

owns, operates, or controls transmission [and] that . . . is a member of an existing transmission entity that the Commission has found to be in conformance with the Order No. 888 eleven ISO principles . . . [is] required to make a filing no later than January 15, 2001, that (1) explains the extent to which the transmission entity in which it participates meets the minimum characteristics and functions of an RTO; (2) proposes to modify the existing institution to become an RTO; or (3) explain[s] efforts, obstacles and plans with respect to conforming to these characteristics and functions.²

The instant filing explains the CAISO's efforts and plans with respect to conforming to the Order No. 2000 characteristics and functions, and the challenges yet to be overcome before a constructive, detailed RTO proposal can be filed with the Commission.

Efforts and Plans

Over the past months, the CAISO has devoted substantial resources to two areas. First, the CAISO has filed extensive comments and analyses on the Commission's proposals for redesigning and correcting California's electricity markets, and has devoted a high level of effort to implementing market redesigns ordered by the Commission over the past year. These efforts, which are ongoing, include the congestion management system redesign, uniform transmission access charge negotiations with other California parties, developing improved market monitoring and mitigation mechanisms, developing interconnection standards, and addressing governance and independence concerns, among others. Second, the CAISO has undertaken a major effort to

² Order No. 2000, *FERC Stats. & Regs., Regs. Preambles* ¶ 31,089 at 31,223.

identify areas in which it does not yet conform to the characteristics, functions, and other criteria required for RTO status under Order No. 2000, and to develop plans to bring the CAISO into full conformance as quickly as possible. As it has turned out, these two areas have dovetailed almost completely: the CAISO has concluded that, upon completion of the market redesign and correction tasks that the Commission has already ordered, it will fully conform to all of Order No. 2000's requirements.

The CAISO has over the past few months also presented to other interested parties in the West the general outline of a proposal to enlist their cooperation in the formation of a broader regional organization (a "Western RTO") that would provide for coordination among the CAISO and other electric systems in the West. As envisioned, the Western RTO would permit open, non-discriminatory transmission access at non-pancaked transmission rates throughout the region. It would use a tiered, hierarchical structure to accommodate the diversity of electric systems in the West. The Western RTO itself would be the umbrella organization responsible for functions within the Commission's jurisdiction to promote reliable and unfettered transmission access and coordinated planning, through common rules to facilitate trading throughout the region; its member entities, such as the CAISO, would function largely independent of the umbrella organization to meet the particular needs and circumstances of their portions of the region, consistent with RTO standards and requirements. In this way, consumers, and those producing and purchasing electricity to serve them, will have at their disposal locally-based institutions

designed to serve their needs, as well as access to economical electric power from suppliers throughout the region. The CAISO expects to continue to discuss the prospects for a broad Western RTO with other interested parties, including California state officials and policy makers.

The CAISO recognizes that it may be some time before a Western RTO of full regional scope – whether formed through implementation of the CAISO’s vision or otherwise -- becomes a reality. The CAISO accordingly believes that it and the other transmission organizations that have been proposed for other portions of the West will have to focus on the creation, to the extent possible, of mechanisms to reduce existing barriers to trading between sub-regions of the West before the creation of a fully functioning Western RTO can be realized.

As mentioned above, once the CAISO has implemented reforms already ordered by the Commission, it will be in full compliance with Order No. 2000’s RTO requirements and able to work towards the development of an RTO that facilitates enhanced coordination among electricity markets in California and in other areas of the Western region. This is so even though a California-only RTO, while substantial in geographic scope, will still be smaller than the envisioned Western RTO. As the CAISO reforms are implemented and as other Western sub-regions make progress toward Order No. 2000 compliance, the form and scope of the Western RTO can be expanded, in partnership with other sub-regions.

Current Status and Challenges

The Commission has recognized that progress toward RTO status may be encounter challenges.³ In a separate proceeding, the Commission has recognized the difficult and sensitive nature of the CAISO's transition to an independent governance structure.⁴ The Commission has also said that state agencies and regulators have an important role to play in RTO formation, including their governance structures.⁵ In the case of the CAISO, the Commission committed to work with the State of California to formulate a governance structure that can accommodate the interests of the State, the Commission's jurisdictional requirements, and the CAISO's need for effective leadership and management.⁶ The Commission noted in that case that "[b]ecause of the complex jurisdictional issues involved and the benefits of avoiding litigation, a specified period of additional time is warranted to attempt a mutually agreeable solution" to these governance issues,⁷ which will be the bedrock upon which RTO development must rest.⁸

The CAISO encourages negotiations between federal and state authorities on the governance issues. While these negotiations may result in a satisfactory governance regime, they are not yet complete, and indeed are at a stage where filing of an RTO proposal with the Commission might be counterproductive, and would certainly be premature. Once there has been an opportunity for

³ *Id.*

⁴ *San Diego Gas & Electric Co. v. Sellers of Energy, et al.*, 93 FERC ¶ 61,294 at 62,013 (2000).

⁵ Order No. 2000, *FERC Stats. & Regs., Regs. Preambles* at 31,213.

⁶ *San Diego*, 93 FERC at 62,013.

⁷ *Id.*

governance negotiations to occur, the CAISO expects to be in a position to make a further filing to advance the development of an RTO in the West.

Conclusion

For the foregoing reasons, the CAISO requests that the Commission accept the instant submittal in satisfaction of the CAISO's January 15, 2001 filing requirement under Order No. 2000.

Respectfully submitted,

Charles F. Robinson
General Counsel
Richard L. Jacobs
Senior Corporate Counsel
The California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Telephone: (916) 608-7135
Telecopier: (916) 608-7296 (fax)

Edward Berlin
Kenneth G. Jaffe
Jamil Nasir
Swidler Berlin Shereff Friedman
3000 K Street, N.W.
Suite 300
Washington, DC 20007
Telephone: (202) 424-7500
Telecopier: (202) 424-7643

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⁸ Order No. 2000, *FERC Stats & Regs.*, *Regs. Preambles* at 31,047.