

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System
Operator Corporation

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Docket No. ER00-2383-000

**ANSWER OF
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
TO MOTIONS TO INTERVENE, COMMENTS, AND PROTESTS**

I. INTRODUCTION AND SUMMARY

On May 2, 2000, the California Independent System Operator Corporation ("ISO")¹ filed Amendment No. 29 to the ISO Tariff in the above-captioned docket.

Amendment No. 29 presented modifications to the ISO Tariff in five areas.

Amendment No. 29 proposed to modify the ISO Tariff to:

- provide for the settlement of Scheduling Coordinators' obligations in the real-time Energy market on a ten-minute basis to improve efficiency and reduce incentives for large uninstructed deviations from schedules;
- enable Scheduling Coordinators to submit Adjustment Bids in conjunction with Energy trades between Scheduling Coordinators so that those trades may participate in the ISO's Congestion Management process;
- confirm the obligation of Scheduling Coordinators to receive automated Dispatch instructions;
- expand the Market Surveillance Committee to more than three members; and
- relax certain Scheduling Coordinator financial requirements.

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

Numerous parties have moved to intervene in the instant proceeding. Some of the motions to intervene include comments on or protests of Amendment No. 29, as well as requests for specific relief. Pursuant to Rule 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213, the ISO submits its Answer to the motions to intervene, comments, and protests submitted in the above-captioned docket. As explained below, the ISO does not oppose the intervention of the parties that have sought leave to intervene in this proceeding.

Most of the changes proposed in Amendment No. 29 occasioned little comment other than general expressions of support. The proposal to settle, as well as Dispatch, Imbalance Energy obligations on a ten-minute basis, however, is more controversial. Most intervenors express general support for the ten-minute market for Imbalance Energy, though some challenge particular aspects of the proposal and others urge a delay in its implementation until after the summer peak season.

None of the objections to the ten-minute market reform proposal warrants a delay in its prompt implementation. The current design of the Imbalance Energy market, in which obligations for Energy supplied in response to the ISO's Dispatch instructions and obligations for Energy purchased and sold on an uninstructed basis are settled over different periods, reflects a temporary accommodation adopted to overcome software problems when the ISO commenced operations two years ago. This temporary design has been found to create a number of problems, including poor incentives for the submission of

Supplemental Energy bids and for Scheduling Coordinators to follow the ISO's Dispatch instructions. These problems have undermined the ability of the ISO to rely on the Imbalance Energy market as a Load-following mechanism, which was its intended purpose, and required the ISO to rely on higher-priced Regulation capacity for this purpose. The ten-minute market reform proposal would settle Scheduling Coordinators' obligations for Instructed Imbalance Energy and for uninstructed deviations from Schedules over the same period, creating strong market-based incentives for the submission of bids and for Scheduling Coordinators to obey the ISO's Dispatch instructions.

Contrary to the claims of some intervenors, the ten-minute market proposal incorporates features to permit both resources in other Control Areas and Load resources to participate in the ISO's markets. In particular, external resources will have the option either to participate fully in the ten-minute Imbalance Energy market through Supplemental Energy bids or through the Energy associated with their bids to supply Ancillary Service capacity or to specify that their Supplemental Energy bids will be withdrawn if not pre-Dispatched before the operating hour. The ten-minute market reform proposal also appropriately prices Uninstructed Imbalance Energy at the ISO's costs of instructing other resources to modify their output to accommodate the uninstructed real-time deviations from scheduled production or consumption of Energy.

There is no basis for delaying the implementation of the ten-minute market reform of the Imbalance Energy market beyond the upcoming summer season,

as some intervenors urge. It is during the summer peak season that the ISO expects to achieve a large portion of the \$162 million to \$219 million in estimated annual savings associated with reducing its requirements for Regulation capacity, avoiding pricing anomalies, and improving responses to its Dispatch instructions. Indeed, the latter benefit of the ten-minute reform proposal could be critical in the ISO's ability to manage peak demands reliably and efficiently. The ISO has conducted numerous workshops and training sessions over the past months to familiarize Market Participants with the underpinnings and details of the ten-minute market reform. Further delays are neither necessary nor desirable.

Finally, the few issues raised with respect to other components of Amendment No. 29 are insubstantial. Amendment No. 29 does not modify the deadline for the withdrawal of Supplemental Energy bids or foreclose pending challenges to that deadline. The automation of Dispatch instructions to resources providing Imbalance Energy will not interfere with the relationships between external resources and their Control Area operators. The revised financial requirements applicable to Scheduling Coordinators' market obligations are appropriate.

II. BACKGROUND

A. Amendment No. 29

The changes proposed in Amendment No. 29 are summarized briefly below.

1. The Ten-Minute Market Reform

Amendment No. 29 includes a proposal to modify the current approach to the Dispatch of resources participating in the ISO's Imbalance Energy market and to the settlement of obligations in that market. Under the proposal, all resources supplying Imbalance Energy would be Dispatched over the interval utilized by the ISO's Balancing Energy and Ex Post Price ("BEEP") software – currently, ten minutes – and obligations in the Imbalance Energy market would be settled on the same basis. This reform of the Imbalance Energy market design is referred to as the "ten-minute market" proposal. It is intended to restore the originally intended design of the Imbalance Energy market and to address inefficiencies and unintended operational consequences created by the current Imbalance Energy market rules, under which different resources are Dispatched over different intervals and the settlement of market obligations is not tied to the Dispatch period, leading to excessive Regulation requirements.

Currently, the settlement period for *Instructed* Imbalance Energy (i.e., real-time changes in output pursuant to Dispatch instructions from the ISO) is set to ten minutes while uninstructed deviations from hourly Schedules are settled at the Hourly Ex Post Price, which is the weighted average of the prices paid or charged to resources that are instructed during the hour's six ten-minute Dispatch intervals (called "BEEP Intervals" in reference to the ISO's BEEP software). Even though the ISO instructions are issued and paid on a ten-minute interval basis, payment of uninstructed deviations on an hourly basis in effect means that the Scheduling Coordinator can satisfy the ISO instructions at any

time during the hour. This approach reflects a departure from the originally intended design of the Imbalance Energy market, under which resources that supply Imbalance Energy during a BEEP Dispatch interval, whether on an instructed or uninstructed basis, would receive the marginal price of Energy for that interval. The current approach was adopted at start-up because software development problems made it impossible for the ISO to implement the original market design at that time.

