California ISO
Your Link to Power

California Independent
System Operator Corporation

September 7, 2006

VIA MESSENGER

The Honorable Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Re: California Independent System Operator Corporation, Docket No. ER98-3760-000

Dear Secretary Salas:

Pursuant to Paragraph 23 of the Commission's "Order Addressing Outstanding Issues Relating to California Independent System Operator Corporation" issued in this docket on June 7, 2006, 115 FERC ¶ 61,300 (2006) ("June 7 Order"), the California Independent System Operator Corporation ("CAISO")[1] respectfully submits an original and fourteen copies of this letter and the accompanying report concerning the issue of allowing multiple Scheduling Coordinators use of a single meter ("MSCS"). Two additional copies of this filing are enclosed to be date-stamped and returned to our messenger. If there are any questions concerning this filing please contact the undersigned.

As discussed in detail below, the CAISO believes that the existing inter-Scheduling Coordinator trade ("Inter-SC Trade") tool[2] serves the business needs of the CAISO's Market Participants and that, pursuant to the directives in the June 7 Order, the Commission should accept the existing Inter-SC Trade mechanisms as a sufficient alternative to any additional functionality at this time.

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1 Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff.

2 The ISO Tariff provides for both Inter-SC Ancillary Service Trades and Inter-SC Energy Trades. *See* ISO Tariff, §§ 4.5.3.3A, 28.

I. BACKGROUND

As noted in Paragraph 22 of the June 7 Order, the CAISO does not permit MSCS despite a 1997 Commission order directing the CAISO to develop "software" to implement MSCS going back to 1997. At that time, based on an interest expressed by the Bonneville Power Administration and Electric Clearinghouse Inc., the Commission stated, in its October 30, 1997 Order in Docket No. EC96-19-001, *et al.*, that "the ISO should permit Eligible Customers to be represented by more than one Scheduling Coordinator."[3]

In May 2000 in the instant docket, a group of joint parties consisting of Dynegy Power Marketing, Inc., Turlock Irrigation District, the Energy Producers and Users Coalition, the Cogeneration Association of California, and the Northern California Power Agency continued to argue that the CAISO should be ordered to implement the MSCS functionality.[4] These joint parties stated that the CAISO had not explained how the Inter-SC Trade tools might address this problem.[5] In fact, the CAISO argued in the proceeding that the costs of developing software that would allow MSCS outweighed any benefits in light of other solutions, including contractual agreements and Inter-SC Trades.[6] In its June 7 Order the Commission directed the CAISO to "to address this issue with stakeholders, [and] either to develop the software necessary to implement the Tariff revision ordered by the Commission or to propose alternatives."[7] The Commission also directed the CAISO to submit a report explaining its progress in addressing this issue.[8]

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3 *Pacific Gas and Electric Company, et al.*, 81 FERC ¶ 61,122, at 61,509 (1997).

4 *Joint Proponents' Reply Brief on Unresolved Issue No. J.3*, filed in Docket Nos. ER98-3760-000, *et al.*, on May 8, 2000.

5 *Id.* at 7. The CAISO filed three tariff amendments relating to Inter-SC Trade functionality. On March 3, 1998, in Docket No. EC96-19-017, the CAISO filed Amendment No. 4 to the ISO Tariff, which, among other things, provided for Inter-SC Energy Trades. On March 1, 1999, as part of Amendment No. 14 to the ISO Tariff, filed in Docket No. ER99-1971-000, the CAISO filed tariff language allowing Inter-SC Ancillary Services Trades. Finally, on May 2, 2000, in Docket No. ER00-2383, the CAISO filed Amendment No. 29 to the ISO Tariff, which, among other things, allowed for resource-specific trades of Adjustment Bids.

6 *Answering Brief of the California Independent System Operator Corporation*, filed in Docket Nos. ER98-3760-000, *et al.*, on April 10, 2000.

7 June 7 Order at P. 23.

8 *Id.*

II. DESCRIPTION OF ALTERNATIVES PRESENTED TO STAKEHOLDERS

In compliance with the Commission's directives in the June 7 Order, the CAISO published a White Paper on the MSCS issue on July 12, 2006 ("July 12 White Paper").[9] As explained in more detail in the White Paper and in the report provided in Attachment A to the instant filing, the CAISO proposed four alternatives:

1. The continued use of the Inter-SC Trade functionality.

2. The continued use of a single-SC-per-meter requirement for all operational, bidding, and scheduling purposes but allowing for a settlement solution for Energy. For example, the CAISO could allocate a percentage of the Energy settlements to more than one SC based on an agreement among SCs as to how the revenues would be shared.

