UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

San Diego Gas & Electric Company, Complainant, **v.** **Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator and the California Power Exchange, Respondents.**	)	**Docket No. EL00-95-000**
Investigation of Practices of the California Independent System Operator and the California Power Exchange	)	**Docket No. EL00-98-000**
California Independent System Operator Corporation	)	**Docket No. RT01-85-000**
Investigation of Wholesale Rates of Public Utility Sellers of Energy and Ancillary Services in the Western Systems Coordinating Council	)	**Docket No. EL01-68-000**

STATUS REPORT OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
ON THE MUST-OFFER OBLIGATION

I. Introduction

Pursuant to Rules 207 and 215 of the Rules of Practice and Procedures of the Federal Energy Regulatory Commission ("Commission"), 18 C.F.R. §§ 385.207 and 385.215, the California Independent System Operator Corporation ("ISO")[1] hereby files a status report detailing its revised implementation process

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

for the must-offer obligation. The revised implementation process specifically provides for the recovery of minimum load costs incurred by generating units with long start-up times that are required to be on-line running at minimum load in order to be available for Dispatch in real-time.

II. Communications

Please address communications concerning this filing to the following:

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III. Background

A. Regulatory History

The Commission established the must-offer obligation in the above-captioned dockets through its April 26, 2001 "Order Establishing Prospective Mitigation and Monitoring Plan for the California Wholesale Electric Markets" ("April 26 Order"), by imposing the obligation on all Generating Units under ISO Participating Generator Agreements ("PGAs"). Specifically, the April 26 Order provides that "Sellers with PGAs should be required to offer all their capacity to the ISO in real-time if it is available and not scheduled to run."[2] In its May 25, 2001, "Order Providing Clarification and Preliminary Guidance on Implementation of Mitigation and Monitoring Plan for the California Wholesale Markets" ("May 25

[2] 95 FERC ¶61,115 (2001) slip op. at 4.

Order") the Commission clarified that the ISO must ensure the presence of a creditworthy buyer for all transactions made with all generators who offer power in compliance with the must-offer obligation.[3] In its June 19, 2001 "Order On Rehearing Of Monitoring and Mitigation Plan For The California Wholesale Electric Markets, Establishing West-Wide Mitigation, And Establishing Settlement Conference" ("June 19 Order") the Commission affirmed the April 26 Order regarding the must-offer obligation in nearly identical language.[4]

The ISO has interpreted and implemented the must-offer obligation as documented in a compliance filing in response to the April 26 Order on May 11, 2001 ("May 11 Compliance Filing"); Status Reports on implementation of the April 26 Order on May 18 and May 25, 2001; an answer to comments and protests of the ISO's May 11 Compliance Filing on June 6, 2001; a compliance filing for the June 19 Order on July 10, 2001 ("July 10 Compliance Filing"); a motion for clarification and request for rehearing of the June 19 Order on July 19, 2001; comments on the June 19 Order on August 20, 2001; and a quarterly report as required by the April 26 Order on September 14, 2001. In addition, the ISO issued a July 20, 2001 Market Notice setting forth an interim operating procedure for compliance with the must-offer obligation ("July 20 Market Notice") and an August 8, 2001, Market Notice on, among other things, problems with Market Participant compliance with the must-offer obligation ("August 8 Market Notice"). The July 10 and August 8 Market Notices are appended hereto in Appendix A.

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[3] 95 FERC ¶61,275 (2001), slip op. at 6.
[4]; 95 FERC ¶61,418 (2001), slip op. at 12.

B. Parties do not agree on what the Commission meant by requiring generating units to offer capacity if "available" or how minimum load costs are to be recovered.

Some Market Participants have challenged the ISO's interpretation and implementation of the must-offer obligation, and in particular, the meaning intended by the Commission in the sentence "sellers with PGAs should be required to offer all of their capacity to the ISO in real time *if it is available* and not scheduled to run." April 26 Order, slip op. at 4. Emphasis added. The ISO holds that a generating unit is available if it physically is capable of producing Energy regardless of whether it actually is synchronized to the grid and producing Energy or is shut down and off-line. Some Market Participants argue that a generating unit shut down for any reason is not "available" and thus not subject to the must-offer obligation. Specifically, certain Market Participants maintain that generating units are exempt from the must-offer obligation if the generating unit owner makes a unilateral determination that it is not economic to run at any particular point in time. The Commission expressly has noted that the "must-offer obligation is designed to prevent withholding"[5] and thus the ISO consistently has reasoned that the must-offer obligation was established to prevent generator exercise of market power by physical withholding of supply. Therefore, the ISO believes its interpretation of the must-offer obligation is the only interpretation that supports the fundamental purpose of the April 26 and June 19 Orders – price mitigation.