The ISO's experience over the past two years has revealed that the current approach to settlement of the Imbalance Energy market creates a number of problems, including the following:

- ***Inability to Rely on Imbalance Energy Market for Load Following.*** The hourly settlement of uninstructed deviations results in Scheduling Coordinators having little or no incentive to deliver Energy in the BEEP (or ten-minute) Interval in which the ISO has a need for Imbalance Energy. As a consequence, the Imbalance Energy market fails to fulfill the Load-following function for which it was designed.
- ***Reduced Incentives to Submit Bids.*** The use of a single hourly price for deviations from Schedules decreases the incentive for Scheduling Coordinators to submit bids in the ISO's Imbalance Energy market. The ISO's Imbalance Energy market should encourage Market Participants to supply additional Energy in response to price signals that reflect the ISO's need for Energy during the BEEP Interval when the Energy is supplied.
- ***"Stuck Prices."*** To conform to practices in other Control Areas, Supplemental Energy bids on inter-Control Area ties are pre-Dispatched, i.e., once accepted, they are not adjusted during the hour. If the ISO's need for Imbalance Energy declines during the hour, making the import of Supplemental Energy no longer economical, the ISO often cannot issue a decremental Dispatch instruction to reduce the import. As a result, the price for incremental Energy remains "stuck" at the bid associated with the import, even though less costly resources would be sufficient to meet the ISO's needs during the latter parts of the hour. The potential for this phenomenon to occur increases the incentive for other Scheduling Coordinators to withhold bids from the Imbalance Energy market so they

can generate on an uninstructed basis to earn the artificially inflated prices.

- **Poor Response to Instructions.** Because of the lack of incentives for Market Participants to deliver Energy in the BEEP Interval for which the ISO has instructed its delivery, the ISO has experienced poor response to those instructions. The ISO often must call on bids representing two to seven times as much Energy as is required to follow a change in Load to obtain the necessary response. Calling upon more bids for the supply of Imbalance Energy increases the Market Clearing Price.

The implementation of ten-minute settlement and Dispatch will create a more efficient Imbalance Energy market that will serve the Load-following function and provide appropriate incentives to for Scheduling Coordinators to bid into the Imbalance Energy markets and to supply Energy during the Dispatch interval in which the ISO instructs the delivery of the Energy. This will enable the ISO to reduce substantially its requirements for Regulation, resulting in annual savings conservatively estimated at \$80 million to \$120 million, reducing the ISO's total Ancillary Service costs by 25 to 33 percent annually. The ISO projects that elimination of the stuck price effect would produce additional savings estimated at approximately \$15 million per year, and that improvements in Scheduling Coordinators' response to the ISO's Dispatch instructions could reduce Imbalance Energy costs by 20 to 25 percent, producing additional annual savings of between \$67 million and \$84 million.²

The ten-minute market reform proposal is the outgrowth of stakeholder discussions that began in early 1999 regarding Ancillary Services redesign and continued later that year following the implementation of the first group of

² The derivation of these savings estimates is shown in the white paper entitled *California ISO's 10-Minute Settlement Proposal: Background and Economics*, included as Exhibit 3 to the

Ancillary Service market reforms. Specific ten-minute market proposals were discussed in numerous meetings and workshops over the latter months of 1999 and the first part of this year, culminating in the approval of the ten-minute market proposal by the ISO Governing Board.³

Under the ten-minute market proposal, the ISO will implement the original design of the Imbalance Energy market, under which the obligations of Scheduling Coordinators participating in the Imbalance Energy market would be settled over the same interval in which resources supplying Imbalance Energy are Dispatched. As a result, both Instructed Imbalance Energy and uninstructed deviations will be priced on the basis of the market clearing price during the BEEP Interval (currently ten minutes) during which the Energy is supplied or the deviation occurs. For each BEEP Interval, the ISO's BEEP software will compute two prices: a BEEP Interval Ex Post Price for incremental Energy, based on the highest bid for incremental Energy selected; and a BEEP Interval Ex Post Price for decremental Energy, based on the lowest bid for decremental Energy selected.⁴ Instructed Imbalance Energy will continue to be settled on the appropriate (incremental or decremental) BEEP or ten-minute interval price. Uninstructed Imbalance Energy will be settled based on the ISO's marginal cost

Declaration of Mr. Kellan Fluckiger, the ISO's Chief Operating Officer, which is Attachment G to the Amendment No. 29 filing ("Fluckiger Declaration").

³ The stakeholder process is described in detail in the ISO's transmittal letter.

⁴ Based on experience to date, the ISO expects that, in most intervals, the ISO will issue only incremental instructions or decremental instructions (i.e., the ISO will be seeking only additional Energy to meet rising Demand or asking for output reductions to match declining Demand). In that event, there will be only one BEEP Interval Ex Post Price in each BEEP Interval of the hour.

of adjusting other resources (or marginal savings from such adjustments) to accommodate the deviation.⁵

2. Adjustment Bids in Connection With Inter-Scheduling Coordinator Trades

Amendment No. 29 also includes a proposal to permit Scheduling Coordinators to submit Adjustment Bids in conjunction with bilateral inter-Scheduling Coordinator trades. The ability to submit Adjustment Bids in connection with such trades should increase the depth of the Adjustment Bid market and reduce Congestion costs. Provision for inter-Scheduling Coordinator trades of Adjustment Bids implements the final element in a set of fundamental tools (including Inter-Scheduling Coordinator Energy Trades and Inter-Scheduling Coordinator Ancillary Service Trades) that was originally envisioned to be available as part of the original market design. Inter-Scheduling Coordinator trades of Adjustment Bids are critical to the ability of Scheduling Coordinators to take advantage of trading opportunities and thereby optimize their individual portfolios of resources. Although this proposal was originally deferred, pending the comprehensive review of the ISO's Congestion Management processes in accordance with the Commission's January 7, 2000 order in Docket No. ER00-555-000, the ISO decided to proceed based on strong stakeholder support and a determination that the capability to receive Adjustment

⁵ Thus, an uninstructed decremental deviation (a failure to supply scheduled Energy or the appearance of unscheduled Load in a Scheduling Coordinator's portfolio) will pay the BEEP Interval Ex Post Price for incremental Energy and an uninstructed incremental deviation (the supply of additional Energy beyond the scheduled amount or the consumption of lower amounts of Energy below the scheduled amount) will be paid the BEEP Interval Ex Post Price for decremental Energy.

Bids with Inter-Scheduling Coordinator trades could be developed at low cost, relative to the potential benefits.⁶

3. Automation of Dispatch Instructions

As part of the redesign of its Ancillary Service markets, the ISO determined that it was necessary to implement a system in which Dispatch instructions to resources participating in the ISO's Ancillary Service and Imbalance Energy markets would be issued electronically, rather than through telephone communications. The ISO advised the Commission of this component of the Ancillary Service market reform in Amendment No. 14 to the ISO Tariff. At the time, the ISO did not believe that tariff modifications would be necessary in connection with the implementation of automated Dispatch.⁷ Upon further review of this question in anticipation of the implementation of automated Dispatch this summer,⁸ the ISO has determined that minor revisions to the ISO Tariff would be appropriate to specify clearly that resources submitting bids to the ISO must be capable of receiving Dispatch instructions electronically. Other communications capabilities would remain in place for back-up.

4. Expansion of the Market Surveillance Committee

At its February 2000 meeting, the ISO Governing Board voted to reappoint the current members of the Market Surveillance Committee. The Board also directed ISO management to begin a search process to identify candidates for an

⁶ *California Independent System Operator Corp.*, 90 FERC ¶ 61,006, at 61,013-14 (2000).