3. The continued use of a single-SC-per-meter requirement for all operational, bidding, and scheduling purposes but allowing for a settlement solution for Energy *and Ancillary Services.* This is the same concept as alternative 2 above, except that it would be available for both Energy and Ancillary Services.

4. The completion of implementation of a functionality to permit MSCS for all operational, bidding, scheduling, and settlement purposes.

With respect to alternative 4 above, the CAISO must emphasize the enormous complexity that would be involved in implementation of the operational aspects of permitting MSCS at a single meter. The CAISO has in the past emphasized the high costs of implementing MSCS. In fact, the CAISO does not know just how much this functionality would cost or how much time it would take to develop and implement because of the complexity that would be involved in figuring out the operational aspects – assuming implementation is even possible. For example, shares of a physical Generating Unit cannot simply be treated as independent sub-units because of the many physical constraints involved, including the unit's minimum operating level and ramping rate, as well as the need to meet unit commitment requirements. It would be extremely complicated for the CAISO to have to design and implement a uniform set of standards for allocation of responsibilities among multiple SCs for a single Generating Unit —

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9 The July 12 White Paper is available at the following link: <http://www.caiso.com/1832/1832c86e1ade0.pdf>.

particularly with regard to allocation of obligations to respond to Dispatch Instructions and operating orders and with regard to allocation of Settlements for Imbalance Energy, Ancillary Services, and failures to comply with Dispatch Instructions and other requirements. Moreover, the responsibility for allocation of these responsibilities really should lie with the joint owners rather than the CAISO.

III. STAKEHOLDER RESPONSE

The July 12 White Paper was discussed at the CAISO stakeholder meeting held on July 19, 2006. At that meeting the CAISO again suggested that Inter-SC Energy and Ancillary Services Trades would meet Market Participants' business objectives, and no one attending the July 19 stakeholder meeting expressed an interest in having the CAISO develop any of the proposed alternatives. In addition, no stakeholder proposed any further alternative.

The CAISO also invited written comments.[10] The CAISO received only three comments on the MSCS issue. Southern California Edison Company ("SCE") commented that the CAISO should focus its limited resources on other issues such as MRTU Release 1 implementation. The Western Power Trading Forum stated that it is "not advocating any position on the multiple SCs at a meter issue at this time." The City of Riverside ("Riverside"), on the other hand, commented that, based on its ownership interest in the San Onofre Nuclear Generating Station ("SONGS"), alternative 4 in the July 12 White Paper was appropriate.

In sum, none of the original parties in the instant docket that had previously indicated that the CAISO should implement MSCS has indicated that the CAISO should now invest any resources in developing any additional functionality. Moreover, only one Market Participant – Riverside – has expressed any interest in the implementation of MSCS.

IV. RIVERSIDE'S OWNERSHIP INTEREST IN SONGS IS BEST ADDRESSED THROUGH AN AGREEMENT WITH OTHER JOINT OWNERS

Riverside owns a 1.79% interest in SONGS. The CAISO also understands that San Diego Gas & Electric Company owns 20%, the City of Anaheim owns 3.16%, and SCE owns the remaining 75.05% and also serves as

[10] Written comments concerning issues discussed at the July 19 stakeholder meeting are available at the following link: <http://www.caiso.com/1822/1822931f287d0.html>.

the SC for the resource. SONGS does not provide Ancillary Services and is not dispatchable by the CAISO. SCE schedules SONGS and SCE and the other owners use Inter-SC Trades to allocate revenues received for SONGS Generation. As the CAISO understands the situation, the source of Riverside's concern is its exposure to a pro rata (1.79%) share of the Imbalance Energy costs in the event of an unanticipated reduction in SONGS Generation (derate). If a derate occurs during the window of time that an SC could submit a revised Schedule, the SC has a choice whether to submit a revised Schedule (and adjust the Inter-SC Trade accordingly) or pay Imbalance Energy charges. Since Riverside's arrangements with SCE and the other SONGS owners provide that SCE and not Riverside is the SC, Riverside has no direct control over this decision and must accept its share of the consequences of the decision by SCE how to respond in the event of a derate.