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[5] June 19 Order, slip op. at 12.

C. The current ISO interim implementation process

As acknowledged by the ISO in its July 10 Compliance Filing, and in its Market Notice of July 20, 2001, the ISO's interpretation creates certain tensions between operational realities and the critically important rules needed to ensure just and reasonable market outcomes. Specifically, while it may be that the ISO needs every available generating unit on-line and producing Energy during peak Demand periods, the ISO does not need every available generating unit on-line and ready to respond to Dispatch in real-time during off-peak Demand periods. Thus, to reconcile the fact that some generating units, at least, may not need to be on-line running at minimum load during some hours, with the only reasonable interpretation of the must-offer obligation, the ISO established an interim must-offer implementation process, pending the Commission's ruling of the ISO's filed compliance process for the must-offer obligation. The interim compliance procedure entails the ISO granting discretionary and temporary waivers of compliance with the must-offer obligation to generating units that want to shut down. The ISO grants such waivers from compliance based upon its assessment of system and local area needs. The waiver process is detailed in the July 20, 2001 Market Notice, appended hereto in Appendix A.

Because the must-offer obligation requires all available generating units to offer their capacity to the ISO in real time, if the ISO needs additional generating units on-line for system needs currently the ISO brings such generating units back on-line by revoking the temporary waivers from compliance with the must-offer obligation. Since the June 19 Order provided for the ISO to pay start-up costs, the ISO pays those costs as indicated in its July 10 Compliance Filing. Nothing in the April 26, May 25 or June 19 Orders, however, indicate how the Commission intended to treat the minimum load costs incurred by generators complying with the must-offer obligation.

The April 26 Order directed the ISO to use marginal (i.e., incremental) costs to calculate bids, and therefore to establish market prices, during price mitigation.[6] The April 26 Order also directed that those bids contain no fixed or other (e.g., minimum load) costs.   In its May 11, 2001, compliance filling in response to the April 26 Order, the ISO proposed that it would calculate, for each generating unit that is subject to the must-offer obligation, a proxy bid price, based upon an incremental heat rate. The calculated proxy bid, based on incremental heat rate, does not include any minimum load costs even though the June 19 Order subsequently, but incorrectly, indicated that it does.[7] Moreover, since the Commission has still to provide for the treatment of minimum load costs, in its July 10 Compliance Filing the ISO did not propose Tariff modifications to provide for the recovery of such costs. The ISO did suggest that, in the absence of an otherwise defined process to recover the minimum load costs incurred to comply with the must-offer obligation, generators could recover such costs through excess revenues from sales in other hours or sales to the ISO's Ancillary Services markets.[8]

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[6] April 26 Order, slip op. at 22.
[7] June 19 Order, slip op. at 33.

[8] July 10 Compliance Filing at 8.

III. Discussion

A. ISO and Market Participants collaborative attempts to develop a process for recovery of minimum load costs have not succeeded

To fulfill the pledge the ISO made in its July 10 Compliance Filing to work with generators to resolve the issue of recovery of minimum load costs, the ISO held several meetings and both public and private conference calls with generators in August, September and October, 2001.[9]

Generators provided the ISO and Commission staff with their own proposals for the recovery of minimum load costs. The generators' proposals provided for recovery of all of their minimum load costs through an auction process separate from all existing markets, including bilateral agreements. Having been paid minimum load costs, the generators' proposals envisioned that they could freely participate in bilateral agreements and ISO markets, keeping all profits by selling their remaining economic capacity through their market-based rates.[10] The ISO's Department of Market Analysis ("DMA") is very concerned that any process providing for the separate recovery of some costs merely will encourage every seller to attempt to recover such costs only through that separate process instead of the market. In DMA's experience, such separate

[9] Among the several discussions were Market Issues Forum calls in August, September and October, a Commission staff-sponsored technical workshop at the ISO on September 24 – 25, 2001, a meeting with generators on October 1 and conference call with generators on October 5, 2001.