⁷ The ISO Tariff already provides that all resources providing Regulation service to the ISO must be capable of receiving electronic Dispatch instructions. The proposed changes would extend that requirement to resources providing any Ancillary Service or Supplemental Energy bid.

additional member of the Market Surveillance Committee. The Board determined that an additional member would expand the expertise available to the Market Surveillance Committee and improve the transition when membership of the committee changes over time. Because Section 5.2.1 of the Market Monitoring and Information Protocol currently fixes the size of the Market Surveillance Committee at three members, the ISO proposes to modify that provision to provide for a Market Surveillance Committee consisting of three or more independent and recognized experts.

5. Scheduling Coordinator Financial Requirements

Section 2.2.3.2 of the ISO Tariff currently requires each Scheduling Coordinator to post financial security to cover its estimated outstanding obligations to the ISO for purchases of Ancillary Services and Imbalance Energy and for the Grid Management Charge, unless the Scheduling Coordinator maintains an Approved Credit Rating. An Approved Credit Rating is defined in Appendix A of the ISO Tariff as the highest short-term rating from one of the four national credit rating agencies, provided that an agency of the federal government or the State of California will be deemed to have an Approved Credit Rating if its obligations are backed by the full faith and credit of the federal or state government, as applicable.

Following a review of its credit policy at the request of stakeholders, the ISO proposed in Amendment No. 29 to modify the definition of Approved Credit Rating and its application. First, the current credit standard with respect to

⁸ The software system through which the ISO initially expected to implement automated

Scheduling Coordinators' obligations to the ISO for Grid Management Charges would remain unchanged. With respect to market obligations, however, a Scheduling Coordinator could establish an Approved Credit Rating by showing that it had a short-term rating at the second-highest level (A2/P2) or better, or a long-term rating that is at least equivalent to a rating one level above the lowest investment grade rating (A3/A-). The ISO concluded that ratings at these levels would provide strong assurance as to an entity's overall creditworthiness.

B. Interventions

A notice of intervention was filed by the Public Utilities Commission of the State of California ("CPUC") and motions to intervene were filed by numerous parties.⁹ Some interventions indicated the party's full or qualified support concerning parts of Amendment No. 29.¹⁰ Some intervenors, however, protest the proposed ten-minute market reform or, in a few cases, other aspects of Amendment No. 29, and ask for rejection or modification of portions of the filing. As explained below, these requests lack merit.

Dispatch experienced implementation problems. The need to redesign the software caused the delay in the implementation of automated Dispatch.

⁹ Motions to intervene were filed by the Bonneville Power Administration ("BPA"); California Department of Water Resources ("CDWR"); California Electricity Oversight Board ("Oversight Board"); California Power Exchange Corporation ("PX"); Cities of Redding and Santa Clara, California, and the M-S-R Public Power Agency ("Cities/M-S-R"); Duke Energy Trading and Marketing, L.L.C. ("Duke"); Dynegy Power Marketing, Inc. ("Dynegy"); Enron Power Marketing, Inc. ("Enron"); Los Angeles Department of Water and Power ("LADWP"); Metropolitan Water District of Southern California ("MWD"); Modesto Irrigation District ("Modesto"); Northern California Power Agency ("NCPA"); Pacific Gas and Electric Company ("PG&E"); Sacramento Municipal Utility District ("SMUD"); Sempra Energy ("Sempra"); Southern California Edison Company ("SCE"); Southern Energy California, L.L.C., Southern Energy Potrero, L.L.C., and Southern Energy Delta, L.L.C. ("Southern"); Transmission Agency of Northern California ("TANC"); Turlock Irrigation District ("Turlock"); Western Area Power Administration ("WAPA"); and Williams Energy Marketing & Trading Company ("Williams").

¹⁰ See, e.g., NCPA at 3; Southern at 12.

III. ANSWER TO COMMENTS, PROTESTS, AND REQUESTS FOR REJECTION¹¹

A. The Ten-Minute Market Reform of the Imbalance Energy Market

The ten-minute market proposal would restore the ISO's Imbalance Energy market to the originally intended design, which envisioned the obligations of Scheduling Coordinators being settled over the same intervals that resources participating in that market are Dispatched. This reform of the Imbalance Energy market rules simplifies settlements by providing in most intervals for a single market clearing price for both Imbalance Energy instructed by the ISO and for uninstructed deviations (i.e., voluntary sales of excess Energy by Scheduling Coordinators and purchases by Scheduling Coordinators to meet unexpected Demands). It also removes disincentives embedded in the current market design that discourage Scheduling Coordinators from submitting Supplemental Energy bids and creates necessary and appropriate incentives for Scheduling Coordinators that have submitted bids in the Imbalance Energy market to obey the ISO's Dispatch instructions by providing instructed Energy during the BEEP Interval in which the ISO needs it.

¹¹ Some of the intervenors commenting on Amendment No. 29 do so in portions of their pleadings that are variously styled, without differentiation. Intervenors also request affirmative relief in pleadings styled as protests, including requests for partial rejection of Amendment No. 29. *See, e.g.*, BPA at 22-23; Semptra at 19. There is no prohibition on the ISO's responding to the comments in these pleadings. The ISO is entitled to respond to these pleadings and requests notwithstanding the labels applied to them. *Florida Power & Light Co.*, 67 FERC ¶ 61,315 (1994). In the event that any portion of this Answer is deemed an Answer to protests, the ISO requests waiver of Rule 213 (18 C.F.R. § 385.213) to permit it to make this Answer. Good cause for this waiver exists here given the nature and complexity of this proceeding and the usefulness of this Answer in ensuring the development of a complete record. *See, e.g., Enron Corp.*, 78 FERC ¶ 61,179, at 61,733, 61,741 (1997); *El Paso Electric Co.*, 68 FERC ¶ 61,181, at 61,899 & n.57 (1994).

Most intervenors express support for the ten-minute market proposal, either on an unqualified or qualified basis. In some cases, their objections relate only to specific features of the proposal. Other intervenors express support for the ten-minute market proposal, but urge a delay in its implementation, until after the summer peak season has passed. As explained below, the objections to different aspects of the ten-minute market proposal are unfounded and insubstantial. There is, moreover, no reason to delay further the implementation of this important market reform, which has been discussed extensively with stakeholders and been the subject of an extensive series of training sessions for Scheduling Coordinators and other Market Participants. Delaying the implementation of ten-minute markets would unnecessarily increase costs during the peak season and deprive the ISO of an important tool for managing heavy demands for Imbalance Energy.

1. The Ten-Minute Market Reform Does Not Create Undue Burdens On, Or Undue Preferences For, Imports.

BPA asserts that the ten-minute market proposal creates undue and inappropriate burdens on Scheduling Coordinators importing Supplemental Energy into the ISO Control Area, because the inability of other Control Area operators to make mid-hour schedule adjustments impairs the ability of importers to respond to the ISO's Dispatch instructions during the operating hour. It contends that the current system, in which imports of Supplemental Energy must remain at fixed levels of the entire operating hour, must be maintained. Southern, in contrast, asserts that the ten-minute market proposal unduly favors

importers because it incorporates provisions to address the concerns articulated by BPA. Neither position is correct.

