January 27, 2000

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

**Re: California Independent System Operator Corporation**
**Docket No. ER00-____-___**
**Amendment No. 25 to the ISO Tariff**

Dear Secretary Boergers:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, and Section 35.13 of the Commission's regulations, 18 C.F.R. § 35.13, the California Independent System Operator Corporation ("ISO")[1] respectfully submits for filing an original and six copies of an amendment ("Amendment No. 25") to the ISO Tariff. Amendment No. 25 would modify the Tariff in several respects. All of the proposed modifications to the ISO Tariff are the products of various stakeholder processes conducted over a number of months, including required action by the ISO Governing Board. The modifications include the following:

- Removal of current restrictions on the import of Regulation service in order to facilitate such imports from resources in other Control Areas that have executed an Inter-Control Area Operating Agreement with the ISO and have satisfied certain technical requirements.

[1] Capitalized terms not otherwise defined herein are defined in the Master Definitions Supplement, ISO Tariff Appendix A, as filed August 15, 1997, and subsequently revised.

- Clarification of the ISO's procedures with respect to the cancellation or rescheduling of a planned transmission outage.

- Provision for the publication of individual bid data with a six-month delay, as well as data sets analyzed in conjunction with certain published reports, in accordance with current Commission policy.

- Implementation of improvements to the ISO's Payments Calendar through issuance of a new invoice that will reduce the overall payment period by 20 calendar days on average.

- Changes to the ISO Tariff that are necessary to implement Firm Transmission Rights ("FTRs").

- Provision for the allocation of Reliability Must-Run ("RMR") costs among the Responsible Utilities that would benefit should the San Onofre Nuclear Generating Station ("SONGS") be designated as RMR Generation.

- Changes to the ISO Tariff to provide that the ISO will issue to Scheduling Coordinators certain information in the event of transmission derates between the Day-Ahead and Hour-Ahead markets.

Revised Tariff sheets reflecting the changes proposed herein are contained in Attachment A.[2] Black-lined Tariff provisions showing the changes proposed in this filing, and materials presented to the ISO Governing Board describing most of the proposed changes, are contained in Attachments B through J.

## I. PROPOSED TARIFF REVISIONS

### A. Imports of Regulation

Currently, the ISO Tariff provides for the supply of Regulation service from Generating Units or System Units located within the ISO Control Area, but not from System Resources (*i.e.*, resources that are located outside of the ISO Control Area that are capable of providing Energy and/or Ancillary Services to the ISO Controlled Grid). This restriction is set forth in Section 2.5.7.4.3 of the

[2] The ISO notes that, on December 1, 1999, it filed with the Commission a comprehensive settlement concerning numerous "unresolved issues" in Docket Nos. ER98-3760-000, *et al.* Numerous revisions to the ISO Tariff were proposed as part of this Offer of Settlement. To date, the Commission has not acted on the Offer of Settlement. The revisions proposed in that offer are therefore not reflected in the Tariff Sheets and black-lined Tariff provisions contained herein.

Tariff.[3] The ISO Tariff does provide for the certification of System Resources to deliver external imports of other Ancillary Services (Spinning, Non-Spinning and Replacement Reserves) to points of interchange with the ISO Control Area. The Energy called from these System Resources is provided under static schedules arranged by the ISO and the sending Control Area operator. The restriction on external imports of Regulation has been necessary because the ISO does not currently support the dynamic interchange with other Control Areas that is required to implement such imports.

A number of stakeholders urged the ISO to eliminate this restriction during the ISO's Market Redesign 2000 process.[4] Facilitating the import of Regulation from resources outside the ISO Control Areas will deepen the supply of resources available to provide Ancillary Services in the ISO's markets. The ISO Board has therefore authorized the removal of the current Tariff restriction on imports of Regulation. The ability of any Scheduling Coordinator to supply Regulation from a System Resource outside the Control Area, however, depends upon the satisfaction of certain technical and contractual requirements.

In order to ensure that all imports of Regulation are both technically feasible and consistent with Western Systems Coordinating Council ("WSCC") criteria, the ISO will institute a certification process for Scheduling Coordinators that seek to schedule imports of Regulation and operators of the Control Areas from which such imports are to be scheduled. Since the supply of Regulation from System Resources is contingent upon the sending Control Area's ability to support the dynamic interchange of such service based on control signals issued by the automatic generation control function within the ISO's Energy Management System, this certification will include a requirement that the sending Control Area and Scheduling Coordinator representing the System Resource demonstrate that they have made appropriate arrangements and have put in place the equipment and services necessary to deliver the Regulation to the point of interchange with the ISO Control Area. The technical standards that must be satisfied to make such a demonstration will be posted on the ISO Home Page. In addition, the ISO will require the operator of any Control Area from which imports of Regulation are to be scheduled to enter into an agreement with the ISO for interconnected Control Area operations.

