

**DRAFT**

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**  
**Item # 80 I.D.# 3800**  
**ENERGY DIVISION**  
**RESOLUTION E-3888**  
**August 19, 2004**

**R E S O L U T I O N**

Resolution E-3888. Southern California Edison Company and the California Independent System Operator submit for filing the Local Area Reliability Unit Commitment and Dispatch Procedure developed pursuant to Decision 04-07-028.

By SCE Advice Letter 1813-E filed on July 26, 2004.

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**SUMMARY**

**This Resolution approves with modification, the Local Area Reliability Unit Commitment and Dispatch Procedure (Procedure) developed jointly by Southern California Edison Company (SCE) and the California Independent System Operator (ISO or CAISO) and filed by SCE pursuant to Decision (D.) 04-07-028.**

The California Public Utilities Commission (CPUC or Commission) finds that the scheduling and dispatch Procedure jointly developed by SCE and the ISO and filed by SCE Advice Letter 1813-E on July 26, 2004, (1) will enhance the reliability of the electric system in SCE's service territory; and (2) complies with the CPUC's directives in D.04-07-028. The Commission also finds that the activities and transactions described in the procedure are consistent with SCE's approved short-term procurement plan, since they are in furtherance of the directives of D.04-07-028.

SCE Advice Letter 1813-E was timely protested by the Western Power Trading Forum.

This resolution approves the advice letter, with modifications.

## **BACKGROUND**

**On July 8, 2004, the CPUC issued D.04-07-028, “Interim Opinion Regarding Electricity Reliability Issues” (Decision) to clarify and modify prior CPUC orders concerning the investor-owned utilities’ (IOUs) obligation to assist the ISO in managing system-wide transmission congestion and assuring local area reliability.**

The Decision directs 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 resulted from an Assigned Commissioner’s Ruling on reliability issues, dated June 10, 2004. The Decision “*strongly encourage[d]*” the ISO to take all available 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 directed the utilities to use such information when scheduling resources.

### **D.04-07-028 clarifies and modifies SCE’s approved procurement plan.**

In addition to modifying and clarifying prior CPUC decisions (D.02-12-074, D.03-12-062, and D.04-01-050), D.04-07-028 modifies SCE’s approved procurement plan. Specifically, the Decision modifies the following aspects of SCE’s approved procurement plan:

- The Decision clarifies the definition of least cost dispatch.
- The Decision provides clarification that the utilities’ least cost scheduling and procurement activities must include ISO reliability-related costs.
- The Decision provides clarification that the utilities’ least cost scheduling and procurement activities must incorporate available ISO information.
- The Decision provides clarification that the utilities should minimize use of RMR contracts.
- The prior restriction on use of bilateral contracts is relaxed.
- The prior limitation on use of spot market transactions is relaxed.

**Consistent with the Commission’s suggestion in D.04-07-028, SCE will seek cost recovery of the additional reliability-related costs of this Procedure through its Federal Energy Regulatory Commission (FERC) reliability services tariff provisions.**

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. Through a separate advice letter filing 1810-E dated July 22, 2004, SCE is seeking to establish a Reliability Cost Memorandum Account to track reliability costs incurred as a result of implementing D.04-07-028.

**SCE and the ISO jointly developed the Local Area Reliability Unit Commitment and Dispatch Procedure (Procedure).**

The Procedure describes 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.

**NOTICE**

Notice of SCE AL 1813-E was made by publication in the Commission's Daily Calendar. SCE states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

**PROTESTS**

SCE Advice Letter 1813-E was protested.

On July 30, 2004, Pacific Gas and Electric Company (PG&E) submitted comments to SCE's Advice Letter 1813-E. In its letter, PG&E stated, "*PG&E does not protest Advice 1813-E and ... PG&E's sole purpose in submitting this letter is to ask that the Commission make clear that its approval of the Procedure does not set a precedent for PG&E.*" PG&E explained "*to date, the CAISO has not identified any problems and has confirmed that it would like PG&E to continue with its current least cost dispatch practices.*"

SCE's Advice Letter 1813-E was timely protested by the Western Power Trading Forum (WPTF) on August 9, 2004. SCE responded to the protest of WPTF on August 10, 2004.

The following is a more detailed summary of the major issues raised in the protest.

- **WPTF's first issue is that SCE should promptly file a companion procurement advice letter.**

The Procedure states, "*A separate 'Reliability Procurement Procedure' still under discussion between SCE and the ISO will address SCE's possible procurement of additional reliability resources.*"

WPTF states that such procurement advice letter is also required to comply with the directives in D.04-07-028, and it should be filed promptly. Absent this advice letter, WPTF believes it is difficult to understand what changes are actually occurring and what costs will be incurred. WPTF feels it is unclear how SCE and/or the ISO will pass through the costs of reliability services to CAISO stakeholders.