First, it simply is not the case that the ten-minute market reform requires importers to make mid-hour schedule adjustments that operators of other Control Areas do not and cannot support.¹² In the first place, this argument ignores the fact that the resources participating in the ISO's Imbalance Energy market come from two sources: Supplemental Energy bids submitted by Scheduling Coordinators with excess Energy in real time and Energy bids submitted in conjunction with Ancillary Service capacity accepted by the ISO. External resources participate heavily in the ISO's Ancillary Service markets for Spinning Reserves, Non-Spinning Reserves, and Replacement Reserves, supplying up to fifty percent of the ISO's requirements for these Ancillary Services. To be eligible to supply Spinning Reserves or Non-Spinning Reserves, a resource must be certified as being able to supply Energy, up to the amount of Ancillary Service capacity accepted, on ten minutes' notice from the ISO, *even if that notice comes after the start of an operating hour*.¹³ By virtue of their participation in these markets, external resources have demonstrated that other Control Area operators are willing and able to accommodate mid-hour schedule changes. Indeed, BPA itself acknowledges that, as a Control Area operator, it has been able to accommodate mid-hour import schedule changes to support its merchant arm's sale of Ancillary Services to the ISO.¹⁴ BPA has failed to identify any

¹² BPA at 9-12.

¹³ See Ancillary Services Requirements Protocol, Sections 5.3.1 and 5.4.2.

¹⁴ BPA at 12.

cogent reason why similar arrangements cannot be made for external resources desiring to supply Supplemental Energy to the ISO.

Further, the ten-minute market reform will continue to give all resources, including imports, the choice of whether or not to follow mid-hour Dispatch instructions issued by the ISO. An external resource that is unable or unwilling to adjust its import schedule in accordance with an ISO Dispatch instruction can decline that instruction. A resource declining a Dispatch instruction is not violating the ISO Tariff, as BPA claims, but rather is making an economic choice.¹⁵ Under the current design of the Imbalance Energy market, it is making that choice on the basis of incorrect prices for uninstructed deviations from Schedules, which has the effect of encouraging resources to disregard Dispatch Instructions. The ten-minute market reform eliminates that disincentive to delivering Imbalance Energy in accordance with the ISO's instructions by getting the prices right: a Scheduling Coordinator that chooses to decline a Dispatch instruction will bear the appropriate costs associated with that choice, in the form of an obligation for an uninstructed deviation, priced at the marginal value of Energy in the BEEP Interval in which the deviation occurs.

BPA's demand that it be paid its "bid price" when it disregards a Dispatch instruction exposes the root of the "stuck price" phenomenon. It demands to receive a price that exceeds the value of the commodity (Energy) it is supplying during the Dispatch interval. This imposes higher costs on other Imbalance Energy Market Participants and leads to inefficient behavior. This approach also

¹⁵ *Id.* at 14-15.

ignores the fact that hourly settlement for Uninstructed Imbalance Energy was a temporary expedient adopted to address start-up software problems. Neither external resources nor any other class of Market Participants has any vested right to demand its continuation.

BPA asserts that the potential exposure to charges (or credits) for uninstructed deviations creates economic risks for imports.¹⁶ While true, this risk is not unique to imports – all resources that participate in the Supplemental Energy market bear this risk. The ISO recognizes and expects external resources (and internal resources) to reflect their perceptions of this risk in their Supplemental Energy bids. While, standing alone, this factor could lead to higher Supplemental Energy bids from external resources, the ISO believes that the likely benefits to consumers of a more efficient Imbalance Energy market, which are described above and in the Declaration of Mr. Fluckiger, outweigh the potential for higher market clearing prices. BPA appears to agree, because it complains that internalizing the risk of Uninstructed Imbalance Energy obligations could price an external resource out of the market in some periods. This, however, only indicates that the market is working properly. In those periods, the ISO is able to satisfy the needs of Market Participants for Imbalance Energy in a particular BEEP Interval at a price less than the cost to the external resource of supplying additional Energy. When the demand for Imbalance Energy is high enough, external resources will be competitive, even when the risk of obligations for uninstructed deviations is reflected in their bids.

¹⁶ *Id.* at 10-11.

BPA's complaints also ignore the fact that, if an external resource is unable to arrange with its Control Area operator to make mid-hour import schedule adjustments for Supplemental Energy (as it now does for Ancillary Services) and is unwilling to price the risks associated with uninstructed deviations, the ten-minute market reform preserves, at least for the initial period, the option for an external resource to be pre-Dispatched prior to the start of the operating hour.¹⁷ By setting a "pre-Dispatch flag" on its Supplemental Energy bid from an external resource, a Scheduling Coordinator may effectively withdraw any portion of the bid that the ISO does not accept before the beginning of the Settlement Period (the operating hour), eliminating any risk that it would be unable to comply with an incremental Dispatch instruction later in the hour because transmission is unavailable. External resources will thus continue to have the ability to limit their exposure to the risks of mid-hour adjustments that so concern BPA.¹⁸ External resources will thus have a choice: they can continue to submit Supplemental Energy bids for pre-Dispatch only or they can participate fully in the Imbalance Energy market on the same basis as other Market Participants.¹⁹ The pre-Dispatch option for imports is not, as Southern contends,

¹⁷ See proposed Section 2.5.22.4.1 of the ISO Tariff. It is premature to insist, as BPA does, that the pre-Dispatch flag must be a permanent feature of the ISO's market. BPA at 17. The ISO is working with other Control Area operators to conform their inter-area scheduling practices to the requirements of competitive markets. Graving this feature in stone would retard that process.

¹⁸ While an external resource will be subject to decremental Dispatch instructions with respect to the portion of its Supplemental Energy bid that is pre-Dispatched, as BPA notes (BPA at 17), this presents a minimal risk. First, the external resource does not have to secure additional transmission capacity to comply with the decremental instruction: it need only produce less Energy. Second, if it chooses to continue to generate at the pre-Dispatched level, it will receive the market clearing price for decremental instructed Energy during each BEEP interval that it provides Uninstructed Imbalance Energy by doing so.

¹⁹ SCE's suggestion that the pre-Dispatch option for imports be retained has thus been incorporated in the ten-minute market reform. SCE at 5. Neither BPA nor Sempra identify sound

an undue preference.²⁰ It is a reasonable recognition of differences in scheduling practices among Control Areas and ensures that imports will continue to be able to participate in the Imbalance Energy market.²¹

For these reasons, BPA's claims that the ten-minute market reform is inconsistent with established control area practices and check-out procedures and could impair reliability are overblown.²² The ISO is working with other Control Area operators to enhance coordination to permit mid-hour changes beyond those already accommodated for imports of Ancillary Service capacity. No neighboring Control Area operator is required to modify its procedures to increase the mid-hour schedule changes it recognizes, however, if local conditions do not permit or it is not confident that check-outs can be performed reliably. Resources in a Control Area that cannot make arrangements to respond to mid-hour Dispatch instructions will still be able to submit Supplemental Energy bids with a pre-Dispatch flag or reflect the risk of uninstructed deviations in its price.

bases for their further demands that external resources be *limited* to participation in the Supplemental Energy market through pre-Dispatch, such that the ISO would not Dispatch external resources at all unless the ISO is sure it will need them for the full hour. This approach effectively limits external resources to pre-Dispatch, barring them from the Supplemental Energy market, even when they would choose, after pricing the risk, to participate; resources should not be incented to do this. If external resources so desire, they can limit themselves to pre-Dispatch. The ten-minute market proposal offers an alternative to those who *can* participate in the Supplemental Energy market and choose to do so. There is no reason to deprive them of that option.