[10] No other market (e.g., NY ISO, NE ISO, PJM) provides such unconditional compensation for minimum load costs. Instead, these markets provide uplifts for minimum load costs only to the extent they are not recovered from market revenues over 24 hours.

recovery creates undesirable disincentives to participate in the primary markets and acts to distort those markets.[11] Thus, the ISO believes that the generators' proposals would act to distort the markets. Generators, in turn, have rejected all of the ISO proposals to address minimum load costs. As a result, the ISO and generators have not, to date, reached a consensus on the recovery of minimum load costs incurred through compliance with the must-offer obligation.

B. The ISO has suffered significant generator non-compliance with the must-offer obligation

Though the waiver process established by the ISO allowed generators to avoid minimum load costs if the ISO did not require their units to be on-line, not all generators accepted this process. Some generators refused to bring their units on-line when the ISO revoked their temporary waivers. As a result, ISO operations staff has experienced, and continues to experience, problems ensuring sufficient resources are on-line to ensure adequate and reliable supply. The ISO has informed Commission's Market Oversight and Enforcement staff of generator failure to comply with ISO directions and Dispatch Orders, through calls to the Commission's enforcement hot line on multiple occasions beginning in July and continuing to date. The Commission is in possession of ISO tapes and records documenting generator failure to respond to ISO directions and Dispatch Instructions. Creditworthiness concerns also complicated the treatment of minimum load costs. Generators, Commission staff, ISO staff and other

[11] For example, the original "A" form of Reliability Must-Run agreements implemented in 1998 paid generators a portion of their fixed costs when the generators were called by the ISO, perversely encouraging these generators not to schedule in the forward markets but wait for the ISO to call them. Because of this behavior, this form of contract was eliminated in the April 2, 1999 RMR Settlement [Dockets ER98-441-000 *et al*].

parties discussed at a Technical Conference held at the ISO on September 24 and 25, 2001 the option of the California Department of Water Resources ("CDWR"), the entity then providing credit support to transactions in ISO's markets on behalf of the net short positions of Pacific Gas and Electric Company and Southern California Edison Company (collectively, the "IOUs"), paying minimum load costs generating units incurred through complying with the must-offer obligation. The CDWR, at least until the recent November 7, 2001, order of the Commission, through its interpretation of the least-cost mandate imposed by its authorizing State legislation to procure Energy on behalf of the IOUs, often imposed conditions on the transactions that ISO could consummate. Thus, until the November 7 order, recovery of minimum load costs necessarily involved CDWR and the ISO had to ensure that CDWR agreed to defray any such minimum load costs prior to incurring the expense.

The Commission's November 7, 2001 "Order Granting Motion Concerning Creditworthiness Requirement and Rejecting Amendment No. 40" ("November 7 Order")[12] established that from January 17, 2001, forward CDWR was, and currently is, the Scheduling Coordinator for the IOUs' net short positions. The November 7 Order specifically directed the ISO to invoice CDWR as the Scheduling Coordinator for the IOUs' net short positions and therefore, costs the ISO incurs its real-time markets, including minimum load costs, will be invoiced to the responsible Scheduling Coordinators, including CDWR. Therefore, it may be

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[12] 97 FERC ¶61,151 (2001)

that generator concerns for creditworthy buyers in the ISO real-time markets, and by extend, payment for minimum load costs, have been alleviated, at least in part, by the November 7 Order.

By the instant filing, as detailed below, the ISO proposes a revised implementation of the must-offer obligation that builds upon the initial interim implementation process set forth in the ISO's several compliance filings and Market Notices. The revised implementation plan also reflects the November 7 Order resolution of payments for real-time Energy transactions and the several months of dialogue by and between the ISO, the Commission staff and Market Participants.

IV. Revised Implementation Process

As set forth below, the ISO will continue to grant waivers when possible but now, under the revised process, will provide for generator recovery of minimum load costs while eliminating opportunities for subsidized market participation.