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3 Tariff Section 2.5.7.4.4 does permit Scheduling Coordinators to utilize transmission service under Existing Contracts for the self-provision of Regulation from resources located outside the ISO Control Area, where technically feasible.

4 Other components of Market Redesign 2000 will be the subject of future filings, and will be developed so as to coordinate with the results of the redesign of the ISO's congestion management processes, which the ISO is undertaking in compliance with a recent Commission order, *California Independent System Operator Corp.*, 90 FERC ¶ 61,006 (2000).

Black-lined Tariff provisions showing the changes described above are included as Attachment B.[5]

### B. Release of Bid Information

The ISO proposes in Amendment No. 25 to publish individual bid data with a six-month delay (following the Trading Day to which the data corresponds). Under the proposal, the ISO will also be authorized to publish data sets analyzed in conjunction with a published ISO or Market Surveillance Committee ("MSC") report, with as little as a one-month lag, subject to the approval of the ISO Board if the publication of the data sets will violate the six-month lag policy. These changes would conform the ISO's treatment of bid data to the Commission's current policy, as applied to other ISOs.[6]

The focal point of the proposed data release policy is the release of resource-specific bid data. The proposed Tariff language provides that the ISO will not reveal the specific resource or the name of the bidding Scheduling Coordinator; but that data will be released in a manner that allows the bidding behavior of individual, unidentified sources and Scheduling Coordinators to be tracked over time. The ISO's Department of Market Analysis ("DMA") has determined that the proposed bid data release policy will enhance market efficiency. Black-lined Tariff provisions showing the changes required to implement the release of bid information as described above, are included in Attachment C. Materials presented to the ISO Board describing the proposed policy are included in Attachment G.

The ISO plans to begin releasing the bid information for the period starting on the first trading day after Amendment No. 25 is filed, *i.e.*, January 28, 2000, subject to the six-month delay described above. The ISO would not begin to publish the bid information until the later of (1) the date six months after January 27, 2000 or (2) the date on which the software is implemented that will enable the publication of the bid information. The information released on that date and

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5 As part of the revisions described, the ISO also plans to incorporate certain currently effective "temporary" sections of the Tariff, as revised by Amendment No. 25, into the corresponding "permanent" sections of the Tariff.

6 *See PJM Interconnection, L.L.C.*, 87 FERC ¶ 61,054, at 61,219 (1999) (PJM ordered to post bid data on its web site after delay to "promote market transparency and aid in monitoring the market"); *PJM Interconnection, L.L.C.*, 86 FERC ¶ 61,247, at 61,890, *reh'g denied in relevant part and clarification provided*, 88 FERC ¶ 61,274, at 61,854-55 (1999) (PJM ordered to make bid and other data publicly available after delay, the Commission stating that "the commercial sensitivity of such data decreases over time"); *Central Hudson Gas & Electric Corp., et al.*, 86 FERC ¶ 61,062, at 61,224, 61,227, 61,231, *reh'g denied in relevant part and clarification provided*, 88 FERC ¶ 61,138, at 61,396-37 (1999) (New York ISO ordered to publish bid data after delay "to help interested parties monitor the market").

thereafter will include the bid information collected for the 60-day period after January 27, 2000. The release of bid data for that period will be subject to the six-month delay.

### C. FTR Implementation

In preparing to implement FTRs, ISO Management discovered three changes that are necessary to conform the FTR provisions to Commission requirements and to settlement policies. The changes are as follows:

(1) Modification of Section 9.4.2.7 of the Tariff to remove the reference to ISO Clearing Account. This change is necessary because the ISO has established a separate account for FTR auction proceeds and has already disbursed FTR auction revenues from this account. The ISO Clearing Account cannot be used to receive FTR Auction payments because the account must be cleared (*i.e.*, returned to a zero balance) each Business Day.

(2) Modification of Appendix E (Usage Charge Computation) of the Settlement and Billing Protocol ("SABP") to include FTR Holders among the entities entitled to credits or debits of Usage Charge revenues. ISO Management recently discovered this oversight, which relates back to the original FTR filing in December 1998. The changes are conforming changes to implement Board-approved FTR policy.