The CAISO believes that the owners of SONGS are in the best position to decide collectively how to respond to derates and the magnitude that should trigger the submission of a revised Schedule and adjusted Inter-SC Trade.[11] The CAISO also believes that it should not invest its finite resources to develop MSCS to meet the interests of a single Market Participant, particularly given the need for the CAISO to meet its other priorities. Those priorities include the implementation of MRTU Release 1, the CAISO's development of its "Market Initiatives Roadmap" for post-MRTU Release 1 functionalities,[12] and complying with the Commission's directive to develop Long-Term Transmission Rights ("LTTR").

V. CAISO AND COMMISSION PRIORITIES IN THE UPCOMING 12-16 MONTH TIME FRAME

The Commission is well aware of the CAISO's timetable for implementing the MRTU Release 1 market design by November 2007 and the risk to the timetable if the CAISO were required to divert resources currently devoted to achieving that goal. In addition, as referenced above, the CAISO must comply with the Commission's July 20, 2006 Order requiring the development of LTTR.[13] The CAISO believes that allocating resources to implement MSCS, particularly in the current Zonal market design, would divert those precious resources from the CAISO's and the Commission's most important initiatives.

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[11] The CAISO would be willing to offer to host a meeting and to act as an intermediary among SONGS owners to help mediate an agreed-upon resolution of how to respond to derates.

[12] The Market Initiatives Roadmap is available at <http://www.caiso.com/184f/184f7fdf43840.pdf>.

[13] *Long-Term Firm Transmission Rights*, Order No. 681, 71 Fed. Reg. 43564 (Aug. 1, 2006), FERC Stats & Regs., Regs. Preambles ¶ 31,226 (2006) ("July 20 LTTR Order").

A more appropriate context in which to consider MSCS or other tools for joint owners of resources is as part of the CAISO's Market Initiatives Roadmap for the new post-Release 1 functionality. In this stakeholder process the CAISO and Market Participants will rank desired post-Release 1 initiatives and analyze the initiatives' respective costs and benefits. In addition, the CAISO believes that, under MRTU and in the absence of the balanced schedule requirement, it may be easier to implement tools for joint owners to act more independently in the CAISO's markets. The Midwest ISO, for example, provides for joint owners to exercise some independence, although each owner is obligated to submit separate meter data.[14] Finally, the Commission's July 20 LTTR Order recognizes that the additional resources that will be necessary to devote to LTTR may require a reordering of priorities.[15] To the extent the Commission finds that the CAISO should continue to be under an obligation to develop MSCS, consideration of any additional MSCS functionality or other joint owner initiatives should be deferred to the CAISO's new market initiative process for post-Release 1 of MRTU.

VI. CONCLUSION

The outcome of the stakeholder process regarding MSCS demonstrates that the factual basis for any requirement to design and implement a new MSCS functionality is moot and that the Inter-SC Trade tool already employed in the CAISO's markets is sufficient to meet the business needs of Market Participants under the current Zonal market design. Accordingly, the CAISO respectfully requests that the Commission find, pursuant to the directives in the June 7 Order, that the Inter-SC Trade tool is the acceptable alternative to developing additional MSCS functionality.

Alternatively, the CAISO requests that the Commission allow the CAISO to defer consideration of additional initiatives regarding MSCS or other tools for joint owners of resources and allow the CAISO to include this issue as part of its Market Initiatives Roadmap. Finally, the CAISO is willing to engage in discussions with Riverside and other owners of SONGS and to act as an

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14 Midwest Market Initiative, Business Practice Manual for Energy Market Instruments (Manual No. 003, Version 5, Apr. 5, 2005), at pages 4-17 to 4-20 (available at <http://www.midwestiso.org/publish/Document/20f443_ffd16ced4b_-7e6b0a3207d2?rev=8>). The Midwest ISO approach, which is based on accommodating logical dynamic resources in its EMS and market systems, may not adaptable for the CAISO's markets. As noted in the attached report, the CAISO has evolved its markets and market systems to accommodate physical characteristics of generation and moved away from the modeling approach inherent in the Midwest ISO approach.

15 July 20 LTTR Order at P. 491.

intermediary to help joint owners to reach an acceptable solution that can be implemented through the commitment of minimal additional resources by either the joint owners of SONGS or by the CAISO.