²⁰ Southern at 4-6.

²¹ Contrary to Southern's assertions, the pre-Dispatch option does not let an importer see how it likes the price in the first BEEP Interval before deciding whether to withdraw its bid. The flag must be in the Scheduling Coordinator's bid and the option must be exercised *prior* to the first BEEP Interval of the hour. See proposed Section 2.5.22.4.1 of the ISO Tariff.

²² BPA at 11-12.

In sum, the ten-minute market reform proposal neither creates undue burdens on external resources participating in the ISO Market nor provides unreasonable accommodations for the concerns of external resources.

2. The Proposed Pricing of Uninstructed Incremental and Decremental Deviations Is Reasonable.

Enron indicates its general support for the ten-minute market reform, but opposes the proposed pricing of uninstructed incremental deviations and uninstructed decremental deviations, suggesting an alternative approach.²³ BPA also proposes a different alternative approach to pricing incremental uninstructed deviations. The intervenors' complaints are unfounded and their alternative approaches do not cast doubt on the reasonableness of the ISO's proposal.

The thrust of the ten-minute market reform is to minimize pricing differences for participants in the Imbalance Energy market and, in particular, to avoid situations in which Imbalance Energy sales or purchases are priced on the basis of the marginal value of Energy at times other than the BEEP Interval in which the Energy is purchased or consumed. With respect to Uninstructed Imbalance Energy, each type of deviation is priced based on the ISO's marginal cost to accommodate the Scheduling Coordinator's uninstructed action (or the marginal value of that action) during the relevant BEEP Interval. To accommodate an uninstructed reduction in Generation or uninstructed increases in Demand (a "dec"), the ISO must increment resources that have submitted incremental Imbalance Energy bids and pay them in accordance with the BEEP Interval clearing price for incremental Energy; it is appropriate to charge this

same price to the Scheduling Coordinator that undertook the uninstructed decremental deviation. Similarly, to accommodate uninstructed incremental generation or Demand reductions (“incs”), the ISO must decrement resources that have submitted bids, effectively selling them Energy at the decremental market clearing price for the BEEP Interval. This establishes the value of the Energy supplied by the Scheduling Coordinator engaging in an uninstructed incremental deviation during the BEEP Interval.²⁴

Contrary to Enron's claims, this approach to pricing Uninstructed Imbalance Energy is consistent with cost causation and is not punitive.²⁵ It simply assigns to the Scheduling Coordinator that supplies Uninstructed Imbalance Energy in real time or reduces its scheduled Generation in the absence of a decremental instruction the costs the ISO incurs to accommodate that deviation while maintaining a real-time balance between Generation and Demand. Those costs are the market clearing prices of decremental or incremental Imbalance Energy, respectively, during the relevant BEEP Interval, because the resources that have submitted Imbalance Energy bids are the only resources upon which the ISO can rely to make room for the uninstructed deviation.

Linking the prices paid or charged for Uninstructed Imbalance Energy to the market clearing price for the type of instruction that the ISO must issue to

²³ Enron at 6, 22-24; *see also* SCE at 6.

²⁴ Based on experience to date, the ISO anticipates that it will issue only incremental or decremental instructions in most ten-minute BEEP intervals, resulting in a single market clearing price for incremental and decremental Imbalance Energy. *See* Fluckiger Declaration at 17. Enron appears to agree that it is reasonable to anticipate a single market clearing price for Imbalance Energy in most BEEP Intervals. *See* Enron at 22-24.

accommodate the uninstructed surplus or shortfall of Energy is critical to the purpose of the ten-minute market reform: by eliminating the hourly price for Uninstructed Imbalance Energy, the proposal eliminates the current incentives for Scheduling Coordinators to withhold Supplemental Energy bids and to defer compliance with the ISO's operating instructions. A Scheduling Coordinator cannot profit by generating on an uninstructed basis or providing instructed Energy in a later interval, because it will receive only the marginal value of Energy during the interval that it is provided, i.e., the ISO's cost of accommodating the extra Energy.²⁶ In contrast, Enron's alternative, under which the uninstructed deviations are priced at the average of the market clearing prices for instructed incremental Energy and decremental Energy would create a new opportunity for Scheduling Coordinators to attempt to game the Imbalance Energy market. During intervals in which separate decremental and incremental clearing prices are established (and Scheduling Coordinators could, given an incentive do so, attempt to increase the frequency of such intervals through the bids they submit for portions of their portfolios), Scheduling Coordinators could attempt to profit by engaging in uninstructed deviations, rather than Supplemental Energy bids. This would defeat a principal purpose of the ten-minute market reform.

²⁵ Enron at 16-17, 22; *see also* Semptra at 17.

²⁶ As Enron notes, applying the proposed pricing for Uninstructed Deviations to past intervals could sometimes lead to significant revenue imbalances. Enron at 24. This is the product, however, of the large uninstructed deviations that the ISO has sometimes experienced in the past. The ten-minute market reform, however, is designed to eliminate the features of the current market design that encourage large uninstructed deviations. It is not reasonable to expect the recurrence of revenue imbalances of the magnitude that Enron posits.

BPA proposes an alternative solution to the problem of large uninstructed deviations: pay nothing for uninstructed deviations.²⁷ Unlike the market-based approach proposed in Amendment No. 29, this proposal would indeed be punitive. It is, moreover, based on a faulty premise. As long as Generators supplying Energy on an uninstructed basis do not receive more than the Energy is worth during the BEEP Interval when it is supplied, the ISO does not want to discourage Generators' response to this price signal. A high clearing price for Imbalance Energy signifies a need for additional Energy, and the ISO would welcome additional output from Generators that find themselves with surplus generation. The ISO, of course, would clearly prefer such Generation to submit Supplemental Energy bids. As proposed in Amendment No. 29, the elimination of the prospect of extra profits created by differences between the prices for instructed Imbalance Energy and Uninstructed Imbalance Energy during a BEEP Interval should be sufficient to encourage the submission of Supplemental Energy bids and adherence to the ISO's Dispatch instructions. The punitive approach proposed by BPA is neither necessary nor appropriate.

3. Load Participation Issues.

Several intervenors argue that the ten-minute market reform proposal will discourage participation by Loads in the ISO's markets. They argue that hourly settlement for Imbalance Energy should be retained, or a separate real-time hourly Energy market should be established, to accommodate concerns that Load resources often have difficulties returning quickly to their previous operating

²⁷ BPA at 19-21. Presumably, this proposal would apply only to uninstructed incremental

levels after they have supplied Imbalance Energy by reducing Demand in response to an ISO Dispatch instruction.²⁸

The ISO shares these intervenors' concerns that impediments to the participation of Loads in the ISO's markets be reduced. These concerns, however, present no basis for continuing the current Imbalance Energy market design, which pays a price for Uninstructed Imbalance Energy that does not reflect the value of Energy at the time it is purchased or supplied. If, as CDWR notes, it takes several BEEP Intervals for a Participating Load to return to the Demand level at which it operated prior to the ISO's Dispatch instruction, the Participating Load will receive compensation for the Energy it supplies in those intervals. Under the ten-minute market reform, that compensation will reflect the value of Energy supplied by the Participating Load during those intervals.