(3) Modification of Section 9.8.1 of the Tariff to specify, consistent with the Commission's order in *California Independent System Operator Corp.*, 89 FERC ¶ 61,153, at 61,435-36 (1999), that FTRs resold in secondary markets are subject to the terms and conditions applicable under the Tariff to FTRs acquired in the ISO's auction.

These proposed changes will facilitate the implementation of FTRs, thus building on the Commission's directives concerning FTR implementation in the Commission's recent order on Amendment No. 22. *See California Independent System Operator Corp.*, 89 FERC ¶ 61,229, at 61,682-83 (1999) ("Amendment No. 22 Order"). As noted below, the ISO requests waiver of the Commission's notice requirements so that these changes can be made effective February 1, 2000, commensurate with full implementation of the ISO's FTR markets. Black-lined Tariff provisions showing the FTR-related changes, as described above, are included in Attachment D. Materials presented to the ISO Board describing the proposed changes are included in Attachment G.[7]

### D. RMR Cost Allocation

Currently, the ISO Tariff provides that, when the ISO finds it necessary to acquire RMR Generation from a resource located in the Service Area of a Participating Transmission Owner, that utility, referred to as the "Responsible Utility" pays the full costs of the RMR Contract.[8] In the course of evaluating the potential need to designate SONGS as RMR Generation in order to maintain local reliability, the ISO and the affected stakeholders have determined that application of this principle would be inappropriate in the case of SONGS. SONGS is located in the service territory of one Responsible Utility (San Diego Gas & Electric Company) but provides substantial benefits to a contiguous service territory (that of Southern California Edison Company).

To provide for a more equitable allocation of costs in this situation, the proposed Tariff change provides for the allocation of RMR costs between the Responsible Utility in whose service territory SONGS is located and the contiguous Responsible Utility that benefits from the RMR Generation, in proportion to the benefits that each such Responsible Utility receives, as determined by the ISO. Consistent with comments received from stakeholders, this proposal is specifically limited to the situation presented by SONGS. Consistent with the Amendment No. 22 Order, the ISO will make a separate filing under Section 205 of the Federal Power Act, 16 U.S.C. § 824d (1994), to allocate the costs to each Responsible Utility. Black-lined Tariff provisions showing the changes that implement this proposal are included in Attachment E. Materials

[7] Other materials presented to the ISO Board described additional changes that were subsequently required by the Amendment No. 22 Order. The ISO submitted these changes in its compliance filing concerning the Amendment No. 22 Order, *e.g.*, in that filing the ISO proposed modifications to Tariff Section 9.8.3 that require the posting of the identity of each registered FTR Holder and the number of FTRs they hold on each interface. The revisions to Tariff Sheet No. 189-I proposed in the instant filing reflect these compliance changes.

[8] In addition, the costs the ISO incurs for each RMR Generating Unit located *outside* the Service Area of any Responsible Utility are assigned to the Responsible Utility or Utilities whose Service Areas are contiguous to the Service Area in which the RMR unit in question is located. Where there is more than one such Responsible Utility, the cost assignment will be based on the proportion of benefits that the ISO determines each Responsible Utility receives from the RMR unit. The Commission accepted revised Tariff Section 5.2.8, which contains these provisions, subject to certain conditions. *See* Amendment No. 22 Order, 89 FERC at 61,683-84. In order to comply with these conditions, the ISO proposed additional revisions to Section 5.2.8 in its compliance filing concerning the Amendment No. 22 Order. The revisions to Section 5.2.8 proposed in the instant filing reflect these compliance changes.

presented to the ISO Board describing the proposed changes are included in Attachment G.

### E. Transmission Owner ("TO") Debit Clarification

In Amendment No. 13 to the ISO Tariff, filed on December 11, 1998, the ISO proposed to amend the Tariff to reflect changes in the calculation and distribution of Usage Charge revenues in the event of transmission derates between the Day-Ahead and Hour-Ahead markets. The Commission approved the ISO's proposal. *See California Independent System Operator Corporation*, 86 FERC ¶ 61,122, at 61,419-20 (1999). Although Amendment No. 13 clearly stated that this proposal would result in changed settlements, it did not clarify how the ISO will notify Scheduling Coordinators as to the hours in which the derate applies and the extent of the derate.

The ISO proposes to clarify the ISO Tariff on this issue. The ISO proposes to amend Tariff Section 7.3.1.7, as well as Section 2.3.3 of Appendix E of the SABP, to provide that the ISO will issue to Scheduling Coordinators a notice of the operating hour, the extent of the derate, and the relevant Hour-Ahead markets to which the derate will apply. Further details concerning the timing and form of notice will be set forth in the ISO operating procedures (*i.e.*, a revised Operating Procedure M-414). Black-lined Tariff provisions showing the changes described above are included in Attachment F. Materials presented to the ISO Board describing the proposed changes are included in Attachment G.