(1) On a daily basis, the ISO will determine what generators must be committed to meet the next day's forecast system peak demand, including reserve requirements, as well as to satisfy the next day's local reliability requirements to the extent such requirements cannot be satisfied by Reliability Must-Run Units. In identifying which generating units must be committed for the following day, the ISO will consider the generating unit's minimum load level, costs to operate at minimum load, transmission constraints that may affect the generating unit's ability to provide service to the system, and other local and system-wide reliability concerns, among other factors.

(2) The ISO then will review the Day-Ahead Final Schedules for the next day. If a generating unit deemed necessary to operate by the ISO has submitted Day-Ahead Final schedules, the ISO will consider that generating unit to be self-committed and consider that generating unit to be in compliance with the must-offer obligation. If a generating unit deemed necessary to operate by the ISO does not submit a Day-Ahead Final Schedule, the ISO will contact that generating unit and direct it, consistent with that unit's start-up time, to be on-line before the hour when it first will be required.

(3) By directing a generating unit to start-up, the ISO agrees that it will pay the generating unit's minimum load costs for a period of no less than its minimum run time as set forth in it's PGA.

(4) The ISO will calculate the generating unit's minimum load costs using the unit's average heat rate at minimum load; (2) the gas price established by the June 19 Order,[13] and (3) the $6.00/MWh variable O&M rate established by the June 19 Order. To prevent this average (not incremental) cost from affecting prices in the ISO's Real Time Imbalance Energy market, the ISO shall log this payment in its Out-Of-Market payment database, OSMOSIS.

(5) Generating units so committed by the ISO must submit Supplemental Energy bids to the ISO's Real Time Imbalance Energy Market.[14] The ISO shall dispatch these bids in merit order in accordance with its Tariff.

(6) To ensure that the guarantee of recovery of minimum load costs does not constitute a subsidy that is not equally available to all Market Participants, any generating unit that submits a Final Hour-Ahead Energy or Ancillary Services schedule for any hour in a day shall forfeit all ISO-guaranteed minimum load payments for that day. This approach is consistent with the approach employed by PJM, where a unit that self-schedules for even one hour in the day-ahead market is not eligible for uplift payments for start-up and no-load costs.

(7) By agreeing to pay minimum load costs, the ISO has created an incentive for generators who might recover their minimum load costs by committing themselves to not do so and wait for the ISO to commit them. As discussed above, such incentives discourage participation in competitive markets and distort the prices in those markets. To eliminate these perverse incentives, the ISO shall offset a generating unit's guaranteed minimum load costs by that generating unit's profits in the Real Time Imbalance Energy Market. To do so, the ISO shall calculate a "proxy margin" for each bid dispatched in real time by

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13 The average of the mid-point of the monthly bid-week prices reported by Gas Daily for three spot markets in California (*i.e.*, SoCalGas (large package), Malin and PG&E city-gate).

14 As directed in the Commission's May 25, 2001 "Order Providing Clarification and Preliminary Guidance on Implementation of Mitigation and Monitoring Plan for the California Wholesale Electric Markets," the ISO shall insert proxy bids for all available capacity from must-offer generators not bid in its Real Time Imbalance Energy Market.

subtracting the lesser of the generating unit's proxy price[15] or its Supplemental Energy bid from the applicable market clearing price. These ISO shall subtract these proxy margins from all ISO-guaranteed minimum load payments until the minimum load payments are fully offset. The generating unit keeps all additional margins.

(8) Consistent with its allocation of other out-of-market costs,[16] the ISO shall assess these minimum load costs to all Scheduling Coordinators in each settlement interval using the ratio of the Scheduling Coordinator's Net Negative Uninstructed Deviations to the total Net Negative Uninstructed Deviations.

