

PUBLIC UTILITIES COMMISSION

SAN FRANCISCO, CA 94102-3298



October 5, 2004

Advice Letter 1813-E-A

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OCT 07 2004

REVENUE & TARIFFS DEPT.

Reference: Revised local area reliability unit commitment and dispatch procedure pursuant
Resolution E-3888

Dear Mr. Jazayeri:

Advice Letter 1813-E-A is effective August 19, 2004. A copy of the advice letter is included herewith for your records.

Sincerely,

A handwritten signature in cursive script that reads "Paul Clanon".

Paul Clanon, Director
Energy Division

jjr

September 13, 2004

ADVICE 1813-E-A
(U 338-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

SUBJECT: Supplement to Advice Letter 1813-E and Submission of Southern California Edison Company's and the California Independent System Operator's Revised Local Area Reliability Unit Commitment and Dispatch Procedure Pursuant to Resolution E-3888

Southern California Edison Company (SCE) and the California Independent System Operator (ISO) hereby submit for filing the revised Local Area Reliability Unit Commitment and Dispatch Procedure (Procedure) developed in compliance with Decision (D.) 04-07-028 and Resolution E-3888.

PURPOSE

This supplemental advice filing incorporates the modifications to Advice Letter 1813-E ordered in Resolution E-3888 which was adopted by the Commission on August 19, 2004 (Resolution). This supplemental filing replaces in its entirety Advice 1813-E filed on July 26, 2004.

Advice 1813-E was filed in compliance with D. 04-07-028¹ which directed SCE (and the other investor-owned utilities (IOUs)) to schedule and procure sufficient and appropriate resources, both systemwide and locally within its service territory, to meet its customers' needs, and to permit the CAISO to maintain reliable grid operations.² The advice filing presented for Commission review and accelerated approval, the scheduling and dispatch Procedure that SCE and the ISO agreed will enhance the reliability of the electric system in

¹ "Interim Opinion Regarding Reliability Issues" issued on July 8, 2004, hereafter Decision or D. 04-07-028.

² D. 04-07-028, *mimeo* at pp. 28-32.

SCE's service territory. The advice filing noted that the parties intend to file a separate advice filing concerning reliability-related procurement transactions.³

Advice 1813-E requested that the Commission immediately issue a resolution approving the Procedure and incorporating it into SCE's approved procurement plan. Specifically, SCE and the ISO requested that Commission approval of the Procedure confirm the following directives in D. 04-07-028:

- The Procedure complies with the Commission's directives in D.04-07-028;
- The activities and transactions described in the Procedure are deemed part of SCE's approved procurement plan;
- The activities described in the Procedure establish the AB 57 upfront achievable standards and criteria under which SCE shall conduct local reliability commitment and dispatch under its approved procurement plan; and
- SCE is authorized to seek recovery of all reliability-related procurement costs incurred as a result of implementing D.04-07-028 as part of its approved procurement plan in an ERRA proceeding, to the extent such costs are not first recoverable through FERC-jurisdictional rates.

The August 19th Resolution approved Advice 1813-E with certain modifications. The Resolution ordered that: (1) the word "all" be removed from the fourth bullet as quoted above; (2) SCE and the ISO work together to file a separate procurement advice letter concerning reliability-related procurement transactions as expeditiously as possible; (3) the Procedure be revised to include the approved effective date and termination date (*see* Procedure, p. 1); and (4) the Procedure clarify that the ISO will post the Local Area Capacity Commitment Table on its website in a timely manner so that it is equally available to all market participants (*see* Procedure, p. 2). Each of these modifications is hereby incorporated into this supplemental advice filing. A copy of the revised Procedure is attached as Appendix A to this filing.