### F. Implementation of the Phase II Payments Calendar

One of the goals of the ISO is to meet the needs of Market Participants by collecting and distributing funds it receives in settlements in a timely manner with a high level of accuracy, certainty, and finality. Under the current ISO settlement process, the ISO must receive and process meter usage data from all loads served by Scheduling Coordinators before it is able to calculate charges due "to" or "from" Scheduling Coordinators, issue invoices, and process payments. The nature of this process requires 38 Business Days before the Preliminary Statements are delivered to buyers and sellers. An additional 13 Business Days are required for verification before a Final Statement/Invoice[9] is delivered. Five Business Days later, the buyers settle with the ISO and the ISO pays the sellers. All in all, sellers must wait an average of 93 calendar days to receive payment. Sellers of services to the ISO want payment delays minimized in order to improve cash flow. The ISO believes that improvements to the payments calendar will

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[9] Invoices are currently issued once a month upon completion of the last Final Settlement Statement.

increase the attractiveness of the ISO's markets, thereby increasing supplies and lowering prices.

After an extensive review process, the ISO identified the Preliminary Statement Invoice ("PSI") approach as the next logical step toward resolution of concerns regarding the ISO Payments Calendar and the ISO Board approved this proposal at its November meeting. Under this approach, the ISO would introduce a new ISO invoice issued after the last Preliminary Statement for each Trade Month. The current ISO invoice based on Final Statements would become a "true-up" invoice and would reflect the final corrections due to disputed and adjusted entries. The PSI option would be implemented for both Market and Grid Management Charge ("GMC") collections. The PSI approach reduces the average number of calendar days the suppliers wait from 93 to 73 – a reduction of 20 days.

The ISO also considered other options, including one that would have advanced payments an additional 30 calendar days over the PSI approach. However, at a cost of approximately $1.2 million, this option was substantially more expensive to implement. It also lacked the support of most other represented stakeholders who were concerned about the overall cost of implementation, as well as about the level of estimation introduced.

The ISO believes that the PSI approach, as an initial step, appropriately balances the benefits of the shortened collection period with the timing impact on customers and the impact on ISO capital resources and staff requirements necessary for development and implementation. Moreover, implementation of the PSI approach is consistent with the Commission's order as to Amendment No. 17. In that order, the Commission deemed the ISO's extension of its current Payments Calendar to be "a reasonable interim measure," but conditioned approval of the extension on the ISO completing its evaluation of the Payments Calendar as soon as possible. The Commission also invited the ISO to submit revisions concerning its Payments Calendar as part of a quarterly tariff filing. *California Independent System Operator Corporation*, 88 FERC ¶ 61,182, at 61,590 (1999).

The revisions to the Payments Calendar are embodied in modifications to Tariff Sections 11.3.2, 11.6.2, 11.9, 11.20.2, modifications to SABP Sections 2.3.1, 2.3.5, 5, and 6.1.1, and the addition of SABP Section 2.3.6, which are shown in black-lined format in Attachment H.[10] Materials provided to the ISO Board on this subject are included in Attachment I.

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[10] As noted above, the ISO has incorporated changes submitted in the Amendment No. 22 compliance filing into the Tariff Sheets submitted in the instant filing. Revised Tariff Sheet No. 213, submitted in the instant filing, incorporates such compliance changes.

The ISO intends to conduct additional studies to identify opportunities for further improvement to the payment process and to determine the accuracy of methodologies available to estimate and allocate instructed energy deviations prior to the availability of metered demand and Generation.

### G. Transmission Maintenance Outage Scheduling

Amendment No. 25 also implements a change necessary to clarify the ISO's process for Transmission Outage Scheduling. The ISO proposes to specify its authority to cancel and/or reschedule a planned transmission outage due to system reliability or significant market impacts prior to 5:00 AM of the day prior to the operating day on which the planned outage is schedule to occur. Prior to the onset of the Day-Ahead Market, the ISO will notify Market Participants of any such cancelled or rescheduled transmission outage and will consult with the affected Participating Transmission Owner to determine the impact of such a cancellation or rescheduling. If a Transmission Owner cancels or reschedules a planned transmission outage after the 5:00 AM deadline described above, for reasons unrelated to system reliability (*e.g.*, in response to market impacts), the ISO will not have to reflect the effects of the modified outage schedule on the related ISO Day-Ahead markets. However, the ISO will notify Market Participants and adjust the Hour-Ahead Market to reflect the physical capabilities of the facilities, as required, as soon as possible. The proposed changes are embodied in modified Tariff Sections 2.3.3.5 and 2.3.3.6, added Tariff Section 2.3.3.5.4, modified Outage Coordination Protocol ("OCP") Section 3.1.3, and added OCP Section 3.2.3, as shown in black-lined format in Attachment J.