**SCE asserts that it continues to work with the CAISO to develop a procurement procedure.**

In its response, SCE states that, "*following the issuance of D.04-07-028, ... (it) agreed with the CAISO's strong preference to first address those actions that could be taken quickly to enhance local area reliability for the remainder of Summer 2004, and then address the more complicated and time consuming issues associated with local area reliability procurement. The CAISO is now in the final stages of preparing the Capacity Commitment Tables for publication on its web site. Once these tasks are completed, the Commitment Procedure can be implemented and the two entities can resume discussions to develop a workable procurement procedure.*"

SCE characterizes the development of a procurement procedure as a "complex effort." "*SCE urges the Commission to let SCE and the CAISO continue to work towards producing a procurement procedure that is both legally valid and effective.*"

We share WPTF's concern regarding the need for SCE's development and filing of a procurement advice letter. Such a filing is necessary for SCE to be in full compliance with D.04-07-028's directives, and to be consistent with SCE's approved short-term procurement plan as clarified by the Decision. We encourage SCE to aggressively work with the CAISO towards developing and producing a procurement procedure as expeditiously as possible.

- **WPTF's second issue is that SCE should ensure that the Capacity Commitment Tables should be made available on a day-ahead basis on the CAISO website for examination by all market participants.**

WPTF believes the process as described in the Procedure should be modified to provide for greater transparency. WPTF believes that all load-serving entities should be treated equally with regard to paying their fair share of reliability costs. WPTF asserts that there is no process in the Procedure for an independent confirmation of the accuracy of the cost information shared with the CAISO. WPTF states, *"Without adequate transparency, the utility would have the ability to manipulate the least-cost dispatch data ..."* that could lead to a suppression of market prices or exaggeration of additional reliability costs.

WPTF also states that the Procedure does not specify that the local-area Capacity Commitment Tables, which will be posted on the CAISO website, will be made available to the general public in a timely non-discriminatory manner or solely to SCE.

**SCE replies that it has no control over the information or the timing of the posting of information posted on the CAISO website.**

In its response, SCE explains that, *"only the CAISO can determine what information will be posted on its website and the timing of the posting of information... (T)he CAISO, not SCE, will be providing the information that will be included in the Capacity Commitment Tables. And the CAISO, not SCE will be responsible for posting the tables on its website for use by all market participants."*

We share WPTF's concern and expect the CAISO to post the Tables in a timely nondiscriminatory manner. The Procedure should specify that the capacity commitment tables shall be made available on CAISO's website to all market participants in a timely, nondiscriminatory manner.

- **WPTF's third issue is that the Procedure described in the advice letter should be effective only for the remainder of 2004.**

WPTF requests that the Procedure should be effective only for the remainder of 2004 and that further deliberations on the methodology for ensuring local reliability should be concluded before next summer. WPTF states, *"While 2005*

*does not constitute a long-term horizon, it is long enough to develop a procedure that does not have negative impacts on the market ... (and) our concerns about transparency and the procurement process SCE takes should be resolved before the next summer peak load season."*

SCE replied, "*WPTF's protest ... that the Advice Letter should be approved only through 2004 and not for 2005 to allow for further deliberations and for SCE to provide more information about the reliability costs that may be passed through to CAISO stakeholders ... should be denied*" because it is based on "incorrect assumptions" and "erroneous legal and factual premises."

SCE explained, "*The CAISO will not incur additional reliability costs as a result of D.04-07-028 or any related compliance advice filing. SCE will incur reliability costs, but its reliability costs will be paid by the customer load in SCE's service territory that is subject to SCE's FERC Reliability Service Rates.*"

We disagree with WPTF that the Procedure should be effective only until December 31, 2004. Although the Decision was issued and the Procedure was developed, primarily to address the immediate reliability concerns in SCE's service area during Summer 2004, the Decision expressly states that, "*this order will remain in effect through the earlier of year-end 2005 or the issuance of a superseding order or orders addressing these issues in this proceeding.*"

It would be foolhardy to provide now for the early termination of this Procedure, only to find that it becomes necessary again for Summer 2005. We agree with WPTF that the Procedure is an interim solution. As we stated in the Decision, "*[t]he long-term solutions to these problems will be found in market design changes and the resolution and implementation of resource adequacy issues in this ongoing docket.*" Nonetheless, it would be premature to terminate the Procedure before longer-term solutions have been developed. Thus, we maintain the December 31, 2005 termination date.

## **DISCUSSION**

Energy Division has reviewed SCE AL 1813-E. Discussion of the relevant facts that lead to the approval of this advice letter with modifications is below.

