

February 14, 2000

The Honorable David P. Boergers
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: AES Redondo Beach, L.L.C., et al.
Docket Nos. ER98-2843-008 et al.**

Dear Secretary Boergers:

Enclosed for filing please find an original and fourteen copies of Tariff sheets for the California Independent System Operator Corporation ("ISO") FERC Electric Tariff, Original Volumes I and III, submitted in compliance with the Commission's January 14, 2000 order in the above-captioned proceeding.¹

On March 1, 1999, the ISO filed Amendment No. 14 to the ISO Tariff in the above-captioned proceeding.² Amendment No. 14 included a series of proposed revisions to the ISO Tariff that constituted Phase I of the ISO's comprehensive redesign of its Ancillary Service markets, in compliance with the Commission's October 28, 1998 order in Docket Nos. ER98-2843 *et al.*³ In Amendment No. 14, the ISO proposed to modify its Tariff provisions concerning the allocation of Ancillary Service obligations and costs on the basis of metered

¹ *AES Redondo Beach, L.L.C. et al.*, 90 FERC ¶ 61,036 (2000)("January 14 Order").

² Capitalized terms not otherwise defined herein are used in the sense given in the Master Definitions Supplement, Appendix A to the ISO Tariff.

³ *AES Redondo Beach, L.L.C., et al.*, 85 FERC ¶ 61,123 (1998).

Demand, which had been approved as part of Amendment No. 13 to the ISO Tariff.⁴ Part of the modifications proposed in Amendment No. 14 addressed the opportunity created by those provisions for a Scheduling Coordinator to withdraw in the Hour-Ahead Market, self-supplied Ancillary Service capacity that was committed in the Day-Ahead Market. These modifications are referred to hereafter as the "buy-back proposal."

On May 26, 1999, the Commission issued an order in the above-captioned dockets, which accepted Amendment No. 14 with certain modifications.⁵ The May 26 Order accepted the ISO's proposal to charge Scheduling Coordinators the Hour-Ahead Market price for Ancillary Services capacity scheduled in the Day-Ahead Market but voluntarily withdrawn before the Hour-Ahead Market.⁶ The Commission rejected the buy-back proposal "as it applies to self-provided capacity that is withdrawn involuntarily by the [Scheduling Coordinator] on instruction from the ISO", as in the case of a transmission line derating or a change in generation schedules.⁷

The ISO sought rehearing of the May 26 Order's limitation on the buy-back proposal. In its June 25, 1999 request for rehearing, the ISO asserted that this limitation would result in inappropriate shifting of costs to other Market Participants and would be inconsistent with the obligations of suppliers in the ISO's Ancillary Service and Imbalance Energy markets. The ISO also moved for a stay of that portion of the May 26 Order pending the Commission's consideration of the ISO's rehearing request.

On July 26, 1999, the Commission issued its Order Granting Rehearing for Purpose of Further Consideration, Denying Rehearing in Part, and Denying Stay in this proceeding.⁸ In the July 26 Order, the Commission denied the ISO's request for rehearing on the buy-back limitation and denied the ISO's motion for partial stay of this portion of the May 26 Order.

On August 6, 1999, the ISO submitted revisions to the ISO Tariff to reflect the May 26 Order's directive that the buy-back proposal not apply to involuntary withdrawals of self-provided Ancillary Services capacity by a Scheduling Coordinator on the instruction of the ISO.

A number of other parties also sought clarification of and/or rehearing of aspects of the May 26 Order. The Commission did not address all of these requests in the July 26 Order. On January 14, 2000, the Commission issued its Order on Rehearing, Directing Compliance Filing, Granting Clarification, and

⁴ *California Independent System Operator Corp.*, 86 FERC ¶ 61,122 (1999).

⁵ *AES Redondo Beach, L.L.C., et al.*, 87 FERC ¶ 61,208 (1999) ("May 26 Order").

⁶ May 26 Order, 87 FERC at 61,814.

⁷ *Id.*

⁸ *AES Redondo Beach, L.L.C., et al.*, 88 FERC ¶ 61,096 (1999) ("July 26 Order").

