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.

---

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]

---

[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 —

---

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.

---

[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

---

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,

Sidney Mannheim Davies / JMM

Sidney Mannheim Davies
Assistant General Counsel
The California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630

Attorneys for the California Independent
System Operator Corporation

ATTACHMENT A