regarding the Hour-Ahead market, market power mitigation measures, impacts of the California Public Utilities Commission's October 28, 2004 order on resource adequacy, the treatment of Sellers' Choice contracts, and other

specific design issues identified as a result of a recently commissioned third-party review of the CAISO's proposed market design. The Commission has stated that several of these issues will proceed separately in different dockets. September 20 Order at PP 78-81. Therefore, it is not possible to include them in any meaningful way in tariff language to be filed December 15, 2004.

Second, the CAISO and the Commission have often been subject to complaints that components of the MRTU should not be considered in a piecemeal fashion, and that it is impossible to judge the merits of certain proposals without being able to see how they fit into a comprehensive market design. Attempting to perfect only those design elements specified by the June 17 and September 20 Orders in isolation, as it were, could lead to unforeseen disconnects when the final package is completed. Indeed, separately focusing only on these seven elements would be the very definition of piecemeal market design. With the extremely tight schedule provided by the Orders, the CAISO would be unable to ensure that the market design -- and the related tariff language -- is complete and integrated.

Third, the current CAISO Tariff was the product of a rushed process to start-up the CAISO. The existing Tariff is extremely cumbersome, repetitive in parts, and has been the subject of numerous amendments, many of which were proposed to correct inconsistencies created or exacerbated by the initial suboptimal design. Given the extensive changes in the revised market design, the CAISO envisions taking this opportunity to overhaul the entire CAISO Tariff. This would include efforts to simplify the Tariff, remove redundancy, update provisions in areas such as creditworthiness and liability to reflect more recent Commission decisions, and standardize the CAISO Tariff

to a format more similar to other regional transmission providers' tariffs by using their tariffs as a model. This will ensure greater standardization and efficiency. Such a general tariff overhaul, despite its numerous merits, would be impossible under the timeframe permitted by the Orders. Yet nothing less than a complete overhaul of the CAISO's existing Tariff is needed. Overhauling the Tariff at the same time the new market design is being specified and developed will be far more efficient than integrating the new design into the existing Tariff and, then some time after that, reorganizing the Tariff.

In addition, in approving the CAISO's proposal for an IFM, the Commission recognized the efficiency benefits to be gained by bringing the elements of the CAISO market together. The CAISO agrees with the Commission's recognition in the September 20 Order that incorporating the IFM into the Tariff contemporaneously with the other design elements discussed in the Orders is appropriate and desirable. However, doing so significantly expands the task and requires an extension of the December 15 deadline.

**B. The Extension Will Allow for a More Robust Stakeholder Review**

CAISO stakeholders have often indicated that they would have appreciated additional time to review drafts of tariff amendments and market design elements before they are filed with the Commission, and, in fact, have requested additional time to review CAISO Tariff filings on numerous occasions.<sup>8</sup> The Commission, too, has encouraged the CAISO to allow for adequate stakeholder review of and input on such

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<sup>8</sup> See, e.g., "Motion to Intervene and Request for Additional Time to File Comments of the Independent Energy Producers Association and Supporting Parties" filed in Docket No. ER03-1102 (regarding ISO Tariff Amendment No. 55) on August 6, 2003.

matters, including the market redesign effort.<sup>9</sup> Moreover, the CAISO sincerely hopes that an extensive stakeholder process in 2005 will serve to minimize the number of issues that require Commission resolution. The CAISO remembers well the almost 700 unresolved issues in Docket Nos. ER98-3760, EC96-19 and ER96-1663 and has no desire to repeat that process.

The CAISO has already submitted, and had to withdraw, tariff language for its market redesign that was prepared on an expedited basis and which has been superseded by further evolution of the market design. The CAISO has no desire to repeat that process. While there will inevitably be revisions as drafts are circulated and stakeholder comments are incorporated, the expectation is that a collaborative and iterative process will produce a better and more comprehensive document and, more significantly, narrow the issues that will ultimately require resolution by the Commission.

**C. The Extension Will Still Allow Sufficient Time for Commission Action Prior To Implementation**

The CAISO currently anticipates implementing the revised market design in February 2007. Accordingly, if the CAISO were to submit its comprehensive MRTU replacement tariff by November 30, 2005, it would still provide the Commission with adequate time to consider any comments and render its decision -- and for the CAISO to submit any necessary compliance filing(s) -- well in advance of MRTU implementation.

Granting the extension should allow the CAISO, stakeholders, and the Commission to use their resources more effectively to try to “get it right” from the start,

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<sup>9</sup> See, e.g., *California Independent System Operator Corporation*, 101 FERC ¶ 61,266 (2002) at P 8 and footnote 7.



thereby avoiding the problems and consequential serial amendments associated with California's initial rushed effort at market formation.

Again, the CAISO appreciates and shares the Commission's desire to move the redesign process forward as fast as possible. The CAISO also understands the need to prepare and finalize its revised operating tariff expeditiously. What the CAISO seeks through the work plan set forth below is to provide an aggressive but reasonable schedule to manage the tariff preparation process in concert with systems development and testing and to provide for adequate stakeholder input and Commission review, without delaying the ultimate project implementation date.