(9) Generating units committed by the ISO under this revised implementation process will be paid applicable start-up costs consistent with the methodology set forth in the July 10 Compliance Filing.[17]

V. Conclusion

The ISO believes the revised implementation process for the must-offer obligation is equitable, realistic and can be implemented in a fair and transparent manner. In addition, the process provides for the separate recovery of generators' minimum load costs, ensures that the separate recovery creates no perverse incentives that would distort markets, and allocates the costs of this separate recovery in a manner consistent with the start-up and emissions cost

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[15] The unit's proxy price is calculated using the unit's incremental cost, the gas price specified in the June 19 Order, and the $6.00/MWh variable O&M adder.
[16] ISO Tariff Section 11.2.4.2.1
[17] To prevent undue subsidization, this method calls for the ISO to pay a portion of the start-up cost that is the ratio of all ISO-dispatched MWh to the total MWh produced by the generating unit from the time of start up to the time the generating unit shuts down again. Under this implementation, minimum load MWh shall be considered to be ISO-dispatched MWh.

recover processes directed by the June 19 Order. The ISO requests that the Commission approve the revised implementation process for the must-offer obligation as soon as possible.

Respectfully submitted,

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Margaret A. Rostker
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Operator Corporation

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Dated: December 4, 2001

APPENDIX A

July 20, 2001

MARKET NOTICE

In Re: Generator Status Change and Reporting Requirements

This Market Notice reminds Market Participants of existing ISO Tariff requirements governing notice to the ISO of generating unit changes in operating status, and particularly the process that must be followed as generating units go offline and come back online. ISO Operators and Generation Dispatchers have observed that some Generators and Scheduling Coordinators are failing to provide the mandatory notice to the ISO prior to taking generating units offline.

I. General Obligation to Report Status Change to the ISO

The ISO reminds all Market Participants to comply with ISO Tariff Dispatch Protocol Section 3.7.1, which provides:

> "Each Generator shall immediately inform the ISO, through its respective SC, of any change or potential change in the current status of any Generating Units that are under the Dispatch control of the ISO. This will include, but not be limited to, any change in status of equipment that could affect the maximum output of a Generating Unit. The minimum load of a Generating Unit, the ability of a Generating Unit to operate with automatic voltage regulation, operating of the PSSs (whether in or out of service), the availability of a Generating Unit governor, or a Generating Unit's ability to provide Ancillary Services as required, Each Generator shall immediately report to the ISO, through its SC any actual or potential concerns or problems that it may have with respect to Generating Unit direct digital control equipment, Generating Unit voltage control equipment, or any other equipment that may impact the reliable operation of the ISO Controlled Grid."

Notification after the Hour Ahead Market closes should be directed to the ISO Generation Dispatcher at (916) 351-2488.

II. Specific Obligations Regarding the Federal Energy Regulatory Commission's Must-Offer Obligation

A. The Must-Offer Obligation

The must-offer obligation requires those generators with PGAs, as well as non-public utility generators in California selling into ISO markets using the ISO's transmission lines, other than hydroelectric generating units, to offer to the ISO all of their available capacity in real time during all hours if such capacity is not already scheduled to run under bilateral agreements, needed to support native load or committed to provide Ancillary Services. This means generators must offer all of their available capacity in real time in all hours.

B. Units with Long Start-Up Times and/or High Operational Costs

In filings at FERC and in communications to Market Participants, the ISO has acknowledged the particular problems of compliance with the must-offer obligation for Generating Units with long start-up times and high operational costs that may not be recovered during period of relatively low Energy prices. The ISO is working on a solution and until that time the following procedure applies to all generating units subject to the must-offer obligation.

C. Interim Operating Procedure

As an interim measure, the ISO is granting, when possible, on a first come/first served basis, temporary waiver from the must-offer obligation. Generating units that receive such temporary waiver will not be deemed in violation of the must-offer obligation so long as the temporary waiver is in place. The temporary waiver is always subject to termination upon notice by the ISO and such notice will provide the time at which a generating unit must reinitiate compliance with the must-offer obligation.

The granting by the ISO of a temporary waiver is wholly discretionary on the part of the ISO and is subject to the following terms and conditions:

1. The Scheduling Coordinator must request a temporary waiver from the ISO Generation Dispatcher: (1) by 1500 hours of the day proceeding the Operating Day for which the temporary waiver is sought, or (2) two (2) hours immediately following the close of the Day Ahead Market in the day proceeding the Operating Day for which the temporary waiver is sought.

