

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

<b>California Independent System Operator Corporation</b>	) ) ) )	<b>Docket No. ER16-1518-000</b>
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**MOTION FOR LEAVE TO ANSWER AND ANSWER TO PROTEST**

The California Independent System Operator Corporation (“CAISO”) hereby respectfully moves for leave to file an answer and submits its answer to the protest of the Western Power Trading Forum (“WPTF”) filed in the above-identified docket on May 19, 2016.<sup>1</sup> These proceedings concern the CAISO’s filing of proposed modifications to the CAISO tariff provisions governing the operation of the CAISO’s Energy Imbalance Market in response to issues that arose in the first year of operations. WPTF’s protest raises issues beyond the scope of this proceeding and is otherwise meritless. The Commission should disregard the protest.

**I. Background and Introduction**

On April 28, 2016, the CAISO filed proposed modifications to the CAISO tariff provisions governing the operation of the CAISO’s Energy Imbalance

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<sup>1</sup> The CAISO files this answer pursuant to Rules 212 and 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. §§ 385.212, 385.213. The CAISO requests waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to permit it to make an answer to the protests. Good cause for this waiver exists here because the answer will aid the Commission in understanding the issues in this proceeding, provide additional information to assist the Commission in the decision-making process, and help to ensure a complete and accurate record in this case. See, e.g., *Equitrans, L.P.*, 134 FERC ¶ 61,250, at P 6 (2011); *California Independent System Operator Corp.*, 132 FERC ¶ 61,023, at P 16 (2010); *Xcel Energy Services, Inc.*, 124 FERC ¶ 61,011, at P 20 (2008).

Market that would (1) revise the assignment of the allocation of the real-time congestion offset to balancing authority areas to better reflect the contribution of each balancing authority area to congestion at the interties when allocating congestion revenues; (2) provide for the CAISO, upon request of an EIM entity, to provide outage information directly to the reliability coordinator; (3) clarify that the administrative costs included in the default energy bid and start-up cost and minimum load cost calculations for an EIM market participant should be the EIM administrative charge and not the grid management charge; (4) specify the treatment of e-tags for imports and exports included in base schedules; (5) provide for the development of appropriate market rules prior to the implementation of economic bidding at EIM external interties; (6) provide for real-time local market power mitigation of EIM transfers on EIM internal interties; and (7) include greater tariff detail regarding calculation of the marginal losses component of the locational marginal price.

Fifteen parties submitted motions to intervene.<sup>2</sup> Two parties submitted supportive comments.<sup>3</sup> Only WPTF filed a protest. WPTF asks the Commission to direct the CAISO to begin a stakeholder process in order to develop rules and procedures to allow external resources to bid into the Energy Imbalance Market.<sup>4</sup>

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<sup>2</sup> Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California; Arizona Public Service Co.; Bonneville Power Administration; California State Department of Water Resources; Modesto Irrigation District; Northern California Power Agency; Pacific Gas and Electric Company; PacifiCorp; Portland General Electric Co.; Puget Sound Energy, Inc.; Sacramento Municipal Utility District; Cities of Santa Clara and Redding, California; Southern California Edison Co.; Truckee Donner Public Utility District; and WPTF.

<sup>3</sup> PacifiCorp and Southern California Edison Company.

<sup>4</sup> WPTF Protest (“WPTF”) at 5.

## II. Answer

As an initial matter, it is important to recognize that WPTF has not actually protested the CAISO's filing. WPTF asserts that it "is compelled to protest one aspect . . . , namely the CAISO's proposal to effectively prohibit third party bidding at the EIM interties without any workable intention or timeline for changing this policy."<sup>5</sup> Yet, WPTF also states that it supports the CAISO's goal and "does not take issue with the CAISO's maintaining responsibility for developing a new Energy Imbalance Market policy in this area rather than promoting the development of one-off interties bidding policies by EIM Entities." In other words, WPTF's only objection is to something the CAISO did not do—establish a schedule for a stakeholder process on economic intertie bidding. That is not a protest to what the CAISO did file, and this section 205 proceeding is not the proper vehicle for raising such an objection. In any event, WPTF has failed to demonstrate that the CAISO proposal is unjust and unreasonable without an established schedule for a stakeholder process on economic intertie bidding.<sup>6</sup>

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<sup>5</sup> *Id.*

<sup>6</sup> Economic bidding at EIM external interties should not be confused with the qualification of EIM participating resources through a pseudo-tie or a resource specific dynamic system resource as recently directed by the Commission. *See Arizona Public Service*, 155 FERC ¶ 61,112 (2016) at PP 70-84. Pseudo-ties, which the Energy Imbalance Market supports, as well as resource-specific dynamic schedules, which the Energy Imbalance Market will support, may both submit economic bids. However, such participation is not the same as enabling the fifteen-minute market on an intertie. Fifteen-minute market intertie bidding is different because, unlike the other examples of EIM participation, the bids do not need to be directly tied to a resource. Resource-specific dispatch is a key attribute of the Energy Imbalance Market and a reason that its framework currently provides for participation only in association with an EIM entity balancing authority area consistent with its rules for qualification as an EIM participating resource.

