UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	))	**Docket No. ER04-835-003**

MOTION FOR LEAVE TO FILE ANSWER AND ANSWER TO PROTESTS OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

Pursuant to Rules 212 and 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §§ 385.212, 385.213, the ISO hereby requests leave to file an answer, and files its answer, to the protests of the California Department of Water Resources State Water Project ("SWP") and Powerex Corp. ("Powerex").[1] In support whereof, the ISO states as follows.

I. Background

On September 2, 2004, the California Independent System Operator Corporation ("ISO") submitted a supplementary compliance filing ("September 2 Compliance Filing") in the captioned docket to comply with the Commission's "Order on Tariff Amendment No. 60," issued in this docket on July 8, 2004 ("Amendment No. 60 Order").[2] The purpose of the September 2 Compliance

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[1] The ISO requests waiver of Rule 213(a)(2) (18 C.F.R § 385.213(a)(2)) to permit it to make this answer to these protests. Good cause for this waiver exists here because the answer will aid the Commission in understanding the issues in the proceeding, provide additional information to assist the Commission in the decision-making process, and help to ensure a complete and accurate record in this case. *See, e.g., Entergy Services, Inc.*, 101 FERC ¶ 61,289, at 62,163 (2002); *Duke Energy Corporation*, 100 FERC ¶ 61,251, at 61,886 (2002); *Delmarva Power & Light Company*, 93 FERC ¶ 61,098, at 61,259 (2000).

[2] *California Independent System Operator Corp.*, 108 FERC ¶ 61,022 (2004).

Filing was to comply with the Commission directive to finalize and file revised Operating Procedure M-432, relating to the ISO's capacity procurement target. Amendment No. 60 Order at PP 103 and 106. The September 2 Compliance Filing contained revised Operating Procedure M-432C, which is the relevant portion of Operating Procedure M-432.

On September 23 and 24, 2004 respectively, Powerex and SWP filed protests in response to the September 2 Compliance Filing.

II. ANSWER TO PROTESTS

A. The ISO Is Not Using Must-Offer Resources To Bypass the Inter-Zonal Congestion Management Process

SWP and Powerex argue that that it appears that the ISO is not using its Inter-Zonal Congestion Management process to manage Inter-Zonal Congestion, but is instead committing Generating Units under the must-offer obligation – and thereby incurring minimum load costs – to do so. SWP at 3; Powerex at 3-5. This false impression inadvertently has been created in part by erroneous information provided by the ISO in testimony and exhibits filed in the Amendment No. 60 proceeding taking place before Administrative Law Judge H. Peter Young. As explained at a Scheduling Conference held on October 5, 2004 in that proceeding, and again in a Motion for Revised Procedural Schedule filed on October 7, this erroneous data indicated that a greater proportion of minimum load costs was attributable to inter-zonal constraints than was in fact the case.

The ISO intends to file revised testimony and exhibits on October 26, 2004[3] correcting the data that gave rise to this false impression. In light of the fact that the data in question is being corrected and refiled, SWP's and Powerex's concerns are at best premature. The ISO would expect that SWP's and Powerex's concerns on this point will be alleviated by this corrected data.

Nonetheless, it is clear that the ISO has not used the must-offer obligation as a means to do an "end run" around the Congestion Management process. As an example, the ISO has committed Generating Units under the must-offer obligation when it determined that additional generating capacity was required in a Zone to ensure Load in that Zone could still be met if one of the transmission lines over which power was being imported into that Zone was forced out of service. The generating unit was not committed to manage pre-contingency flows on that transmission interface; in other words, the unit was not committed to manage congestion – *i.e.*, ensure that flows on that interface did not exceed the interface's rating. Instead, the ISO may have committed that unit to ensure that if the interface were lost – and the transfer capability into that Zone were reduced – there still was enough generating capacity within the transmission-constrained Zone to serve the Load in that Zone. Stated differently, the Generating Unit in this scenario would have been committed to restore steady-state operations after the contingency, not to manage flows on the interface prior

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[3] This is the date proposed unanimously by the participants in the proceeding before Judge Young in the Motion for Revised Procedural Schedule filed on October 7, 2004. This Motion is still pending before Judge Young.

to the contingency. Restoring post-contingency steady-state operations is not within the scope of the forward market Congestion Management process.