Accepting Compliance Filing in this proceeding. In the January 14 Order, the Commission accepted the revised Tariff sheets filed by the ISO in this proceeding on August 6, 1999, finding that "the ISO has complied with the directive in the May 26 Order to limit the buy-back to self-provided capacity voluntarily withdrawn by a Scheduling Coordinator."⁹ In response to a request for clarification, however, the Commission also clarified:

. . . that the ISO's buy back proposal should treat self-schedulers of Ancillary Services equally to those Scheduling Coordinators who sell Ancillary Services in the ISO markets. That is, only Ancillary Services that are voluntarily withdrawn from the day-ahead schedule by a Scheduling Coordinator, regardless of whether they are self-supplied or sold into the market, should be subject to the ISO's buy back proposal; for those schedules which are involuntarily withdrawn at the direction of the ISO, the buy back should occur at the day-ahead price.¹⁰

The Commission directed the ISO to submit a compliance filing revising the buy-back provisions of the ISO Tariff in accordance with this clarification within 30 days of the January 14 Order.

The Commission also reiterated in the January 14 Order a recommendation it originally made in the May 26 Order. In the May 26 Order, the Commission stated that:

For the longer term, we encourage the ISO to consider implementing a bidding mechanism to address situations in which it must reduce the capacity self-provided or sold into the Ancillary Services markets. . . . Allowing sellers and self-providers of Ancillary Services to submit adjustment bids [to address such situations] would allow the ISO to reduce ancillary service capacity in various locations as needed more efficiently and in a way that is mutually beneficial to suppliers and the ISO.¹¹

First, the ISO notes that it is committed to exploring and, if possible, implementing market-based methods that allow Market Participants to respond to changing system conditions (*i.e.*, congestion and transmission line derates). As a general matter, the ISO agrees that it always preferable to utilize market (*i.e.*, price-based) versus penalty-based mechanisms that enable the ISO to efficiently and reliably operate the transmission system. Second, as the Commission is aware, the integration of Ancillary Services procurement and scheduling and Congestion Management (AS/CONG Integration) has long been an item targeted

⁹ January 14 Order, 90 FERC ¶ 61,036, slip op. at 14.

¹⁰ *Id.*, slip. op. at 6-7.

¹¹ May 26 Order, 87 FERC at 61,815.

for implementation by the ISO.¹² AS/CONG Integration has been actively considered for inclusion in every major market redesign initiative undertaken by the ISO. In each instance, however, the ISO and Market Participants have identified higher-priority items for inclusion in such initiatives.

In light of the ISO's commitment to reexamine and potentially redesign its Congestion Management mechanisms and file such revisions with the Commission by October 31 of this year,¹³ the ISO believes that it is appropriate to address the development and implementation of a bidding mechanism such as the one referred to by the Commission in the context of such a proceeding. While the ISO understands and appreciates the Commission's desire to see such bidding mechanisms implemented as quickly as possible, the ISO believes that it would not be an appropriate allocation of resources to develop and implement such a mechanism prior to the conclusion of the ISO's review of its approach to Congestion Management. Therefore, the ISO commits to closely examine and consider the Commission's recommendation in the context of its broader reexamination of its Congestion Management mechanisms.

The ISO now submits revisions to Section 2.5.21 and certain related Protocol provisions in compliance with the January 14 Order. The ISO submits these revisions to go into effect on January 14, 2000, the date the Commission provided clarification of the limitations on the buy-back proposal.

Revised Tariff sheets which incorporate the modifications ordered by the Commission are provided as Attachment A to this filing. The ISO also submits blacklined Tariff provisions showing the revisions made in this compliance filing as Attachment B.

Attachment C to this filing is a notice of filing suitable for publication in the Federal Register. A 3½ inch diskette containing the notice of filing in WordPerfect format is also enclosed. In addition, two extra copies of the filing are enclosed. Please date-stamp the extra copies with the time and date of filing and return it to the messenger. Thank you for your assistance in this matter.

¹² See, e.g., May 26 Order, 87 FERC at 61,818.

¹³ See the ISO's Motion for Clarification or, In the Alternative, Request for Rehearing, and Request for Expedited Consideration filed in Docket No. ER00-555 on February 7, 2000.

The Honorable David P. Boergers
February 14, 2000
Page 5

Respectfully submitted,

Roger E. Smith,
Senior Regulatory Counsel
The California Independent
System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 608-7135
Fax: (916) 351-4436

Kenneth G. Jaffe
Michael E. Ward
Sean A. Atkins
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N.W., Suite 300
Washington, D.C. 20007
Tel: (202) 424-7500
Fax: (202) 424-7643

Attorneys for the California Independent System Operator Corporation

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all parties on the official service list compiled by the Secretary in the above-captioned proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Washington, D.C. this 14th day of February, 2000.

Sean A. Atkins