BACKGROUND

On July 8, 2004, the Commission issued D.04-07-028 to clarify and modify prior Commission orders concerning the IOUs' obligation to proactively assist the ISO in managing system-wide transmission congestion and assuring local

³ Consistent with D. 04-07-028's suggestion, SCE will seek cost recovery of the additional reliability-related costs incurred as a result of implementing the requirements of D.04-07-028 through its Federal Energy Regulatory Commission (FERC) Reliability Services tariff provisions before seeking recovery of such costs in an ERRA proceeding.

area reliability.⁴ The Decision requires the IOUs to consider reliability factors and incorporate all known and reasonably anticipated ISO-related costs (including congestion, re-dispatch and must-offer costs), when evaluating resource options. The Decision arose from an Assigned Commissioner's Ruling on Reliability Issues dated June 10, 2004 (ACR), which found that the reliability of the state's electric system would be enhanced if the ISO took all necessary steps to provide all load serving entities with the information they need to procure and schedule resources in a manner that supports reliable grid operations, and the utilities used such information when scheduling resources.⁵

In compliance with D. 04-07-028 and the ACR, SCE and the ISO met and developed the Procedure which was attached to SCE's Advice 1813-E. The Procedure described how SCE will commit and schedule local area generation in the ISO's day-ahead market to reduce the ISO's Must-Offer waiver denial and real time re-dispatch requirements. SCE and the ISO jointly submitted the Procedure to the Commission for approval to ensure that the agreed-upon activities are consistent with the Commission's directives, and that all costs reasonably incurred by SCE in performing the reliability-related activities are fully recoverable by SCE as part of SCE's approved procurement plan.

D. 04-07-028's Modification of SCE's Approved Procurement Plan

In addition to modifying and clarifying prior Commission decisions, D. 04-07-028 modifies SCE's approved procurement plan. Specifically, D.04-07-028 modifies the following aspects of SCE's approved procurement plan:

- *The Decision Clarifies the Definition of "Least Cost Dispatch":* "Accordingly, a utility scheduling practice or procurement plan that focuses solely on least cost energy, without regard to deliverability of the procured energy to load or to local reliability, is not in compliance with our prior decisions, approved short-term procurement plans, and Assembly Bill (AB) 57."⁶
- *The Utilities' Least-Cost Scheduling and Procurement Activities Must Include ISO Reliability-Related Costs:* ". . . utilities should not limit their assessment to least cost day-ahead scheduling and procurement practices but must incorporate all CAISO-related forward commitment costs that result from the utilities' scheduling and procurement decisions. These costs should include all known or

⁴ D.04-07-028 modifies D.02-10-062, D.02-12-074, D.03-12-062 and D. 04-01-050 in Rulemaking 01-10-024.

⁵ *Id.* at p. 7.

⁶ *Id.* at pp. 9-10.

reasonably anticipated CAISO-related costs including congestion, re-dispatch, and must-offer costs.”⁷

- *The Utilities’ Least-Cost Scheduling and Procurement Activities Must Incorporate Available ISO Information:* “We expect each utility to use whatever information it may lawfully obtain, and that the CAISO may lawfully disseminate. . . , to improve upon the current situation”⁸
- *The Utilities Should Minimize Use of RMR Contracts:* “. . . while the Commission understands that some limited (and cost efficient) continuation of RMR contracts may be necessary as a backstop mechanism in the future, a policy that encourages the CAISO to assume greater procurement responsibility in connection with local area reliability would be shortsighted. Moreover, consumers would be ill served by such a short-sighted policy. Therefore, we encourage a comprehensive planning approach via IOU scheduling and procurement to minimize the need for RMR contracts. This policy will facilitate better overall resource planning and reduce the potential vulnerability to price and market design changes that could dramatically increase the cost of RMR contracts in the future.”⁹
- *The Prior Restriction on Use of Bilateral Contracts Is Relaxed:* “Today we relax the restrictions on negotiated bilateral contracts so that the utilities may take appropriate actions to reduce overall costs and increase local area reliability. In addition to the limited circumstances enumerated in D.03-12-062 at Conclusion of Law 15, we authorize the utilities to engage in bilateral negotiated contracts for capacity and energy from power plants where the purpose is to enhance local area reliability [footnote omitted]. Utilities may include such transactions in their quarterly compliance filings, for approval if there is no objection.”¹⁰
- *The Prior Limitations on Use of Spot Market Transactions is Relaxed:* “To the extent that utilities see the need to engage in spot-market transactions to enhance local area reliability, whether on their own accord or in response to information provided by the CAISO, they should do so whether or not those transactions will raise the total percentage above 5% of the total monthly need. The utilities should not be restricted by this general guideline from taking actions that enhance local area reliability and reduce overall costs.