**Pursuant to D.04-07-028, SCE and the ISO have agreed to use the Procedure to commit and schedule needed local area generation under SCE's control in the ISO's day-ahead market.**

Using this Procedure, the ISO will create local-area Capacity Commitment Tables that establish the minimum on-line capacity needed from designated units that 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.

We find that the Procedure should be modified to specify that the Capacity Commitment Tables shall be made available on CAISO's website to all market participants in a timely nondiscriminatory manner.

**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 into its day-ahead planning process. SCE will submit balanced day-ahead schedules to the ISO that include the required minimum commitment of designated units.

These activities should result in reducing must-offer waiver denials by the ISO, payment of minimum load cost compensation by the ISO, and a reduction in unscheduled energy that must be sold in the ISO's real-time market with a corresponding reduction in the ISO's real-time re-dispatch burden.

**The Advice Letter seeks Commission confirmation that the Procedure: (1) complies with the Commission's directives in D.04-07-028, (2) that the activities and transactions described in the Procedure are deemed part of SCE's approved procurement plan, and (3) that the activities described in the Procedure establish the AB 57 upfront achievable standards and criteria under which SCE shall conduct local area reliability commitment and dispatch under its approved procurement plan.**

D.04-08-027 states, “*Actions taken in furtherance of the directives of this order (D.04-07-028) are deemed consistent with the utilities’ already approved short-term procurement plan and thereby subsumed within the protection provided by AB 57.*”

According to the Decision, the ISO increasingly has had to manage congestion and otherwise address location-specific operating requirements in SCE’s service area in real time, rather than in the day-ahead time frame. Transmission congestion arises in SCE’s service area due, in part, to scheduling of resources that are not deliverable to load. Such scheduling practices pose operational difficulties for the ISO and concerns affecting reliability, particularly during summer months. The ISO has had to re-dispatch the system to make up for non-deliverable resources scheduled or procured. Additionally, the ISO has had to deny must-offer waivers for some generating units.

We concur with SCE that this Procedure will reduce the ISO’s real-time re-dispatch burden and issuance of must-offer waiver denials. We also agree that the Procedure complies with the directives of the Decision in that the ISO is providing load-serving entities with the information they require to procure and schedule resources in a manner that supports reliable grid operations.

Therefore, we recognize that the local area reliability unit commitment and dispatch activities described in the Procedure are deemed consistent with SCE’s already approved procurement plan. However, as noted above, SCE should aggressively work with the CAISO to develop and file its anticipated companion advice letter addressing procurement issues in order to be in full compliance with the Decision.

**The Advice Letter seeks Commission confirmation that 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 ERRRA proceeding, to the extent such costs are not first recoverable through FERC-jurisdictional rates.**

The Decision states that, “*Utilities may recover costs incurred for reliability purposes consistent with this order (D.04-07-028)... the IOU’s already have in place a mechanism by which they may recover reliability-related costs through their FERC-jurisdictional tariffs... We (Commission) expect IOUs to attempt to recover appropriately allocated reliability-related costs through their FERC Reliability Services tariff provisions. If*



*utilities are denied recovery through this channel, utilities may seek cost recovery in the appropriate ERRA proceeding."*

Although, through this Advice Letter, SCE seeks confirmation to recover "all" reliability-related procurement costs, the Decision's precise wording is stated above. The Advice Letter, page 6, should be modified accordingly to delete the word "all" in reference to cost recovery of reliability-related procurement costs.

SCE is seeking 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 1810-E filed with the Commission on July 22, 2004.

Additional confirmation, through approval of this Advice Letter, of SCE's ability to recover reliability-related procurement costs is not necessary, since this issue was already addressed in D.04-07-028.

**SCE states that the Procedure will become effective upon SCE's receipt of written approval from the Commission's Energy Division and shall terminate on December 31, 2005, unless extended by Commission order.**

Pursuant to the terms in the Procedure, either the ISO or SCE may terminate this Procedure at any time by giving the other party five days advance written notice.

On August 5, 2005, Energy Division staff verbally notified SCE that the Energy Division does not have the authority to approve the Procedure pending the Commission's approval. However, the Energy Division recommends that in light of the ISO's urgent need for the Procedure, SCE should try to use it as soon as the ISO is ready to implement it. The Procedure shall become effective upon the effective date of this Resolution.

As noted above, we disagree with WPTF that the Procedure should be terminated December 31, 2004. Rather, the Procedure shall be effective until December 31, 2005, unless terminated earlier, or extended by a subsequent Commission order.

The Advice Letter and the Procedure must be modified accordingly.

