

below and detailed in proposed Amendment No. 43, imports have declined and the ISO potentially confronts serious operational problems if imported Energy does not increase in the near future. The proposed modification will make participation in the ISO Real Time Market more attractive for System Resources. To that end, the ISO requests this proposed Tariff amendment become effective immediately upon Commission approval.

The ISO notes for the Commission that proposed Amendment No. 43 received general consensus at an April 11, 2002 ISO-Stakeholder meeting, which included California suppliers, marketers, System Resources, load serving entities and State of California agencies. Specifically, there was general consensus that it was reasonable and appropriate for the ISO to seek Commission approval, for the summer of 2002 only, to pay System Resources at the Instructed Imbalance Energy MCP as a means of reducing financial risk for participation by such resources in the ISO Real Time Market.

I. BACKGROUND

System Resources confront at least two important disincentives to participate in the ISO Real Time Market: (1) the Commission's requirement that imported Energy must be bid into the BEEP stack at \$0/MWh and (2) the ISO's ten-minute Dispatch and Settlement process. Pending before the Commission is the ISO's request for rehearing seeking revocation of the requirement that Scheduling Coordinators for System Resources must bid imported Energy at \$0/MWh. Through this Amendment No. 43 the ISO now proposes a temporary solution to the ten-minute Dispatch and Settlement problem.

On May 2, 2000, as amended May 3, 2000, the ISO submitted for filing Tariff Amendment No. 29 containing, among other things, a proposed revision to the ISO Tariff that would settle Scheduling Coordinators' obligations in the ISO Real Time Market on a ten-minute rather than hourly basis.³ The Commission approved Tariff Amendment No. 29 by order dated June 29, 2000.⁴ As a result, both Instructed Imbalance Energy and uninstructed deviations are priced on the basis of the MCP during BEEP intervals (currently set at ten minutes) during which Energy is delivered or the uninstructed deviations from Dispatch instructions occur.

Some System Resources reduced their participation in ISO markets as a result of the ten-minute Dispatch and Settlement requirements. The reduced participation was due to the fact that System Resources are subject to the direct operational control of their respective control area, not that of the ISO, and so cannot respond to intra-hour ISO Dispatch instructions to change Schedules. Consequently, many System Resources are reluctant to accept the risk of receiving the Uninstructed Imbalance Energy price rather than the Instructed Imbalance Energy price for BEEP intervals within an operating hour in which the ISO has issued Dispatch instructions to which such resources can not respond. Accordingly, System Resources have chosen to mitigate this risk by not participating in the ISO's Real Time Market.

³ Tariff Amendment No. 29 also proposed implementation of a dual pricing scheme, with separate prices for incremental and decremental Imbalance Energy.

⁴ "Order Conditionally Accepting Proposed Tariff Revisions," 91 FERC ¶ 61,324 (2000), req. for reh'g. pending.

II. THE ISO URGENTLY NEEDS SYSTEM RESOURCES TO HELP ENSURE OPERATIONAL RELIABILITY AS HOT WEATHER BEGINS

Unfortunately, reduced participation by System Resources in recent months has become extreme and poses a real threat to ISO Control Area reliability because the ISO depends upon imported Energy, especially hydroelectric generation, to meet seasonal peak Demand and operating reserve criteria. The decline in participation by System Resources will have serious operational impacts as snow melt begins in the next few weeks in California.

In proposed Amendment No. 43, the ISO seeks relief from the ISO Tariff requirement such that System Resources, unable to make mid-hour Schedule adjustments, not be subject to Settlement at the uninstructed deviation price for ten-minute intervals when the ISO has issued to these resources Dispatch instructions to which such resources either can not or have restricted ability to comply. Consistent with existing Commission requirements, System Resources remain price-takers, and, unless otherwise eligible, are not permitted to set the MCP in ISO markets. The ISO believes that approval of Tariff Amendment No. 43 will encourage increased participation in the ISO Real Time Market by System Resources, and thus help the ISO ensure grid reliability this summer.

III. CONCLUSION

WHEREFORE, for the reasons discussed above, the ISO respectfully requests that the Commission act expeditiously to approve proposed Amendment No. 43.

Respectfully submitted,

Charles F. Robinson
Margaret A. Rostker
Counsel for the California Independent
System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
(916) 608-7147

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