2. Any temporary waiver from the must-offer obligation is subject to unit recall by the ISO Generation Dispatcher upon notice. Such notice will be issued as far in advance as possible, and under no circumstances less than the period of time equivalent to the start-up time for that unit as specified in that unit's PGA Schedule 1.
3. Prior to separating the generating unit from the Grid, the Scheduling Coordinator must contact the ISO Generation Dispatcher one (1) hour before the start of the requested temporary waiver to receive final approval and verification that system conditions permit such a waiver be granted and that the generating unit may be taken offline or otherwise put into an operating status in which the unit can not comply with the must-offer obligation to offer all available capacity in real time in all hours.

4. When the ISO Generation Dispatcher contacts a Scheduling Coordinator to provide notice that a temporary waiver will end, such communication from the ISO is NOT a Dispatch Instruction and is only a notice of the pending termination of the temporary waiver.

5. The ISO will not pay any start-up costs associated with a generating unit going offline or coming back online in association with a temporary waiver.

CR Communications
Client Relations Communications

August 8, 2001

MARKET NOTICE

NEW REQUIREMENTS
REGARDING SCHEDULING AND DISPATCH INSTRUCTIONS

INTRODUCTION

The ISO is experiencing significant difficulties in reliably operating the ISO Control Area[18] due to certain activities by some Market Participants. These activities include multiple instances of non-compliance with the must-offer obligation, failure to comply with ISO Dispatch Instructions, failure to submit feasible schedules and/or follow ISO-approved Final Schedules, and failure to observe the 20-minute ramp between hourly Energy Schedules. This Market Notice is issued in response to these growing problems that threaten the reliability of the California and West-wide transmission grid. The ISO has discussed these problems with the FERC Market Oversight and Enforcement staff.

This Market Notice:

(1) reminds Market Participants of their obligations to comply with ISO Dispatch Instructions and operating orders;
(2) sets forth new requirements, effective immediately, for Energy Scheduling; and
(3) identifies prohibited behavior that threatens the reliable operation of the ISO Control Area that the ISO shall report to the FERC.

Given the magnitude of recent non-compliance with the ISO Tariff and FERC orders, and the gravity of consequences, the ISO herein sets forth specific new requirements for Market Participants to help ensure compliance with existing Tariff obligations. The new requirements are designed to prevent reoccurrence of the recent reliability-threatening events. The ISO will develop, publish and implement additional requirements as necessary to ensure Tariff compliance and reliable operation of the ISO Controlled Grid.

RECENT EVENTS

[18] Capitalized terms not otherwise defined herein have the meaning set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff or as set forth in any of the Protocols appended to, and a part of, the ISO Tariff.

On the morning of August 2, 2001, the WSCC system frequency dropped to 59.93 HZ, and beginning shortly after 6:00 AM, the ISO Area Control Error (ACE) exceeded 1100 MW for more than 10 minutes, reaching a maximum deviation of more than 1500 MW. The Area Control Error and frequency deviation, caused by Generators failing to respond to ISO Dispatch Instructions and infeasible schedules, was greater than what would result if the ISO had experienced the largest single contingency upon which the ISO's operating reserve requirements are based. Such system performance threatens the reliability of the Western Interconnection and cannot be tolerated.

While the ISO is continuing to investigate other contributing problems, two recent actions taken by owners of certain Generating Units in California illustrate the urgent need for the actions the ISO is taking. In the first instance, one Scheduling Coordinator representing a significant amount of generating capacity scheduled a change in Energy output from one hour to the next that exceeded by a wide margin the capability of the Scheduling Coordinator's generating capacity to meet the scheduled ramp. The ISO Tariff requires that the ramp between hourly Energy Schedules must be completed over 20 minutes at the "top" of the hour, from 10 minutes before the hour to 10 minutes after. The responsible Scheduling Coordinator was under-generating by as much as 1657.6 MW during this under-frequency event.

A second action involved a Generating Unit scheduled for Regulation that contacted the ISO to express concern about being controlled above its scheduled regulating range during an under-frequency event. The ISO explained the under-frequency event to the operator of the unit, and the operator acknowledged having a frequency meter. Nonetheless, the operator unilaterally took the generator off-control, and ramped back to schedule. This action exacerbated and extended the under-frequency condition that the ISO was seeking to correct.

