



June 24, 2002

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: San Diego Gas & Electric Company v. Sellers of Energy and Ancillary Service Into Markets Operated by the California Independent System Operator and the California Power Exchange, Docket No. EL00-95-058

Investigation of Practices of the California Independent System Operator and the California Power Exchange, Docket No. EL00-98-050

Public Meeting in San Diego, California, Docket No. EL00-107-009

Reliant Energy Power Generation, Inc., Dynegy Power Marketing, Inc., and Southern Energy California, L.L.C. v. California Independent System Operator Corporation, Docket No. EL00-97-003

California Electricity Oversight Board v. All Sellers of Energy and Ancillary Services Into the Energy and Ancillary Services Markets Operated by the California Independent System Operator and the California Power Exchange, Docket No. EL00-104-008

California Municipal Utilities Association v. All Jurisdictional Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator and the California Power Exchange, Docket No. EL01-1-009

CAlifornians for Renewable Energy, Inc. (CARE) v. Independent Energy Producers, Inc., and All Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator and the California Power Exchange; All Scheduling Coordinators Acting on Behalf of the Above Sellers; California Independent System Operator Corporation; and California Power Exchange Corporation, Docket No. EL01-2-003

**Investigation of Wholesale Rates of Public Utility Sellers of Energy
and Ancillary Services in the Western Systems Coordinating Council,
Docket No. EL01-68-011**

Dear Secretary Salas:

The California Independent System Operator Corporation (“ISO”)¹ respectfully submits six copies of this filing in compliance with the Commission’s May 15, 2002 “Order Accepting in Part and Rejecting in Part Compliance Filing,” 99 FERC ¶ 61,158 (“May 15, 2002 Compliance Order”), issued in the above-referenced dockets.

BACKGROUND

The instant filing is one of a series of ISO compliance filings containing proposed Tariff revisions in response to Commission orders addressing the California bulk power markets. Specifically, the ISO submitted compliance filings on: (1) January 2, 2001 (“January 2, 2001 Compliance Filing”) in response to the Commission order issued on December 15, 2000;² (2) May 11, 2001 (“May 11, 2001 Compliance Filing”) in response to the Commission order issued on April 26, 2001;³ (3) July 10, 2001 (“July 10, 2001 Compliance Filing”) in response to the Commission order issued on June 19, 2001;⁴ (4) July 30, 2001 (“July 30, 2001 Compliance Filing”) as an amendment to the May 11, 2001 and July 10, 2001 Compliance Filings; and (5) January 25, 2002 (“January 25, 2002 Compliance Filing”) in response to the Commission order issued on December 19, 2001 accepting in part and rejecting in part the January 2, May 11, July 10, and July 30, 2001 Compliance Filings.⁵ The instant filing, in response to the Commission’s May 15, 2002 Compliance Order continues the series of compliance filings addressing the high prices and inadequate supply of electricity in California.⁶ Concurrently with the instant

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

² *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*, 93 FERC ¶ 61,294 (2000).

³ *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*, 95 FERC ¶ 61,115 (2001).

⁴ *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*, 95 FERC ¶ 61,418 (2001).

⁵ *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*, 97 FERC ¶ 61,293 (2001) (“December 19, 2001 Compliance Order”).

⁶ The May 15, 2002 Compliance Order required the ISO to submit a compliance filing within 30 days, *i.e.*, June 12, 2002. On June 18 the Commission granted the ISO’s June 13, 2002 request for an extension of filing time to June 24, 2002. Thus the instant filing is timely.

filing, as required in the May 15, 2002 Compliance Order, the ISO is filing a Compliance Report regarding retrospective payment of Minimum Load Costs.

PROPOSED TARIFF CHANGES

As described below, the ISO proposes changes to the ISO Tariff to comply with the May 15, 2002 Compliance Order. The following section headings reflect the relevant headings in the May 15, 2002 Compliance Order.