CDWR's concern has less to do with the ten-minute market reform proposal than with the "no-pay" rule accepted by the Commission as part of Amendment No. 13 to the ISO Tariff.²⁹ Under that rule, a Scheduling Coordinator that engages in the uninstructed generation of Energy from capacity committed to the ISO for Operating Reserves or Replacement Reserves may forfeit a portion of the payment to which it is otherwise entitled for that capacity. A Participating Load's provision of Energy on an uninstructed basis during the intervals following the ISO's Dispatch of such Energy from capacity accepted for an Ancillary Service could implicate the no-pay rule, requiring it to forfeit the

deviations, i.e., the unscheduled production of Energy.

²⁸ CDWR at 6-7; Southern at 7-8.

²⁹ CDWR at 8-9. Amendment No. 13 was addressed in *California Independent System Operator Corp.*, 86 FERC ¶ 61,122 at 61,417-19 (1999).

compensation for Uninstructed Imbalance Energy (and Ancillary Service capacity) to which it would otherwise be entitled, regardless of whether that Energy is priced on a ten-minute basis or an hourly basis.

To address this concern, the ISO proposes to implement Amendment No. 29 on approximately the same time-frame as a program under which the application of the no-pay rule would be relaxed for Participating Loads taking part in the ISO's Summer 2000 trial program for Load Participation in the Ancillary Service markets, which is described in Amendment No. 28.³⁰ This program involves the creation of a temporary technical standard under which Participating Loads taking part in that trial program would be exempted from the no-pay rule for the hour of the original Dispatch and the two succeeding hours. This accommodation represents a reasonable response to the concerns expressed by CDWR, which, as noted above, relate to the no-pay rule, rather than to the ten-minute market reform proposal. Moreover, this proceeding represents an inappropriate forum for CDWR's presentation of its unjustified attack on the no-pay rule, which applies to the Ancillary Service markets, rather the Imbalance Energy market that is the subject of the ten-minute market reform.³¹ Not only was the no-pay rule approved by the Commission last year, in its ruling on Amendment No. 13,³² but CDWR's description of the no-pay rule as a non-market

³⁰ Fluckiger Declaration at 13-14.

³¹ NCPA also describes the no-pay rule as a component of the Amendment No. 29 filing. NCPA at 4. As the Amendment No. 13 order makes clear, NCPA is wrong. *See California Independent System Operator Corp.*, 86 FERC at 61,417-19. NCPA's complaints about the no-pay rule are in any event unfounded. The no-pay rule does not ignore ramping limitations reflected in a resource's bid or require the exclusion of a resource that is subject to forfeiture under the no-pay rule from the Ancillary Service market in subsequent hours.

³² *See supra* note 29.

solution is inaccurate. The no-pay rule incorporates into the ISO's Ancillary Service market a standard feature of most markets: an entity that does not provide the commodity that it has contracted to supply (in the case of the Ancillary Service market, unloaded capacity available for the ISO's instructed Dispatch) is not entitled to payment.

MWD argues that the no-pay exemption should be extended to all Participating Loads, regardless of whether they are participating in the Summer 2000 trial program.³³ The ISO did not initially propose to apply the exemption so broadly because it anticipated that all Participating Loads qualifying and desiring to take part in the Ancillary Service market this summer would participate in that program. To the extent that is not the case, the ISO would not object to permitting any Participating Load that enters into an appropriate Participating Load Agreement to benefit from the same no-pay exemption for the duration of the Summer 2000 trial program, regardless of whether it applied and was selected to participate in that program. After that program terminates on October 15, 2000, the ISO will evaluate the need for continued special treatment under the no-pay rule of Participating Loads.

However, the potential difficulties that Loads could experience in participating in the real-time Imbalance Energy market, which exist both under the ten-minute market proposal and under the current market design (to which the no-pay rule also applies), present no basis for creating a separate hourly real-time hourly Energy market, open to both Loads and Generators, as Southern

³³ MWD at 2-5.

urges.³⁴ A Participating Load that sees undue risks in participating in the Imbalance Energy market can avail itself of numerous hourly Energy markets, including the Power Exchange's Day-Ahead and Hour-Ahead Markets and bilateral transactions. There is no need for the ISO to create another hourly Energy market in real time. Doing so, moreover, would have the inevitable consequence of fragmenting participation in the real-time Energy market, creating two less efficient markets, each with fewer participants, in place of one efficient Imbalance Energy market.

Finally, the proposed tariff revisions relating to Load participation in the Imbalance Energy market are clear, contrary to the assertions of CDWR and MWD.³⁵ Section 2.2.16 of the ISO Tariff and the revised definitions in the Tariff are unremarkable and innocuous. Section 2.2.16 simply applies to Loads the provisions applicable to Participating Generators in Section 5 of the ISO Tariff: the requirement that they qualify as Participating Loads by signing an appropriate Participating Load Agreement and submit bids and schedules through a Scheduling Coordinator. The reference to technical standards posted on the ISO Home Page reflects the fact that the technical qualifications applicable to Participating Loads, like those applicable to Participating Generators, are too detailed to warrant inclusion in the tariff. The revised definitions simply reflect the distinction between Curtailable Demand, which is the "product" that Participating Loads supply in the ISO's Ancillary Service and Imbalance Energy markets, and Dispatchable Loads, which are Loads that are the subject of an Adjustment Bid,

³⁴ Southern at 7.

signifying their willingness to be adjusted in Congestion Management. These clarifying changes do not affect Market Participants' substantive rights.

4. Delaying Implementation of the Ten-Minute Market Is Unwarranted.

The ISO now expects the software modifications required to implement the ten-minute settlement and Dispatch of Imbalance Energy to be installed, tested, and ready for implementation by approximately August 1, 2000. A number of intervenors urge a delay in the implementation of the ten-minute Imbalance Energy market beyond the upcoming summer peak season.³⁶ The arguments they advance, however, are insubstantial.

The intervenors first claim that the complexity of the ten-minute market reform proposal warrants a delay. The complexity of the proposal, however, is overstated. As described above, the ten-minute market proposal is expected to produce a single Imbalance Energy clearing price in most intervals, applicable to both Instructed Imbalance Energy and Uninstructed Imbalance Energy. In fact, the ten-minute market proposal will substantially simplify the determination of clearing prices in the Imbalance Energy market. This is evident from the tariff revisions proposed to implement the proposal, which involve principally the deletion of complex formulas for the hourly pricing of Uninstructed Imbalance Energy under the current market design.³⁷

The ten-minute market proposal is also more simple as it applies to entities participating in the Imbalance Energy market: it encourages them to

³⁵ CDWR at 10-11; MWD at 3-5.

³⁶ CPUC at 2-3; Dynegy at 9; Oversight Board at 5; PG&E at 4; SMUD at 10.