While the ISO appreciates Powerex's characterization of the current Inter-Zonal Congestion Management process as "well-functioning" (Powerex at 3), the ISO has acknowledged that the current inter-zonal Congestion Management process does not, in some instances, consider simultaneous operating nomograms – such as the relationships between Path 15 flows and flows on the West-of-Borah interface, and flows on the Sylmar 230/220 kV transformer banks and the Victorville-Lugo 500 kV line - that must be adhered to in real time. Nor does the forward market Congestion Management process consider the effects of loop flow. It is also possible that the ISO may commit a unit that might be needed to address these problems in real time because the forward Congestion Management system does not consider the nomogram limitations or loop flow. The use of Generating Units under the must-offer obligation in this instance does not constitute an inappropriate circumvention of the forward market Congestion Management process, but rather a necessary supplement to address known deficiencies in that process.

As Powerex and CDWR are aware, the ISO is working to redesign and reform its congestion management process. As noted above, the ISO has also committed to providing updated information on the use of must-offer resources in the minimum load cost allocation proceeding before Judge Young. The ISO anticipates that once the corrected data is available, it will be more readily

apparent that the ISO is not using must-offer resources to bypass the Inter-Zonal Congestion Management process.

B. The ISO's Assumptions Regarding Real-Time Resources are Reasonable

Powerex complains that the ISO does not include system imports provided in real-time in its estimates of the Net Short energy amount, and argues that the ISO should use a three-day average of system imports, both final Hour-Ahead and real-time. Powerex at 2. Powerex further argues that the ISO should include Out-of-Market Capacity, including 1) a historical average estimate of in-state hydro generation based on production by season, not just bid-in hydro generation; 2) an estimate of wind generation; and 3) muni generation. Powerex at 2-3.

With regard to imported energy, the ISO concurs with Powerex that it would be appropriate to use a similar-day average of real-time imports when projecting the net short position. Unfortunately, forward market schedules reside in one ISO system, while real-time schedules above the forward market schedules reside in a different system. Currently, only the forward market schedules are input to the Security Constrained Unit Commitment (SCUC) engine. The ISO will work to incorporate real-time schedule data into the determination, but will have to build a bridge from the SCUC application to data that resides in a different computer system before it can accomplish this.

In the case of hydro generation, the ISO maintains that its current method of counting only the forward hydro schedules, and not any real-time

supplemental hydro energy, towards projected energy requirements is prudent. If hydro generation owners want to maximize the use of their available water, they could do so by maximizing their forward schedules, rather than by bidding that energy into the real-time market, where there is no guarantee the energy would be dispatched. Furthermore, the amount of hydro energy provided to the ISO as supplemental energy varies over the course of a year.

In regards to projections of wind generation, the ISO has indicated that it intends to factor in an estimate of wind generation when systems are in place to provide a reliable day-ahead estimate of wind generation. See Operating Procedure M-432 C, page 8.

Finally, in regards to muni generation, the ISO's experience is that very little municipal generation is bid into the ISO's markets as supplemental energy beyond forward schedules. While the ISO may have the ability to call on some municipal generation capacity during staged emergencies, this capacity cannot be considered available to the ISO in the normal Day-Ahead scheduling process, when the SCUC application is used to project the net short and commit generating units.

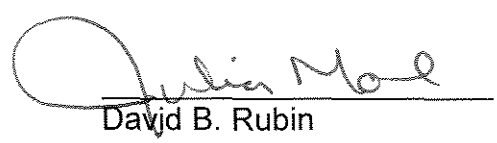
Relying on aggressive projections of real-time hydro, muni, wind and import energy to decrease the amount of thermal generation committed through the must-offer obligation will decrease costs if the projections hold true, but exposes the ISO and California consumers to significant risks if they do not. If the ISO does not commit long-start thermal units based on projections of real-time activity, and those projections are not realized, the ISO cannot just commit

the long-start units it did not commit earlier. That opportunity has passed, at least for the operating day, and unless other real-time arrangements can be made, shortages are possible. It is prudent for the ISO to exercise care when predicting the real-time availability of resources. The ISO must balance the costs of over-commitment against the risks and costs of under-commitment. The ISO's proposals for projecting the availability of various types of generating capacity strikes the correct balance between developing an accurate prediction of available energy and preparing for the unusual situation without exposing the grid to unnecessary risk.

III. CONCLUSION

Wherefore, for the foregoing reasons, the ISO respectfully requests that the Commission accept the September 2 Compliance Filing in its entirety.

Respectfully submitted,



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Date: October 8, 2004

CERTIFICATE OF SERVICE

I hereby certify I have this day served the foregoing document on each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Folsom, CA, on this 8th day of October, 2004.

Anthony J. Ivancovich

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