Respectfully submitted,

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ATTACHMENT A

Progress Report on Unresolved Issue No. J.3

1. Summary

As directed by FERC's June 7, 2006, order in Docket No. ER98-3760-000, *Order Addressing Outstanding Issues Relating to California Independent System Operator*, 115 FERC ¶ 61,300, at P. 23 (2006) (June 2006 Order), the CAISO is submitting this report to address the issue of multiple Scheduling Coordinators at a single meter (MSCS).

This issue dates back to the design of the CAISO's markets prior to start-up and pertains to a design principle that only one Scheduling Coordinator (SC) can represent any individual meter. The basis of this restriction, in the context of generation meters, is that only one SC can be assigned as the entity responsible for bidding and scheduling of a physical generation resource; accordingly, settlement will also occur with the same entity. This would mean, for example, that the owners of jointly owned generation resources would have to designate a single SC for bidding, scheduling, and settlement of the resource in CAISO markets. When the CAISO markets were first established based on this principle, a few Market Participants protested this feature of the market design and, in response, in October 1997, FERC issued an order directing the CAISO to develop software that could permit the use of MSCS at a single meter and to report to FERC on the CAISO's progress.[1] The CAISO was not able to develop the software prior to start-up but did conduct a poll on the issue in 1999. At that time, Market Participants did not identify as a priority having the capability to utilize the same meter under MSCS.

Following the June 2006 Order, the CAISO initiated a stakeholder process to address and resolve this issue. A White Paper on MSCS was posted on July 12, 2006, on the CAISO website prior to a stakeholder meeting held on July 19, 2006. The White Paper presented and evaluated 4 options, which are discussed in the next section. At the July 19 stakeholder meeting, Market Participants showed minimal interest in developing features and functions to accommodate MSCS. The CAISO also requested written comments from interested parties. Written comments were received from 3 entities, namely, the City of Riverside (RVSD), Southern California Edison Company (SCE), and the Western Power Trading Forum (WPTF). Only RVSD indicated support for the development of a new MSCS functionality.

2. Options for MSCS

As stated above, the central MSCS issue is whether or not the CAISO is able to implement additional features and functions to accommodate multiple SCs for a physical

[1] *Order Conditionally Authorizing Limited Operation of an Independent System Operator and Power Exchange, Conditionally Authorizing Transfer of Control of Facilities on an Interim Basis to an Independent System Operator, Granting Reconsideration, Addressing Rehearings, Establishing Procedures and Providing Guidance*, 81 FERC ¶ 61,122, at 61,509 (1997).

generating resource. Allowing more than one SC to bid or schedule the same resource would involve a fundamental change in market design with huge software and system implications. A possible but non-trivial change is to partition a physical resource into logical resources. This would go against the direction that the CAISO has been moving in the last 6 years in its efforts to redesign its markets to accommodate physical characteristics of generation resources. Accommodating logical resources while respecting physical constraints is not impossible, but would involve significant development and implementation effort with regard to the existing scheduling infrastructure and applications (SI/SA), energy management system (EMS), Automated Dispatch System (ADS), settlements, metering, compliance and logging system systems, and would divert resources that would otherwise be devoted to initiatives such as long-term CRRs, MRTU, Resource Adequacy, etc. Several of the systems that would be affected – SI/SA, Settlements, and compliance system – are currently in the process of being replaced or being redesigned to accommodate the MRTU efforts.

The CAISO already has Inter-SC Trade mechanisms in place that SCs can use if they so wish. Thus, a single SC can schedule the resource and then execute an Inter-SC Trade for the share of the resource with each of the joint owners. Under the current market paradigm, with balanced schedule requirements and lack of a forward Energy market, SCs that have joint ownership in a unit may prefer to have the ability to schedule their share of the resource to balance their schedule rather than have the entire resource scheduled through another SC and balance their share of the unit through an Inter-SC Trade. However, since the balanced schedule requirement will no longer exist under MRTU, this is expected to be much less of a problem under MRTU.

One possible approach to accommodate the intent of MSCS in part could be to maintain the single SC paradigm for bidding and scheduling, but consider pre-specified allocation of payments and charges to multiple owners as agreed upon by the respective SCs. The joint owners can then decide how they wish to have the designated SC submit bids and schedules on their behalf. An even simpler approach could be for the CAISO to provide scheduling and pricing information to both the designated SC, and the designated joint owner SCs, for better transparency.