³⁷ See proposed Revised Sheets 205 through 209.

submit bids in that market and to operate their resources in accordance with the Dispatch instructions issued by the ISO on the basis of those bids. It substantially reduces the complex decisions currently required of participants in the Imbalance Energy market to determine whether and how to take advantage of the gaming opportunities presented by the settlement of Instructed Imbalance Energy and Uninstructed Imbalance Energy on different bases.

The intervenors' cries of complexity also ignore the substantial opportunities that the ISO has provided to Scheduling Coordinators for training in the ten-minute market procedures. Training opportunities included five one-day workshops held in February 2000, before Amendment No. 29 was filed, in which the ISO discussed the concepts underlying the proposed ten-minute market reform. In addition, the ISO conducted six one-day training sessions held in April and May 2000, in which the ISO provided detailed descriptions of how the Imbalance Energy market would be settled under the ten-minute market reform, including demonstrations of how Imbalance Energy prices would be calculated for each ten-minute BEEP Interval, how charges and payments for instructed Energy and Uninstructed Imbalance Energy would be calculated and the effect of the ten-minute market proposal on the no-pay rule. Further, for those Market Participants who requested it, the ISO met with their staffs on an individual basis to answer questions. The ISO conducted four such meetings in March and May 2000. In light of these opportunities for discussion of the concepts underlying the ten-minute market reform and training in its details, there is no basis for the claims that the ten-minute market proposal is too complex to implement.

In the same vein, the claims that moving to ten-minute settlements for Imbalance Energy markets will increase the volume of data processed by the ISO and Scheduling Coordinators is no basis for delaying implementation. As the Commission noted in addressing similar claims that locational marginal pricing is too complex and data-intensive to implement reliably, the availability of modern computer technology and electronic data transmission permit the processing of large volumes of data.³⁸ Moreover, while the volume of settlement data will increase, the review of those data will be simplified by the replacement of the current multiple settlement periods and pricing formulae with the unified ten-minute pricing approach. Certainly, concerns about the volume of settlement data present no basis for continuing to settle Imbalance Energy obligations on the basis of prices that do not reflect the value of the Energy purchased and sold, and that create disincentives to follow ISO Dispatch instructions and submit Supplemental Energy bids.

Other intervenors argue that the reaction to ten-minute markets of Market Participants, especially those outside the ISO Control Area, is uncertain. While the ISO appreciates this concern, it does not share it. As explained above, the ISO expects external resources to continue to participate in the Imbalance Energy markets, especially if, as these intervenors fear, high levels of demand this summer produce high Imbalance Energy prices. Even if neighboring Control Areas do not accommodate more mid-hour schedule adjustments, in addition to those they currently accommodate for external resources participating in the

³⁸ See *Pennsylvania-New Jersey-Maryland Interconnection*, 81 FERC ¶ 61,257,

ISO's Ancillary Service markets, Scheduling Coordinators will be able to reflect the risks of mid-hour adjustments in their bids. Moreover, the availability this summer of the "pre-Dispatch flag" will enable resources in other Control Areas to participate in the ISO's Imbalance Energy market in much the same way they do today: by being pre-Dispatched prior to the start of the operating hour. The implementation of ten-minute markets thus provides an additional option for Scheduling Coordinators with external resources to participate in the ISO's Imbalance Energy market, without taking away any existing opportunity to participate in that market, let alone their opportunities to participate in the ISO's Ancillary Service markets. There is accordingly no basis for concerns that the implementation of ten-minute markets will cause the participation of external resources in the ISO's Imbalance Energy markets to dry up or lead to the isolation of the ISO from other Control Areas in the Western Interconnection.

Moreover, delaying the implementation of ten-minute markets beyond the summer peak season will substantially reduce the expected benefits of the proposal. It is in the peak season that the demand for Regulation capacity, and consequently its price, are typically highest. The ability of the ISO to reduce its purchases of Regulation when the implementation of ten-minute market enhances the utility of the Imbalance Energy market for Load following thus produces the greatest benefit during periods of high Demand.³⁹ Similarly, it is

at 62,255-56 (1997).

³⁹ Sempra complains in its protest about the use of Regulation capacity to manage uninstructed deviations. Sempra at 8-9. The ISO agrees that this practice is not desirable. The ISO has, however, been forced to rely on Regulation capacity for this purpose because of the unreliability of Imbalance Energy resources' responses to its Dispatch instructions, due to the inappropriate incentives created by the current market design. The ISO hopes to be able to

when demand is highest that the ability of the ISO to rely on Scheduling Coordinators' obeying its Dispatch instructions, and thereby to reduce the amount of Imbalance Energy called, is most important. The intervenors have simply failed to identify and substantiate concerns that warrant foregoing the benefits of the most expeditious possible implementation of ten-minute markets for Imbalance Energy.

Finally, the attempts of several intervenors to link the ten-minute market proposals to other issues are unfounded. Sempra and SMUD argue that ten-minute markets cannot be implemented until the completion of the comprehensive review of the ISO's Congestion Management process that is currently under way. They fail, however, to demonstrate any linkage between ten-minute markets and Congestion Management. Regardless of the approach employed to relieve Congestion, the Imbalance Energy market should be as efficient as possible. Failing to create appropriate market incentives for Scheduling Coordinators to submit Supplemental Energy bids and to obey the ISO's real-time Dispatch instructions unnecessarily increases costs to consumers, whether or not the grid is congested and regardless of whether Congestion is managed through a zonal approach, a nodal approach, or any other approach.

Other intervenors note that the ISO is continuing to work with stakeholders to eliminate gaming opportunities associated with the development of a "target price," which eliminates overlaps between incremental and decremental bid

reduce substantially its reliance on Regulation capacity as a result of the ten-minute market

stacks. Here, too, the intervenors fail to identify any reason why the implementation of ten-minute markets must await the resolution of this separate issue. As noted in the draft report appended to one of the interventions, the implementation of ten-minute markets is expected to reduce these gaming opportunities.⁴⁰ The ISO is still exploring whether additional long-term measures, including changes to the manner in which the target price is determined, are necessary to eliminate them completely. Intervenors have identified no basis for delaying the implementation of ten-minute markets while these unrelated issues are pursued.⁴¹

5. The ISO Would Agree To Submit a Report on the First Year of Operation of a Ten-Minute Imbalance Energy Market.

PG&E and MWD both ask the Commission to condition its acceptance of ten-minute markets on the ISO's submission of a report concerning its implementation and the resulting benefits.⁴² Insofar as these requests rest on the presumption that the implementation of ten-minute markets represents some unusual step, they are unfounded. As explained above, the settlement of Imbalance Energy market obligations over the same interval that the resources

reform.

⁴⁰ See Department of Market Analysis ("DMA") report entitled *Real Time Market Energy Target Price*, at 2, 12-16. This report is appended to Southern's intervention. See also report entitled *Bid Modification Using the Target Price*, at 6-7, appended to Enron's intervention.

⁴¹ The lack of any real connection between the target price issue and the ten-minute market proposal is apparent from the interventions. Although Enron attacks a "target price" proposal, the ISO has made no target price proposal in this filing. Enron at 20-21. Sempra's proposed solution to the target price gaming problem, which appears to involve divorcing the ISO's Imbalance Energy market from the ISO's need for Imbalance Energy, also has nothing to do with the ten-minute market proposal. Sempra at 13-15. Finally, charges that the target price methodology is not specified in the ISO Tariff or protocols are both unfounded (see Enron at 21; Scheduling Protocol, Section 11.2) and divorced from any connection with Amendment No. 29.

