

April 7, 1999

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

**Re: California Independent System Operator Corporation,  
Docket No. ER99-\_\_\_\_-000  
Amendments to the ISO Tariff**

Dear Secretary Boergers:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, the California Independent System Operator Corporation ("ISO")<sup>1</sup> respectfully submits for filing six copies of an amendment ("Amendment No. 15") to the ISO Tariff. The proposed amendment is being filed in conjunction with the Settlement filed April 2, 1999, in Docket Nos. ER98-441-000, ER98-495-000, ER98-496-000 *et al* ("Settlement"). The procedural and factual background of these proceedings is described in detail in the Settlement filing.

The purpose of the Amendment No. 15 is to implement portions of the Settlement. The parties to the referenced proceedings have been engaged in settlement negotiations for more than a year. All components of the Settlement, including the revisions to the ISO Tariff included in Amendment No. 15, have been reviewed and revised in numerous drafting sessions to reflect the agreement of affected parties. The content of Amendment No. 15, like all elements of the Settlement, reflects a compromise of interests so delicate that any change would be inconsistent with an important interest of some party whose active support will be critical to the implementation of the Settlement.

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<sup>1</sup> Capitalized terms not otherwise defined herein are defined in the Master Definitions Supplement, ISO Tariff Appendix A, as filed August 15, 1997.

Because all elements of the Settlement are interrelated, the ISO intends the effectiveness of Amendment No. 15 to be conditioned upon the Commission's approval of and the effectiveness of the Settlement. If the Commission rejects the Settlement, or modifies it in such a way that the parties do not go forward under the revised terms, the ISO requests that this filing be deemed withdrawn.

The parties supporting the Settlement believe that its implementation prior to the summer peak period is important to all participants in the California market for electric generation, making expedited consideration by the Commission consistent with the public interest. It is also imperative that Amendment No. 15 be approved on an expedited basis, concurrently with the Commission's approval of the Settlement.

### **Tariff Amendments**

The revisions proposed by Amendment No. 15 can be grouped into four major categories. The changes in each category are described below.

#### Provisions Concerning Billing and Payment Procedures

Under the ISO Tariff, the ISO recovers the costs it incurs under each Reliability Must-Run Contract from the utility that is a party to the Transmission Control Agreement in whose Service Area the Reliability Must-Run Generator is located, after deducting certain amounts received by the RMR Owner from Scheduling Coordinators.

The proposed changes to Section 5.2.7 and Settlement and Billing Protocol Annex 1 ("Annex 1") provide that the ISO will establish for each Reliability Must-Run Contract a Facility Trust Account (the "Facility Trust Account"), which shall have two segregated commercial bank accounts. One commercial bank account, the "RMR Owner Facility Trust Account," will be held in trust by the ISO for the RMR Owner. The other, the "Responsible Utility Facility Trust Account," will be held in trust by the ISO for the Responsible Utility. Payments received by the ISO from the Responsible Utility in connection with the Reliability Must-Run Contract will be deposited into the RMR Owner Facility Trust Account and payments from the ISO to the RMR Owner will be withdrawn from such account. Refunds, if any, received by the ISO from the RMR Owner under the payment provisions of the Reliability Must-Run Contract following termination of such Contract will be deposited into the Responsible Utility Facility Trust Account, and withdrawn from such Account and paid to the

Responsible Utility. Neither account shall have other funds commingled in it at any time.

Proposed revisions to Section 5.2.7 and Annex 1 provide that the invoice for RMR services sent to each Responsible Utility will show separately the amounts due for services from each RMR Owner.

Revised Section 5.2.7.1 provides that the Responsible Utility's payment of the invoice shall be made without offset, recoupment or reduction of any kind. Revised Sections 5.2.7.1.1 through 5.2.7.1.5 and related provisions of Annex 1 set forth the procedures and periods for a Responsible Utility to provide notice that it disputes all or part of an invoice. The Responsible Utility shall be deemed to have validated any invoice and waived its right to dispute it if it fails to provide such notice within the applicable period.