1. Procedures for Waivers of the Must-Offer Obligation

In the May 15, 2002 Compliance Order, the Commission accepted in part and rejected in part the ISO's proposed procedures for granting waivers from the Must-Offer Obligation. The Commission rejected the ISO's proposal to make waiver determinations based in part on an effort to minimize Market Participants' costs associated with compensation for start-up and Minimum Load Costs. The Commission also rejected the ISO's proposal to use the waiver procedure to provide a reasonable assurance of competitive market outcomes. Lastly, the Commission required the ISO to revise its Tariff to provide that a generator be informed that a request for a waiver has been accepted, denied, or revoked, including the reason(s) for the decision, which must be non-discriminatory.⁷ Thus, the Commission has approved the ISO's proposed Waiver Denial Period as part of the process by which the ISO will require units to run at Minimum Load in compliance with the Must-Offer Obligation. Subject to further eligibility criteria set forth by the Commission in its December 19, 2001 and May 15, 2002 Compliance Orders, only Must-Offer Generators running at Minimum Load within a Waiver Denial Period are eligible for recovery of Minimum Load Costs. Specifically, in the December 19, 2001 Compliance Order, the Commission directed the ISO to pay a generator for its actual costs during each hour when the generator is: (1) not scheduled to run under a bilateral agreement; (2) not on a planned or forced outage; and (3) running in compliance with the Must-Offer Obligation but not dispatched by the ISO.

Therefore, the ISO will inform each Must-Offer Generator who is not on an outage, not scheduled to run under a bilateral agreement, or not under ISO Dispatch, if a waiver is granted or denied, the period of any such Waiver Denial Period and the reason(s) for the ISO's decision.

The January 25, 2002 Compliance Filing defined self-commitment as "A generating unit is self-committed (on) in any hour in which it participates in the ISO Day-Ahead Market or Hour-Ahead Market Energy or Ancillary Services Markets as demonstrated by submission of bids or schedules into one of more of these markets

⁷ May 15, 2002 Compliance Order, 99 FERC at 61,630. Moreover, inasmuch as the Commission has set forth the specific criteria for a unit to be subject to the Must-Offer Obligation, the ISO will deem all units not otherwise exempted from the Must-Offer Obligation to have requested a waiver, whether implicitly or explicitly.

and any additional hours consistent with the unit's Minimum Up and Minimum Down Times." January 25, 2002 Compliance Filing at 12. This definition reflects physical constraints that require units either to stay on-line at Minimum Load during some hours so as to be capable of performing an upcoming bilateral agreements or to remain on-line at Minimum Load after having satisfied an earlier commitment. Self-committed units are not eligible for recovery of Minimum Load Costs.

Moreover, there is a high degree of operational complexity for the ISO to forecast system conditions, quantify the amount of capacity that the ISO is likely to require in real time from units running under the Must-Offer Obligation, and then identify and notify every eligible units whether it is granted a waiver or must run at Minimum Load in a Waiver Denial Period. Due to this complexity, and also due in large part to long-start-up times, this process must take place in the Day-Ahead Market. The ISO cannot make prudent decisions and ensure adequate resource availability in the Hour-Ahead Market or in real time. Thus, the ISO must consider that any unit scheduled to run under a bilateral agreement or Ancillary Services Schedule in the Day-Ahead Market will be self-committed for the entire relevant Trade Day. Any such unit will not be eligible for a waiver until the next Day-Ahead Market in which the unit is not scheduled under a bilateral agreement or Ancillary Services Schedule and is otherwise eligible for Minimum Load Cost compensation.

Accordingly, the ISO has modified Section 5.11.6 of the Tariff to comply with the Commission's directives.

2. Recovery of Minimum Load Costs – Netting of Revenues

In the May 15, 2002 Compliance Order, the Commission rejected the ISO's proposed "netting procedure" and directed the ISO to revise its Tariff to reflect the payment of Minimum Load Costs to each generator for each hour the generator was operating at minimum load status.⁸ To comply with the Commission's directive, the ISO has modified Sections 5.11.6.1, 5.11.6.2, 5.11.6.3, and 5.11.6.4 of the Tariff.

3. Limitation on Minimum Load Cost Recovery

In the May 15, 2002 Compliance Order, the Commission noted with approval that the ISO has agreed to modify its Tariff to provide that submission of bids for Ancillary Services into the Day-Ahead and Hour-Ahead Markets will not cause the generator to forego Minimum Load Cost recovery for the Waiver Denial Period. The Commission directed that a generator awarded Ancillary Services in an Hour-Ahead Market will forfeit Minimum Load Cost recovery only for any such hours within the Waiver Denial Period.