⁷ *Id.* at p. 10.

⁸ *Id.* at p. 12.

⁹ *Id.* at pp. 15-16.

¹⁰ *Id.* at p. 17.

Of course the utilities may include in their quarterly compliance filings any transactions above the 5% guideline, for approval if there is no objection.”¹¹

- *Cost Recovery For Reliability-Related Transactions is Approved:* “Utilities may recover costs incurred for reliability purposes consistent with this order [D.04-07-028]. That is, actions taken in furtherance of the directives in this order are deemed consistent with the utilities’ already approved short-term procurement plans and thereby subsumed with the protection provided by AB 57.”¹²

SCE’s Recovery of Reliability-Related Costs

In accordance with D.04-07-028, SCE will pursue cost recovery of the additional reliability-related costs incurred as a result of implementing the requirements of D.04-07-028 through its FERC Reliability Services tariff provisions.¹³ In the event such costs are not recoverable through FERC-jurisdictional rates, D. 04-07-028 authorizes SCE to seek cost recovery of reliability-related costs in an ERRA proceeding.¹⁴ SCE is seeking approval to establish a Reliability Cost Memorandum Account to track reliability costs incurred as a result of implementing D.04-07-028, through a separate advice letter filed with the Commission on July 22, 2004.¹⁵

EFFECTIVE DATE

This advice filing is effective as of August 19, 2004, as set forth in Resolution E-3888.

Southern California Edison Company

Akbar Jazayeri

AJ:ll/pf
Attachment

¹¹ *Id.* at p. 18; the Commission noted, however, that the vast majority of the IOUs’ procurement practices should continue to take place in the forward markets. *Id.* at p. 19.

¹² *Id.* at p. 22.

¹³ SCE’s Reliability Services Rate Schedule, Appendix VI to SCE’s Transmission Owner Tariff.

¹⁴ D.04-07-028, *mimeo*, p. 23.

¹⁵ SCE Advice 1810-E dated July 22, 2004.

**Appendix A
Advice 1813-E-A**

**Southern California Edison Company's and the
California Independent System Operator's Revised
Local Area Reliability Unit Commitment and Dispatch
Procedure**

September 13, 2004

SCE-ISO Local Area Reliability Unit Commitment and Dispatch Procedure

GUIDING PRINCIPLES

In compliance with the directives of the California Public Utilities Commission (Commission) in Decision (D.) 04-07-028, issued on July 8, 2004, and Resolution E-3888 issued on August 19, 2004, SCE and the ISO have agreed to use the procedure described below (Procedure) to commit and schedule needed local area generation in the ISO's day-ahead market. The agreed-upon Procedure is based on the following principles, understandings and agreements between SCE and the ISO:

- Nothing in this Procedure is intended to conflict with any provisions in the ISO Tariff or to alter any rights or obligations of SCE under those provisions, including the Must Offer Obligations contained in ISO Tariff Section 5.11.
- Any ISO information relied upon by SCE must be clear, unambiguous and satisfy the "achievable, up-front standards and criteria" requirements of SCE's AB57 procurement plan.
- SCE's ability to alter its day-ahead commitment and dispatch of resources pursuant to this Procedure is limited to the amount and characteristics of dispatchable resources SCE has under its direct operational or contractual control at the time.
- A separate "Reliability Procurement Procedure" still under discussion between SCE and the ISO will address SCE's possible procurement of additional reliability resources.
- ISO and SCE intend for this Procedure to be consistent with the direction given by the Commission in D. 04-07-028 concerning scheduling and dispatch of SCE's generation portfolio.
- The Procedure shall become effective on August 19, 2004, and shall terminate on December 31, 2005, unless terminated earlier or extended by Commission order. Either the ISO or SCE may terminate this Procedure at any time by giving the other party five (5) days advance written notice.