**In its comment letter dated July 30, 2004, PG&E requested that the Commission make clear that approval of this Procedure does not set a precedent for PG&E.**

PG&E explained, *“Local reliability constraints in PG&E’s territory are typically managed through RMR contracts.”* PG&E stated, *“To date, the CAISO has not identified any problems and has confirmed that it would like PG&E to continue with its current least cost dispatch practices.”*

To the contrary, D.04-07-028 states, *“... congestion concerns are not limited to the SCE area. In support, CAISO says that approximately 32 areas of problematic congestion may exist on the grid in the near future, including areas in Northern California.”* Regarding reliance on RMR contracts, the Decision states, *“it is our intention and desire to minimize the use of RMR contracts through IOU scheduling, procurement and comprehensive planning. The Commission believes that consumers are better served from both a cost and reliability perspective through a proactive planning, procurement and scheduling approach.”*

We recognize that the procedures and processes each utility develops to implement D.04-07-028 needs to be specific to each IOU. Although this specific Procedure developed jointly by SCE and the ISO addresses immediate concerns in SCE’s service territory, all the utilities are encouraged to aggressively and proactively assist the ISO to minimize short-term congestion concerns in their service territories and develop long-term strategies to improve market design and operation.

## **COMMENTS**

Public Utilities Code section 311(g)(1) generally requires resolutions to be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(3) provides that this 30-day period may be reduced or waived pursuant to Commission adopted rule.

The 30-day comment period for this Resolution has been reduced in accordance with the provisions of Rule 77.7(f)(9). Rule 77.7(f)(9) provides that the Commission may waive or reduce the comment period for a decision when the Commission determines that public necessity requires reduction or waiver of the 30-day period for public review and comment. For purposes of Rule 77.7(f)(9),

“public necessity” refers to circumstances in which the public interest in the Commission’s adopting a decision before expiration of the 30-day review and comment period clearly outweighs the public interest in having the full 30-day period for review and comment, and includes circumstances where failure to adopt a decision before expiration of the 30-day review and comment period would cause significant harm to public health or welfare. The public necessity in this case is that the ISO needs this Procedure urgently to reliably manage the grid.

SCE’s ability to effectively assist the ISO during this summer 2004 requires that the Commission have an opportunity to act on this advice letter as soon as possible. Failure to adopt the Procedure promptly could cause significant harm to public health or welfare.

Thus, pursuant to Rule 77.7(f)(9), we provide for a shortened comment period.

No comments were filed on this Resolution.

## **FINDINGS**

1. SCE and the ISO jointly developed the Local Area Reliability Unit Commitment and Dispatch Procedure.
2. The Procedure describes 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.
3. The Procedure complies with the Commission’s directives in D.04-07-028.
4. SCE must aggressively work with the CAISO to develop and file its anticipated companion advice letter addressing procurement issues in order to be in full compliance with the Decision.
5. The activities and transactions described in the Procedure are consistent with SCE’s approved procurement plan.
6. The activities described in the Procedure establish the AB 57 upfront achievable standards and criteria under which SCE shall conduct local area reliability commitment and dispatch under its approved procurement plan.
7. Consistent with D.04-07-028’s suggestion, SCE will seek recovery of the additional reliability-related costs in an ERRA proceeding, to the extent such costs are not first recoverable through FERC-jurisdictional rates.

8. The Procedure shall become effective upon the effective date of this Resolution.
9. The Procedure shall terminate on December 31, 2005, unless terminated earlier, or extended by a subsequent Commission order.
10. SCE Advice Letter 1813-E was timely protested by the Western Power Trading Forum. WPTF's protest is resolved as described herein.
11. In this case, public necessity warrants providing for a comment period of less than 30 days.

**THEREFORE IT IS ORDERED THAT:**

1. The request of SCE, in its Advice Letter 1813-E, to file the Local Area Reliability Unit Commitment and Dispatch Procedure developed jointly with the CAISO, is approved with modifications.
2. The Procedure shall be modified to delete reference to Energy Division's written approval, and to reflect its approved effective date.
3. The Procedure shall be modified to reflect its approved termination date of December 31, 2005, unless terminated earlier, or extended by a subsequent Commission order.
4. The Procedure should be modified to specify that the Capacity Commitment Tables shall be made available on CAISO's website to all market participants in a timely nondiscriminatory manner.
5. SCE shall aggressively work with the CAISO to develop and file a procurement advice letter, as referred to in the Procedure, to be in full compliance with the directives of D.04-07-028 and consistent with SCE's approved procurement plan.
6. The Advice Letter, page 6, shall be modified to delete the word "all" in reference to cost recovery of reliability-related procurement costs.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on <DATE>; the following Commissioners voting favorably thereon:

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STEVE LARSON  
Executive Director