⁸ May 15, 2002 Compliance Order, 99 FERC at 61,631.

The Commission found reasonable the ISO's proposal to deny recovery of Minimum Load Costs for units that produce a quantity of energy that varies by more than the greater of 5 MWh or an hourly amount equal to 3% of the unit's maximum operating output (*i.e.*, a tolerance band). The ISO January 25, 2002 Compliance Filing proposed that any unit that produced a quantity of energy in violation of the tolerance band would forfeit Minimum Load Costs recovery for the full Waiver Denial Period. The Commission specifically noted that units at minimum load should not have significant changes in output and that units partially committed to bilateral contracts that may have variability are not eligible for recovery of Minimum Load Costs. However, as noted above, the Commission has directed the ISO to pay Minimum Load Costs in each hour when a generating unit is running at Minimum Load in compliance with the Must-Offer Obligation. Finally, the Commission has stated, in both its May 15, 2002 Compliance Order and December 19, 2001 Compliance Order, that the ISO is pay a generator for its actual costs during each hour when the generator is not scheduled to run under a bilateral agreement. Thus, to reflect the several Commission directives on eligibility for recovery of Minimum Load Costs, the ISO now proposes to treat any hours within a Waiver Denial Period in which a unit produces Energy outside the tolerance band⁹ as hours for which Minimum Load Cost compensation will not be paid.

In summary, the ISO will treat all hours within a Waiver Denial Period in which a unit either is providing Ancillary Services to the ISO or producing Energy outside the tolerance band as hours for which Minimum Load Cost compensation will not be paid. The ISO will pay Minimum Load Costs for each hour of a Waiver Denial Period in which a unit runs at minimum load in compliance with the Must-Offer Obligation. Accordingly, the ISO has modified Section 5.11.6.1.1 of the Tariff.

4. Allocation of Minimum Load Costs – Definition

In the May 15, 2002 Compliance Order, the Commission stated that it had difficulty determining if the ISO's proposed Tariff language conforms to the December 19, 2001 Compliance Order, which required the use of gross load as the basis for the assessment of minimum load, emissions, and start-up fuel costs. The Commission explained that its review in the December 19, 2001 Compliance Order of the ISO's Tariff provision regarding the rate for emissions cost charge which utilizes "the sum of the Control Area Gross Load and the Demand within California outside of the ISO Control Area that is served by exports from the ISO Control Area of all Scheduling Coordinators," contained in Section 2.5.23.3.6.3 of the Tariff, should be used for the allocation of Minimum Load Costs, and directed the ISO to revise its Tariff to consistently apply such language.¹⁰ Accordingly, the ISO has modified Section 5.11.6.1.4 of the Tariff.

⁹ Energy production outside the tolerance band can be caused by performance under a bilateral agreement or for other reasons.

¹⁰ May 15, 2002 Compliance Order, 99 FERC at 61,633.

5. Implementation of the 7 Percent Reserve Deficiency

In the May 15, 2002 Compliance Order, the Commission directed the ISO to make its revisions regarding the Stage 1 System Emergency effective as of December 19, 2001.¹¹ In accordance with this directive, the ISO has modified the effective dates of the Tariff sheets containing Sections 2.5.22.4.2, 2.5.23.3.1.1, 2.5.23.3.1.2, 2.5.23.3.2, 2.5.23.3.5, 2.5.23.3.8, 2.5.27.7.1, 2.5.27.7.2, and 5.11.5 of the Tariff.

6. Recovery of Emissions and Start-Up Fuel Costs – Gross Load

In the May 15, 2002 Compliance Order, the Commission directed the ISO to revise Sections 2.5.23.3.6.1 and 2.5.23.3.7.1 of its Tariff to levy emissions and start-up fuel costs charges against all Scheduling Coordinators based upon each Scheduling Coordinator's Control Area Gross Load.¹² The ISO has modified Sections 2.5.23.3.6.1 and 2.5.23.3.7.1 of the Tariff in accordance with the Commission's directive.