PROCEDURE

- I. The ISO will create local-area Capacity Commitment Tables that establish the minimum on-line capacity needed from designated units and will post these Tables on its web site
 - The ISO will pre-define specific local areas (i.e., load pockets) within which minimum levels of on-line capacity are required. Each local area will be defined in such a way that clearly designates which generating units fall inside the subject area.
 - For each local area of concern to the ISO, the ISO will develop a Capacity Commitment Table (Table or Tables) that shows the minimum amount of capacity from designated units the ISO requires to be on-line in that local area. Minimum on-line capacity will be a function of forecast daily peak load for a designated region

(such as SCE's service territory), which may be different from the local area of concern.

- The ISO may group designated units based on their relative effectiveness in meeting specific local area needs or in mitigating specific local area constraints. If so, the Table will show the amount of capacity from each group that is needed at each level of forecast daily peak load.
- Units that are committed per the Table must be operating at least at minimum dispatchable loading level during hours of the day that are designated in the Table or in an attachment thereto. However, if no such designation is provided, the committed units must be operating at least at minimum loading from 7 a.m. Pacific Prevailing Time to 10 p.m. Pacific Prevailing Time.
- The ISO will post the Table on its website in a timely manner, so that the Table is equally accessible to market participants.
- As system conditions warrant, the ISO will update each Table as necessary.
- The capacity values shown in each Table represent minimum commitment targets for designated units without regard to which entity (i.e., Investor Owned Utility, non-IOU Load Serving Entity, Municipal Utility, other) has direct operational or contractual control of these units. To the extent SCE has rights to commit and dispatch generating units within the designated local area, SCE will commit units to the level indicated in the applicable Table(s), based on the peak hour load forecast as discussed further below, notwithstanding the commitment and dispatch decisions of other entities, about which SCE has no information. It is understood that SCE is not required to "meet" the capacity target on each Table, but only to commit designated units for which it has direct operational or contractual control up to the minimum commitment target.

II. SCE will use the ISO's Capacity Commitment Tables to determine the minimum commitment and dispatch requirements for designated local area generating units under its control

- SCE will incorporate each applicable Capacity Commitment Table (initially, this will be a single Table for the entire "SCE Service Territory") into its day-ahead planning process as follows:
 - First, SCE will run its day-ahead production cost models to determine the "least-cost" commitment and dispatch of all generating units under its control.
 - Second, SCE will check the unit commitment results of these models against the applicable Table(s) to determine the extent to which there are any designated units not committed for least-cost dispatch, but are required for local area reliability per the applicable Table (these may be units that were not committed at all, or units that were committed for insufficient hours in the day).
 - SCE will use the most current ISO SCE territory peak load forecast to determine minimum unit commitment levels.
 - For day-ahead planning and commitment decision-making, SCE will use the Table(s) posted on the ISO web site as of 0900 hrs (PPT) on the day SCE prepares its day ahead plan. SCE normally prepares its day-ahead plan one day before day-ahead schedules are due the ISO,

but will advance day-ahead planning by one or more days as needed to accommodate intervening weekend days and holidays (e.g., planning for day-ahead schedules submitted to the ISO on Sunday is done on Thursday, planning for day-ahead schedules submitted to the ISO on Monday is done on Friday, etc.).

- Third, SCE will re-run its day-ahead production cost models reflecting the constraints identified in the previous steps. The results of this second run will be the basis for determining day-ahead schedules and will also be used as input to the calculation of the re-dispatch-related Reliability Premium.
- SCE will submit balanced day-ahead schedules to the ISO that include the required minimum commitment of designated units. Any changes to SCE's schedule resulting from the previous steps will not result in any of the following:
 - Issuance of Must-Offer Waiver Denials,
 - ISO payment of Minimum Load Cost Compensation, and
 - Production of unscheduled energy that must be sold in the ISO's real-time market. This reduction in unscheduled energy will result in a corresponding reduction in the ISO's real-time re-dispatch burden.
- SCE may subsequently change the schedule for designated reliability units as needed, provided such changes maintain adherence to the applicable Table to the fullest extent possible (including substituting, to the extent possible, for a designated reliability unit that has become unavailable after day-ahead). Reasons for changing the day-ahead schedule include, but are not limited to:
 - Re-balancing resources to meet changing generation and load forecasts, and
 - Making cost-effective bilateral sales or purchases.
- In the event a designated unit is not required to be committed by the applicable Table, SCE will not be required to commit or schedule the unit in the day-ahead market.
- Any designated units not committed and scheduled per this Procedure (this includes units that were committed in day-ahead and have reached the end of their commitment period) will remain subject to the ISO's normal Must Offer rules and process.
- SCE will retain full discretion over the disposition of energy produced by designated units committed by the ISO under its normal Must-Offer process (i.e., SCE will choose whether to receive MLCC payments from the ISO or incorporate the Must-Offer minimum load energy into its final schedule).