## II. EFFECTIVE DATE AND REQUEST FOR WAIVER

Because the software modifications necessary to implement the proposed ISO Tariff revisions related to implementation of the Phase II Payments Calendar are still in development, the ISO requests that those changes become effective on the later of March 27, 2000, or at least ten days after the ISO posts notice on the ISO Home Page that the modified software is ready for use. The ISO has also proposed certain minor technical Tariff revisions in Amendment No. 25 that facilitate the implementation of FTRs. The implementation of FTRs is currently scheduled for February 1, 2000. The ISO therefore requests waiver of the Commission's 60-day prior notice requirement, pursuant to Section 35.3 of the Commission's regulations, 18 C.F.R. § 35.3, in order to permit these revisions to become effective on February 1, 2000. Also, to the extent that the Commission's 60-day prior notice requirement might be deemed to apply to the release of bid information, *see supra* Section I.B, the ISO also requests waiver of the 60-day notice requirement in order to implement the release of bid data, after a six-month delay, for the period beginning on Trading Day, January 28, 2000. The

ISO respectfully requests that all other Tariff revisions included in this filing be made effective on March 27, 2000, or sixty days after filing.

## III. NOTICE AND SERVICE OF DOCUMENTS

Communications regarding this filing should be addressed to the following individuals, whose names should be placed on the official service list established by the Secretary with respect to this submittal:

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## IV. SUPPORTING DOCUMENTS

The following documents, in addition to this letter, support this filing:

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| Attachment A | Revised Tariff Sheets |
| Attachment B | Black-lined Tariff provisions showing revisions relating to imports of Regulation |
| Attachment C | Black-lined Tariff provisions showing revisions concerning the release of bid information |
| Attachment D | Black-lined Tariff provisions showing revisions concerning FTR implementation |
| Attachment E | Black-lined Tariff provisions showing revisions concerning RMR cost allocation |
| Attachment F | Black-lined Tariff provisions showing revisions concerning TO debt clarification |
| Attachment G | Materials presented to the ISO Board concerning the release of bid information, FTR implementation, RMR cost allocation, and TO debt clarification |

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| Attachment H | Black-lined Tariff provisions showing revisions concerning the implementation of the Phase II Payments Calendar |
| Attachment I | Materials presented to the ISO Board concerning the implementation of the Phase II Payments Calendar |
| Attachment J | Black-lined Tariff provisions showing revisions concerning Transmission Maintenance Outage Scheduling |
| Attachment K | Notice of this filing, suitable for publication in the Federal Register (also provided in electronic format). |

An additional copy of this filing is enclosed to be date-stamped and returned to our messenger. If there are any questions concerning this filing, please contact the undersigned.

Respectfully submitted,

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**Counsel for**
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**NOTICE OF FILING SUITABLE FOR PUBLICATION IN THE FEDERAL REGISTER**

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

| | | |
|---|---|---|
| **California Independent System Operator Corporation** | ) ) | **Docket No. ER00-____-___** |

**Notice of Tariff Change**

**[ ]**

Take notice that on January 27, 2000, the California Independent System Operator Corporation (ISO) tendered for filing a proposed amendment (Amendment No. 25) to the ISO Tariff. Amendment No. 25 includes proposed Tariff revisions, concerning imports of Regulation, release of bid information, Firm Transmission Right implementation, Reliability Must-Run Generation cost allocation, Transmission Owner debit clarification, implementation of the Phase II Payments Calendar, and Transmission Maintenance Outage Scheduling.

The ISO states that this filing has been served upon the Public Utilities Commission of California, the California Energy Commission, the California Electricity Oversight Board, and all parties with effective Scheduling Coordinator Service Agreements under the ISO Tariff.

Any person desiring to be heard to protest said filing should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 or 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. §§ 385.211, 385.214). All such motions or protests should be filed on or before [ ]. Protests filed with the Commission will be considered by it in determining the appropriate action to be taken but will not serve to make the protestants parties to the proceeding. Any person wishing to become a party must file a motion to intervene. Copies of this filing are on file with the Commission and are available for public inspection.