Based on the above discussion, the following alternatives are considered in order of complexity of implementation:

1. Use of Inter-SC Trades (IST). Utilizing the currently available IST, joint owners of a generator can achieve the same goal as scheduling their own proportion of energy. For example, RVSD often has IST with SCE, for amounts consistent with RVSD's 1.79% interest in the total 2250 MW capacity of the San Onofre Nuclear Generating Station (SONGS). The IST mechanism offers a workable alternative with no associated cost and risk. No new design and implementation effort is needed. The requirement for this approach to work effectively is for the parties to exchange timely information in the CAISO market scheduling timeline regarding the resource schedule, so that they can adjust their IST (based on % ownership) accordingly. Moreover, information sharing regarding the actual

real-time supply of the resource would enable the parties to verify their inter-SC settlements related to the scheduling and use of the resource.

2. MSCS as to Energy Settlement. This alternative (and alternative 3, described below) would require a change in the CAISO settlement system, whereby the SCs may elect a designated SC for bidding and scheduling, but have the CAISO settlement system repartition the settlement with multiple owners based on their relative shares of the resource. Under this alternative, an owner can submit its desired Energy bid price for the MW it owns to the designated SC, who will construct a composite bid curve considering the limitation on Energy bids (number of Energy bid segments). The CAISO will interact with the designated SC as usual, but will settle for individual owners.

3. MSCS as to Ancillary Services (A/S) and Energy Settlement. This alternative is similar to the alternative 2 (described above), but extends the idea to the A/S markets as well. Since the CAISO currently has a single bid policy for A/S capacity, it may be considered a limitation. To rectify this limitation, extra effort is needed on the CAISO side to receive a bid curve on A/S market (rather than a single bid segment) that could represent different bid segments supplied to the designated SC by the joint owners.

4. Full MSCS. This alternative would involve the ability of individual owners to schedule, bid, and settle their respective shares of the resource. As stated above, this will involve huge cost and effort, as well as high implementation risk. With the CAISO's development and implementation of MRTU and Long-Term Transmission Rights (LTTR) considered to be high priorities for FERC, the CAISO has no resources available for such an endeavor.

3. RVSD Issue

With the original proponents of MSCS not advocating the same position any more, RVSD is the sole supporter of MSCS at this time. RVSD's main concern regarding the existing method (using alternative 1, described above) seems to concentrate more on its lack of ability to incorporate any changes of the schedule of SONGS into their IST with SCE, as well as their lack of their visibility into real-time deviation settlements for SONGS, particularly in case of derates or outages of the generator. The CAISO did an empirical check, and noted that derates or outages of SONGS that occurred in the scheduling timeline were generally incorporated into the IST amount. As stated under the description of alternative 1, the CAISO believes better information sharing and communication between RVSD and SCE may suffice to resolve, in large part, RVSD's concern. However, the CAISO acknowledges deviation settlements are not directly under RVSD's control and this lack of control creates some uncertainty for RVSD. While the CAISO would be willing to engage in discussions with SCE and RVSD to determine what if any actions can be reasonably taken to reduce the deviation uncertainty for RVSD, the CAISO does not recommend that the costly and risky implementation of MSCS is the appropriate solution when considering costs and benefits, particularly in the context of the CAISO's current Zonal market design.

4. Conclusion

At the August 17, 2006, Market Initiatives Stakeholder Meeting, the CAISO staff (including Chuck King) conveyed the clear message that FERC mandates such as convergence bidding and LTTRs are considered top priority issues and that – along with MRTU Release 1 implementation – the CAISO and its stakeholders have a very full workload. A revised "Market Initiatives Roadmap" was presented and discussed as a list of possible issues that the CAISO should consider addressing in the future. The "Multiple SC at a Single Meter" issue is listed as part of this roadmap. A "Ranking Criteria" to be utilized in the CAISO's prioritization of these issues also was presented and discussed.

At this point the CAISO considers that stakeholder interest is minimal for pursuing an immediate software solution for this "Multiple SC at a Single Meter" issue. It has been placed in the Market Initiatives Roadmap and will be one of many issues to which a "Ranking Criteria" will be applied in the future to help determine the priority of issues to be developed further and implemented after MRTU Release 1.

CERTIFICATE OF SERVICE

I hereby certify that I have caused the foregoing document to be served upon the Public Utilities Commission of the State of California and upon all parties of the official service list maintained by the Secretary for the captioned proceeding.

Dated at Folsom, California, this 7th day of September, 2006.

Sidney Mannheim Davies /jm

Sidney Mannheim Davies