7. Recovery of Emissions and Start-Up Fuel Costs – Gas Portfolio

In the May 15, 2002 Compliance Order, the Commission directed the ISO to make the removal from its Tariff of the provision requiring sellers to submit data for their entire gas portfolio for purposes of justifying recovery of actual start-up fuel costs effective as of June 20, 2001 rather than December 20, 2001.¹³ To comply with this directive, the ISO has modified the effective date of the Tariff sheet containing Section 2.5.23.3.7.6 of the Tariff.

8. Ten Percent Credit Risk Adder

In the May 15, 2002 Compliance Order, the Commission determined that Minimum Load Costs paid by the ISO are eligible for the Commission-required ten percent credit risk adder, and that the correct effective date for the ten percent credit risk adder should be June 21, 2001.¹⁴ Accordingly, the ISO has modified Section 11.2.12 of the Tariff, and the effective date of the Tariff sheet containing the section.

9. Calculation of the Market Clearing Price – Ancillary Services

In the May 15, 2002 Compliance Order, the Commission directed the ISO to modify its Tariff to reflect an effective date of June 21, 2001 for the provision in the Tariff

¹¹ May 15, 2002 Compliance Order, 99 FERC at 61,634.

¹² May 15, 2002 Compliance Order, 99 FERC at 61,634. The Order referred to Sections 2.5.23.6.1 and 2.5.23.7.1, but given the context of the Commission's discussion, and the fact that the referenced sections are not in the Tariff, the sections listed in the text above were clearly the ones that were intended to be referenced.

¹³ May 15, 2002 Compliance Order, 99 FERC at 61,634.

¹⁴ May 15, 2002 Compliance Order, 99 FERC at 61,635.

stating that the price limit for the Ancillary Services Markets is the Energy clearing price limit¹⁵ in place at the deadline for submitting bids in the Ancillary Services Market.¹⁶ Accordingly, the ISO has modified the Tariff sheets containing Sections 2.5.27.7.1 and 2.5.27.7.2 of the Tariff.

10. Calculation of the Market Clearing Price – Real-Time Metering

In the May 15, 2002 Compliance Order, the Commission directed the ISO to remove from its Tariff the requirement that generating units have real-time telemetry in order to set the Market Clearing Price.¹⁸ In compliance, the ISO has modified Section 2.5.23.3.8.2 of the Tariff.

11. Penalty Provisions

In the May 15, 2002 Compliance Order, the Commission required the ISO to remove from its Tariff the provisions imposing a penalty for either a failure to report a forced outage or a failure to respond to a dispatch request, and to make the removal of these provisions effective as of June 21, 2001.¹⁹ Accordingly, the ISO has modified Sections 5.6.1, 5.6.3, 5.6.3.1, 5.6.3.2, and 5.6.3.2.1 of the Tariff, and the effective dates of the Tariff sheets containing those sections.

EFFECTIVE DATE

The ISO proposes that July 1, 2002 be the effective date for implementation of all proposed Tariff revisions in this filing for which the Commission has not otherwise already determined a date. In particular, and consistent with the requested effective date in the ISO June 24, 2002 Compliance Report, filed concurrently with the instant filing, the ISO proposes that the retrospective period for compensation of Minimum Load Costs be from May 29, 2001 through June 30, 2002. Beginning on July 1, 2002 the ISO proposes to compensate generating units running at Minimum Load in compliance with the Must-Offer Obligation under the process set forth herein.

SUPPORTING DOCUMENTS

The following documents, in addition to this transmittal letter, support this filing:

Attachment A	Revised Tariff sheets incorporating the changes described above.
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¹⁵ The Energy clearing price limit is the Hourly Ex Post Price during Price Mitigation Reserve Deficiency period and the Non-Emergency Clearing Price Limit during all other periods.

¹⁶ May 15, 2002 Compliance Order, 99 FERC at 61,635.

¹⁷ May 15, 2002 Compliance Order, 99 FERC at 61,635.

¹⁸ May 15, 2002 Compliance Order, 99 FERC at 61,636.

¹⁹ May 15, 2002 Compliance Order, 99 FERC at 61,636.

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Attachment B “Black-lined” Tariff provisions showing the additions to and deletions from existing Tariff provisions.

Attachment C A form notice of filing suitable for publication in the Federal Register, and a computer diskette containing the notice in WordPerfect format.

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.

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