⁴² PG&E at 3-4; MWD at 5-7.

are Dispatched was a fundamental tenet of the ISO's original market design. The implementation of ten-minute markets replaces the accommodations that were put in place to permit the commencement of ISO's operations with the originally intended, more efficient market design. The ISO nevertheless would accept a requirement to submit a report to the Commission regarding how ten-minute markets operate following implementation. To permit the report to be based on analysis of a full year of data, the ISO proposes to submit a report fifteen months after the ten-minute market is implemented, which is consistent with the one year proposed by PG&E, but allows time for assembly and review of the data. Little purpose would be served by the submission of a report after only a few months, as MWD urges, since only a month or two of data would be available for analysis.

B. Other Issues

1. The Change To the Deadline For Withdrawal of Supplemental Energy Bids In DP 7.3 Is a Conforming, Non-Substantive Change.

Dynegy notes that in the course of modifying Section DP 7.3 of the Dispatch Protocol to establish the ability of Scheduling Coordinators to specify pre-Dispatch flags for System Resources they represent,⁴³ the ISO also modified the period after which Supplemental Energy bids may not be withdrawn from 30 minutes before the beginning of the Settlement Period to 45 minutes before the beginning of the Settlement Period.⁴⁴ This change, however, simply conforms DP 7.3 to the corresponding provision of the ISO Tariff, Section 2.5.22.4.1. That

⁴³ See *supra* discussion in Section III(A)(1).

⁴⁴ Dynegy at 6-9.

provision was modified in Amendment No. 6 to specify the 45-minute deadline for withdrawal of Supplemental Energy bids and was accepted by the Commission.⁴⁵

Thus, the currently applicable deadline for the withdrawal of Supplemental Energy bids *is* 45 minutes before the Settlement Period, as stated in Section 2.5.22.4.1. In preparing Amendment No. 29, the ISO noticed that, through an oversight, Amendment No. 6 did not propose a corresponding change to DP 7.3. The ISO accordingly took this opportunity to conform the two provisions so that the requirements specified in the ISO Tariff and the Dispatch Protocol are consistent.

Dynegy notes correctly that the 45-minute period in Section 2.5.22.4.1 is the subject of a pending challenge in Docket No. ER96-3760 (the “Unresolved Issues” proceeding). The ISO had no intention of cutting off that challenge by conforming DP 7.3 to Section 2.5.22.4.1; if the Commission rules in Docket No. ER96-3760 that Scheduling Coordinators should be able to withdraw Supplemental Energy bids after 45 minutes before the Settlement Period, the ISO will modify both provisions accordingly.

2. The Automated Communication of Dispatch Instructions Does Not Interfere With the Operation of Other Control Areas.

BPA challenges Amendment No. 29's provision for the electronic communication of Dispatch instructions to Scheduling Coordinators. It argues that the provision is deficient because it does not also provide for the electronic

⁴⁵ *California Independent System Operator Corp.*, 82 FERC ¶ 61,327, at 62,295 (1998).

communication of Dispatch instructions to operators of neighboring Control Areas.⁴⁶ This challenge is both untimely and unfounded.

First, the Commission approved the electronic communication of Dispatch instructions as part of the Ancillary Service market reforms proposed in Amendment No. 14.⁴⁷ Amendment No. 29 only adds some confirming language to Sections 2.5.6.2 and 2.5.22.10 of the ISO Tariff to implement that earlier decision. BPA did not raise this objection to the automated Dispatch proposal when it was first presented.

Moreover, the purpose of automated Dispatch is to improve the efficiency of the communication of Dispatch instructions to Scheduling Coordinators, who are the entities with which the ISO normally interacts in scheduling and real-time operations. With the exception of resources supplying Regulation, which must be able to respond to the ISO's Dispatch signal without manual intervention, the automated and electronic communication of Dispatch instructions is *not* equivalent to the ISO's obtaining automated control of resources. The resource operator must still adjust its output in response to the ISO's Dispatch instructions, rather than have the resource directly controlled by the ISO, as is the case with those resources providing Regulation service. BPA's fear that the ISO can thus direct changes in the operation of external resources without the knowledge of neighboring Control Area operators is therefore groundless.

While the lack of automated communications between Control Area operators presents no basis for opposing automated Dispatch by the ISO,

⁴⁶ BPA at 21-22.

nothing in Amendment No. 14 or Amendment No. 29 precludes the operator of another Control Area from establishing electronic communications with the resources in its Control Area that have chosen to participate in the ISO's markets. The ISO is also willing to work out automated communications systems with neighboring Control Area operators to facilitate inter-Control Area transactions and has endeavored to do so. The lack of agreement thus far presents no basis for delaying further the ISO's initiation of automated communication of Dispatch instructions to resources participating in its markets.

3. The Revised Financial Security Criteria for Scheduling Coordinators Are Reasonable.

Amendment No. 29 included revisions to the ISO's financial security requirements for Security Coordinators resulting from a review undertaken at the request of Market Participants. Following a review of the relevant criteria with stakeholders, the ISO decided to expand the definition of an Approved Credit Rating with respect to a Scheduling Coordinator's market obligations to include a short-term credit rating equal to the second highest rating or better (A2/P2). Most intervenors either support or do not comment on this change. PG&E and SCE, however, argue that a short-term credit rating of A2/P2 is too low to permit a Scheduling Coordinator to escape the requirement to post financial security for its market obligations.⁴⁸ The ISO and the stakeholders considered this viewpoint, but concluded that the risk of default by Scheduling Coordinators with this credit rating was minimal, as reflected in data showing default rates averaging only

⁴⁷ *AES Redondo Beach, L.L.C., et al.*, 87 FERC ¶ 61,208, at 61,815 (1999).
⁴⁸ PG&E at 4; SCE at 6-7.

0.03% over twenty-three years.⁴⁹ PG&E and SCE offer nothing to support their claim that this conclusion was unreasonable.

SCE also notes that the proposed revisions permit a Scheduling Coordinator that lacks an Approved Credit Rating to post separate Security Amounts to cover its responsibility for Grid Management Charges and for the payment of other charges. It states that it does not oppose the posting of separate Security Amounts as long as the amount posted to secure a Scheduling Coordinator's market obligations is not tapped to meet a default for Grid Management Charges ahead of its market obligations.⁵⁰ There is no basis for concern. When a Scheduling Coordinator elects to post separate Security Amounts, each will be handled separately and earmarked for its intended purpose. A Scheduling Coordinator will not be able to rely on a Security Amount posted to cover market obligations to satisfy its obligation to provide security for its Grid Management Charge obligations or vice-versa.

⁴⁹ Amendment No. 29 filing, Attachment J, at 5.
⁵⁰ SCE at 7.

IV. CONCLUSION

For the foregoing reasons, the Commission should accept Amendment No. 29 without change or condition and without further proceedings.

Respectfully submitted,

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