Revised Section 5.2.7.2 provides that RMR Owners shall be third party beneficiaries of the ISO Tariff, and shall have all rights that the ISO has under the Tariff, at law, in equity or otherwise to enforce the Responsible Utility's obligations under Section 5.2.7 to pay all sums invoiced to the Responsible Utility. Furthermore, Amendment No. 15 also sets forth various dispute procedures for a variety of situations when the Responsible Utility disputes a final Estimated Invoice or a final Adjusted RMR invoice, or a part thereof. If the Responsible Utility disputes a Responsible Utility invoice, final Estimate RMR Invoice or final Adjusted RMR Invoice, it will pay the invoice but it may pay under protest and reserve its right to seek a refund with interest from the ISO. If the resolution of the dispute results in the ISO owing the Responsible Utility, then the ISO will deduct the amount from the next succeeding amounts due from the Responsible Utility to the ISO with respect to the applicable Reliability Must-Run Contract.

The provisions of Sections 5.2.7.1 and 5.2.7.2 in the current Tariff, which require utilities that are parties to a TCA to provide the ISO with a letter of credit or cash deposit equal to two times the highest monthly payment invoiced in the previous quarter, will be deleted by Amendment No. 15. In their place, the proposed amendments add new Section 5.2.7.3 which is applicable only to Responsible Utilities that execute a TCA after April 1, 1998 ("New PTOs"). Section 5.2.7.3 requires New PTOs that do not meet certain senior unsecured debt rating thresholds to provide the ISO a letter of credit equal to three times the highest estimated monthly RMR payment invoiced or to be invoiced by the ISO for payment by that PTO in a contract year.

The proposed amendments include other miscellaneous changes to Section 5.2.7 and Annex 1 to conform those sections to definitional changes, to provide clarification on certain matters, and to correct typographical errors in the current Tariff.

#### Provisions Concerning Reliability Must-Run Payments and Charges Computation

The Tariff currently sets forth equations by which payments are made to Reliability Must-Run Units under the various Conditions of Service under the current Reliability Must-Run Contract. These various Conditions of Service have been eliminated by the Settlement and others have been substituted. The ISO proposes to eliminate Settlement and Billing Protocol Appendix H, and rely on the terms of the new Reliability Must-Run Contract for the calculation of payments.

#### Provisions Concerning the Generation Capacity Bid into the Ancillary Services Day-Ahead Market

Under current provisions of the ISO Tariff, the ISO evaluates Ancillary Service bids for the Day-Ahead Market after the close of the Day-Ahead Market. The ISO selects the bids and provides supplier schedules to those selected as part of the Final Day-Ahead Schedules. The ISO pays successful bidders at the Market Clearing Price for the particular Ancillary Service. If, subsequent to the issuance of the Final Day Ahead Schedules, the ISO determines that additional Ancillary Services are needed, the ISO may call upon RMR Units or procure from the Hour-Ahead Market.

Section 4.1 of the Reliability Must-Run Contract included in the Settlement sets forth conditions under which the ISO may call upon RMR Units for additional Ancillary Services determined to be needed after the issuance of Final Day-Ahead Schedules. In general, the ISO must have used all bids left over from the Day-Ahead Market and either exhausted all bids in the Hour Ahead Market or determined, in accordance with specified criteria, that the Hour-Ahead Market is not competitive, before turning to RMR Units. The proposed amendments conform the ISO Tariff with these requirements. Section 2.5.21 of the ISO Tariff and Section SP 3.2.11 of the Scheduling Protocol are amended to permit the ISO, after the issuance of Final Day-Ahead Schedules, to select additional Ancillary Services bids that were not reflected in the Final Day-Ahead schedules and to provide suppliers with amended supplier schedules that reflect those additional Ancillary Services.