### **III. Proposed Schedule and Work Plan**

As indicated above, the CAISO still must finalize several key elements of the new market design. In that regard, the CAISO intends to make (at least) three conceptual filings with the Commission in the first quarter of 2005 -- one dealing with the Hour-Ahead market, a second dealing with resource adequacy/market power mitigation and a final filing by March 31, 2005 dealing with all remaining outstanding policy issues that materially impact MRTU systems and/or software development. The CAISO's objective is to resolve all outstanding policy issues by May 31, 2005. Resolution of the issues by that date will enable the CAISO to produce a first draft of Tariff language by June 30, 2005 and thereafter engage in a meaningful stakeholder review of the Tariff language so that the final comprehensive Tariff language can be filed with the Commission by November 30, 2005. The CAISO intends to stage resolution of the open design issues in a way that minimizes project schedule risk. In that regard, the CAISO will endeavor to resolve those issues that are likely to have the greatest impact on systems/software

earlier in the year and reserve for the final conceptual filing those issues that will not substantially impact the MRTU project. The MRTU Tariff development schedule set forth below is predicated on resolution of all such outstanding policy issues by that date. Based on these assumptions, the CAISO has developed the following proposed schedule and work plan for the development and filing of the comprehensive MRTU Tariff with the Commission:

	<b>Start</b>	<b>End</b>
CAISO drafting of the MRTU Tariff	1/1/05	6/30/05
Stakeholder review of and process regarding draft MRTU Tariff	7/1/05	8/31/05
CAISO re-draft of MRTU based on stakeholder input	9/1/05	10/15/05
Stakeholder review of and process regarding revised MRTU Tariff	10/16/05	11/16/05
CAISO re-draft of MRTU Tariff based on stakeholder input		
CAISO Board approval of MRTU Tariff filing	11/05	
File MRTU Tariff at FERC	11/30/05	

The CAISO also is receptive to convening a technical conference early in 2005 to discuss the specific process that might be followed for purposes of (1) facilitating stakeholder review of the MRTU Tariff language and (2) allowing adequate opportunity for meaningful stakeholder input on the Tariff language -- within the confines of the general framework and timeline specified above. In particular, it is important that the November 30, 2005 filing date not be extended. The CAISO submits that the proposed schedule is both realistic and reasonable. Filing the MRTU Tariff by November 30, 2005 effectively balances the need to maintain the MRTU project schedule with the need to allow adequate stakeholder review of and comment on the proposed Tariff

language. The proposed timeline will reduce the potential for delays in the project implementation schedule. In that regard, if the Commission were to make changes to the Tariff language that would require the CAISO to make changes to the MRTU systems and/or software, the CAISO would need to know about such changes as soon as possible to minimize the risk to the established MRTU project schedule. Filing the MRTU Tariff at a later date increases the potential for delays in MRTU implementation in the event the Commission orders changes that require software or systems modification. A critical milestone to remember is January 2006 -- the timeframe in which the CAISO will commence system integration in accordance with the established MRTU project schedule.

Also, a November 30, 2005 filing date will allow ample time for Commission review of a completely overhauled Tariff, as well as allow the CAISO to file any necessary compliance filing(s) prior to the effective date of MRTU implementation. That would allow fully-approved Tariff language to be in place at the time MRTU is implemented. Thus, the process for stakeholder review of MRTU Tariff language that is ultimately adopted must not delay the proposed Tariff filing date.

The CAISO also believes that it is important to circulate a comprehensive MRTU Tariff for review by stakeholders, rather than engage in a process whereby the Tariff is reviewed, revised, and re-drafted in a piecemeal fashion that ignores the integrated nature of the document. The Tariff is an integrated document and not merely a collection of separate, standalone, unrelated sections. Thus, the CAISO's work plan contemplates that stakeholders will review and comment on the MRTU as an integrated document. This should promote efficient review of the draft Tariff without the need to

“double-back” and redraft previously reviewed sections that have to be modified due to subsequent changes in other “related” but separately drafted and reviewed sections of the Tariff. Thus, the process for stakeholder review of the MRTU Tariff that is ultimately adopted must recognize the integrated nature of the document and allow for circulation of a comprehensive MRTU Tariff for review by stakeholders.

Within the confines of this general framework, and subject to the principles identified above, the CAISO believes that there is an opportunity for the CAISO and stakeholders to establish a process that will optimize stakeholder review of and input regarding the draft comprehensive MRTU Tariff.

#### **IV. CONCLUSION**

For the reasons discussed above, the CAISO respectfully requests that the Commission grant an extension of time for the submittal of the tariff language implementing MRTU consistent with the discussion herein.

Respectfully submitted,

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Dated: December 13, 2004



December 13, 2004

The Honorable Magalie Roman Salas  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, DC 20426

**Re: California Independent System Operator Corporation  
Docket No. ER02-1656-017, ER02-1656-018, ER02-1656-019 and  
ER04-928-000**

**Public Utilities Providing Service in California under Sellers' Choice  
Contracts  
EL04-108-000**

Dear Secretary Salas:

Enclosed please find an electronic filing of the Motion for Extension of Time of  
The California Independent System Operator Corporation.

Thank you for your attention to this filing.

Respectfully submitted,

**/s/ Anthony J. Ivancovich**  
Anthony J. Ivancovich

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 service list compiled by the Secretary in this proceeding.

Dated at Folsom, CA this 13th day of December, 2004

**/s/ Anthony J. Ivancovich**  
Anthony J. Ivancovich