III. Identification and Recovery of Dispatch Reliability Premium

- In accordance with D. 04-07-028, SCE will pursue cost recovery of the additional reliability-related costs incurred as a result of implementing the requirements of D.04-07-028 through its Federal Energy Regulatory Commission Reliability Services tariff provisions. The ISO will assist SCE in this process as appropriate.
- For monitoring purposes, SCE will submit its calculation of the additional reliability-related costs to the ISO for each day of a month, no later than the 25th day of the following month with final calculation of the reliability cost as can reasonably be determined at that point in time. The ISO will maintain this information as confidential pursuant to a confidentiality agreement to be executed by SCE and the ISO.

Capacity Commitment Table

Area: SCE Service Territory

Table Last Updated: 09/04

 CALIFORNIA ISO <small>California Independent System Operator</small>	Operating Procedure Attachment B	Procedure No.	M-438B
		Version No.	1.1
		Effective Date	9/3/04
Capacity Commitment Tables		Distribution Restriction: None	


Below are the representative "Local Area Capacity Commitment Tables" for each Local Capacity Commitment Area. Notations within the Attachment indicate most up-to-date version is the posting on the CAISO web site.

PG&E Local Area Capacity Commitment – Requirements beyond RMR

PG&E Service Area Peak-Hour Load + Losses (MWs)	Generation Total (MWs)
All Load Levels	0

Note: There are no current generation requirements for PG&E beyond the RMR requirements.

Continued on next page

 CALIFORNIA ISO <small>California Independent System Operator</small>	Operating Procedure Attachment B	Procedure No.	M-438B
		Version No.	1.1
		Effective Date	9/3/04
Capacity Commitment Tables		Distribution Restriction: None	

SCE Local Area Capacity Commitment – Requirements beyond RMR


SCE Service Area Peak-Hour Load + Losses (MWs) (Excludes all Pump Load)	Modeled Pump Load (MW)	Generation Total (MWs)
< 13,000	844	0
13,000 - 13,999	844	0
14,000 - 14,999	844	0
15,000 - 15,999	304	0
16,000 - 16,999	304	688
17,000 - 17,999	1003	1244
18,000 - 18,999	883	1690
19,000 - 19,999	827	1962
20,000 - 20,999	827	2798
21,000 - 21,999	827	3966

Note: The load + losses numbers in the table above together with the pump loads are consistent with the ISO Load Forecast for the SCE Service Area.

***Note:** All transmission losses assumed in these load values are the same as those found in the load forecasts.

Non-RMR Generation Plants to be used for Capacity Commitment Table
Alamitos
El Segundo
Indigo
Harborgen
Huntington Beach
Long Beach
Redondo

Continued on next page

 CALIFORNIA ISO <small>California Independent System Operator</small>	Operating Procedure Attachment B	Procedure No.	M-438B
		Version No.	1.1
		Effective Date	9/3/04
Capacity Commitment Tables		Distribution Restriction: None	

SDG&E Local Area Capacity Commitment – Requirement beyond RMR

SDG&E Local Area Capacity Commitment – Requirements beyond RMR

SDG&E Service Area Peak-Hour Load + Losses (MWs)	Generation Total (MWs)
All Load Levels	0

Note: There are no current generation requirements for PG&E beyond the RMR requirements.