The amendments also propose various new subsections to Section 5.2 of the ISO Tariff setting forth conditions under which RMR Units may be called. One proposed amendment states that if the ISO has elected to procure Ancillary Service in the Hour-Ahead Market and there is insufficient capacity, the ISO may call upon RMR Units to meet the remaining portion of the need only after accepting all available bids in the Hour-Ahead Market. Another proposed amendment states that if any time after the issuance of the Final Day-Ahead Schedules for the Trading Day the ISO determines that it needs more Ancillary Services, and that the ISO determines that a Bid Insufficiency condition exists in the Hour-Ahead Market for the period in which the ISO requires more of an Ancillary Service, and several other conditions are met, the ISO may call upon RMR Units to meet the additional need. It is further proposed that the ISO may only determine that Bid Insufficiency exists in the Hour-Ahead Market after the close of the Hour-Ahead Market, unless an earlier determination is required to accommodate the Must-Run Unit's operating constraints.

The amendments also include revisions to ensure that the selection of additional Ancillary Services following the close of the Day-Ahead Market does not affect the Market Clearing Price. Sections 2.5.14, 2.5.15, 2.5.16, and 2.5.17 of the ISO Tariff, and the related definitions in Appendix C of the Settlement and Billing Protocol, are amended to provide that suppliers of Ancillary Services selected after the close of the Day-Ahead Market are paid at the bid price, rather than the Market Clearing Price.

#### Provisions Relating to Calling RMR Units for Addressing Intra-Zonal Congestion

Section 5.2.1 of the ISO Tariff currently allows the ISO to call upon RMR Units to meet reliability needs. This authority includes the use of RMR Units to meet local reliability needs in the presence of local market power. Other provisions in the ISO Tariff that address Intra-Zonal Congestion cross reference this authority. The proposed amendment revises Sections 2.5.22.8 and 7.2.6.2, as well as Sections 7.4 and 8.4 of the Dispatch Protocol, to include specific cross references to this authority.

Provisions Updating and Adding to the Master Definitions Supplement.

The proposed amendment adds definitions for "Responsible Utility" and "RMR Owner" to the Master Definitions Supplement (Appendix A to the ISO Tariff). The proposed amendment also revises the definition of "Reliability Must-Run Contract" to include a Generator that has a rate schedule on file at FERC and in effect giving the ISO the right to call on the Generator to generate Energy and/or provide Ancillary Services from the Generating Unit as and when it is required to ensure the reliability of the ISO Controlled Grid.

**Effective Date**

The ISO requests that the Tariff amendments proposed herein become effective at such time, and only at such time, as the Commission approves the Settlement and it becomes effective.

**Notice and Service of Documents**

Communications regarding this filing should be addressed to the following individuals, whose names should be placed on the official service list established by the Secretary with respect to this submittal:

N. Beth Emery  
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\* Individuals designated for service pursuant to Rule 203(b)(3), 18 C.F.R. § 385.213(b)(3).

The ISO has served copies of this letter, and all attachments, on the Public Utilities Commission of the State of California, the California Energy Commission, the California Electricity Oversight Board, on all parties with effective Scheduling Coordinator Service Agreements under the ISO Tariff, and on all parties on the service list for the Settlement in Dockets Nos. ER98-441-

000, ER98-495-000, and ER98-496-000 et. al. In addition, the ISO is posting this transmittal letter and all attachments on the ISO's Home Page.

### **Supporting Documents**

- New Tariff sheets incorporating the amendment (Attachment A).
- Black-lined text showing the additions and deletions to existing Tariff language (Attachment B).
- A Notice of this filing, suitable for publication in the Federal Register (Attachment C), together with a diskette containing that notice in electronic form.

An additional copy of this filing is enclosed. Please stamp this copy with the date and time of filing and return it to our messenger.

Respectfully submitted,

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N. Beth Emery  
Vice President and General Counsel  
Roger E. Smith, Regulatory Counsel  
The California Independent  
System Operator Corporation

Edward Berlin  
J. Phillip Jordan  
Mark Klupt  
Swidler Berlin Shereff Friedman, LLP  
Counsel for the California Independent  
System Operator Corporation

## **CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon the Public Utilities Commission of California, the California Energy Commission, the California Electricity Oversight Board, upon all parties with effective Scheduling Coordinator Service Agreements under the ISO Tariff, and on all parties on the service list for the Settlement in Dockets Nos. ER98-441-000, ER98-495-000, and ER98-496-000 et. al, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Washington, D.C. on this 7<sup>th</sup> day of April, 1999.

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Mark Reid Klupt