ISO AUTHORITY

The ISO Tariff Dispatch Protocol Section 2.1 requires the ISO to exercise Operational Control over the ISO Controlled Grid in compliance with all Applicable Reliability Criteria and defines Applicable Reliability Criteria to include those standards established by NERC and WSCC. Section 2.3.1.2.1 of the ISO Tariff requires that "all Market Participants within the ISO Control Area shall comply fully and promptly with the ISO's operating orders, unless such operation would impair public health or safety." The ISO Tariff at Section 5.6.2 specifies that all Generating Units subject to a Participating Generator Agreement are "subject to control by the ISO during a System Emergency and in circumstances in which the ISO considers that a System Emergency is imminent or threatened." The Tariff provides that no System Emergency need be formally declared by the ISO for the obligations of Tariff Section 5.6.2 to apply to Market Participants.

NEW REQUIREMENTS

As noted above, in light of a growing pattern among Market Participants of failure to submit feasible Schedules, failure to comply with the must-offer obligation, failure to comply with Dispatch Instructions and the recent untenable acts by certain Market Participants that resulted in serious threats to WSCC-wide reliability, the ISO is compelled to immediately impose new requirements to prevent reoccurrence of such events. The ISO also is providing this Market Notice to the FERC Market Oversight and Enforcement staff.

Beginning immediately, Market Participants must comply with the following requirements. Market Participants that fail to comply will be reported to FERC.

(1) All Preferred Day Ahead Schedules, Revised Day Ahead Schedules, and Preferred Hour Ahead Schedules must be feasible, that is, changes between hourly schedules must not exceed the maximum change possible accounting for each unit's ramp rate.

(2) Ramps between Hour-Ahead Schedules must begin at 10 minutes prior to the hour and be completed 10 minutes after the hour, unless the ISO provides explicit instructions to do otherwise.

(3) In the event that a Scheduling Coordinator is incapable of fulfilling its scheduled ramp, the Scheduling Coordinator must contact the ISO no later than 10 minutes before the scheduled beginning of the ramp.

(4) Any Generating Unit scheduled to provide Regulation that is unilaterally taken off-control will be reported to FERC. [19]

(5) A Scheduling Coordinator must not undertake any uninstructed deviations by any Generating Units in its portfolio that offset or act to nullify the ISO's control of other Generating Units in its portfolio that are scheduled to provide Regulation.

(6) To comply with FERC's must-offer obligation, Scheduling Coordinators must submit Supplemental Energy bids for all available capacity, including the difference between the scheduled high regulating limit and the maximum regulating limit at which that Generating Unit is capable of providing the scheduled Regulation.

[19] Since June, 1999, the ISO has eliminated capacity payments for resources scheduled to provide Regulation that are off-control. This policy will continue.

ISO MONITORING AND REPORTING

As explained above, the ISO has reported the recent non -compliance events to the Federal Energy Regulatory Commission Market Oversight and Enforcement staff. By this Market Notice, Participants hereby are notified that any Scheduling Coordinator, Participating Generator, or other Market Participant that fails to comply with the requirements described above will be reported to FERC. In addition, the ISO has initiated regular compliance reports to FERC that identify the magnitude, frequency and circumstances of non-compliance by each Market Participant that:

1) **Fails to comply with the must-offer obligation to submit bids to the ISO; and/or**

2) **Fails to comply with Dispatch Instructions.**

These ISO reports initially will focus on the most egregious examples of non-compliance, but will be revised and expanded as quickly as possible to routinely provide comprehensive reports of any non-compliance events.

Scheduling Coordinators should contact their ISO Client Representative regarding questions or concerns about compliance reports.

CALIFORNIA ISO

California Independent
System Operator

December 4, 2001

The Honorable David P. Boergers
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Re: San Diego Gas & Electric Company v. Sellers of Energy and Ancillary Services into Markets Operated by the California Independent System Operator and the California Power Exchange
Docket Nos. EL00-95-000, *et al*.

Dear Secretary Boergers:

Enclosed please find an electronic file containing The California Independent System Operator Corporation's status report detailing its revised implementation process for the must-offer obligation in the above-captioned proceedings. Thank you for your assistance.

Respectfully submitted,

Margaret A. Rostker
Counsel for The California Independent
System Operator Corporation

CERTIFICATE OF SERVICE

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

Dated at Folsom, California, this 4thth day of December, 2001.

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Margaret A. Rostker