**A. The CAISO Has Provided Stakeholders with Ample Explanation of Its Position on Economic Bidding at External Interties.**

WPTF contends that the CAISO has changed its position on economic intertie bidding significantly in the past two years and has not adequately explained the change of position.<sup>7</sup> It is true that the CAISO's position has changed over time as it has gained experience with the Energy Imbalance Market. The CAISO has been fully transparent in its consideration of this matter. That the CAISO has identified legitimate issues that warrant further evaluation before allowing an EIM entity to enable economic intertie bidding is an example of a market administrator's exercise of its responsibilities, not a basis for criticism.

WPTF is correct that the CAISO has in the past expressed a belief that economic intertie bidding would increase liquidity, but the CAISO has never finally concluded that this belief suffices to mandate economic bidding at the interties. In the Year 1 Enhancement Draft Final Proposal to which WPTF refers,<sup>8</sup> the CAISO expressed its belief that it would be appropriate to require EIM entities to implement bidding at the interties after one year of operations, but made that statement in the context of stating, "The ISO included fifteen-minute intertie bidding in Phase 2 *to allow additional discussion with stakeholders.*"<sup>9</sup> As the CAISO noted in its transmittal letter, it did in fact present this matter for

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<sup>7</sup> WPTF at 6.

<sup>8</sup> *Id.* at 6 n.6.

<sup>9</sup> [Draft Final Proposal](#) at 19 (emphasis added).

stakeholder consideration. While WPTF supported pursuing this change for reasons presented in its protest, EIM entities expressed concern about a requirement that they enable economic bidding on their interties without understanding all of its implications.<sup>10</sup> PacifiCorp stated, for example:

PacifiCorp . . . submits that EIM entities should maintain discretion to allow or disallow FMM economic participation on their own external interties given the interaction between [balancing authority areas] as well as the operational or scheduling characteristics of each EIM entity's [balancing authority area] configuration. For example, [balancing authority areas] which do not have contiguous transmission systems may have other [balancing authority areas] or transmission service providers interspersed within or around their transmission systems (as PacifiCorp has with Bonneville Power Administration). In such cases, the evaluation of economic participation at the EIM entity's external interties must also take into account how intertie energy will flow over the interconnected transmission system and whether appropriate transmission arrangements are in place to account for these flows. Accordingly, such an evaluation is an inherently unique exercise and must take into account the specific circumstances affecting the EIM entity. As such, it would not be appropriate to require each EIM entity to facilitate economic participation at its external interties, without providing the EIM entity the opportunity to make its own evaluation of the feasibility of such a market expansion.<sup>11</sup>

Puget Sound Energy stated:

PSE also notes that the most significant issues associated with external participation are not based on EIM [balancing authority areas] themselves, but instead involve non-EIM [balancing authority area] transmission owners. More clarity regarding the ability of EIM participants to use transmission rights purchased under the applicable OATT in non-EIM [balancing authority areas] is an essential component of expansion of bidding at external interties, and more generally in making the EIM as effective as possible. PSE believes that the ability of transmission customers on non-EIM transmission systems to use their reservations for EIM transfers

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<sup>10</sup> Stakeholder's comments are included here to illustrate their individual positions in the stakeholder process – not to suggest that the CAISO agrees with the assertions.

<sup>11</sup> [PacifiCorp comments](#) at 5.

should not be restricted, and will continue working with CAISO to clarify the role of non-EIM transmission systems in the EIM. Given the complexities of market implications and the newness of the market, PSE supports maintaining external intertie bidding as an option that EIM Entities have the opportunity to elect.<sup>12</sup>

NV Energy pointed out that any proposal to mandate bidding at the interties should take into account the state regulators of current and future EIM entities.<sup>13</sup> These regulators had not weighed in when it came time for the CAISO to finalize its proposal.

Since that time, an Energy Imbalance Market body of state regulators has been organized. This matter could certainly be further considered by that body or the EIM governing body.<sup>14</sup> WPTF will have an opportunity to present its concerns to these bodies, which allow all interested stakeholders to provide input during regular open meetings. The CAISO's proposal simply ensures that identified concerns are addressed before the CAISO will approve an EIM entity request to implement economic bidding on its EIM external interties. The CAISO market initiative roadmap as discussed below coupled with the Energy Imbalance Market governance process are the best fora to consider resolution of this matter.

In addition, as the CAISO noted in its transmittal letter, a stakeholder workshop in October 2015 provided evidence that the quantity of supply willing to

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<sup>12</sup> [Puget Sound Energy comments](#) at 3-4.

<sup>13</sup> [NV Energy comments](#) at 1-2.

<sup>14</sup> The CAISO anticipates that a slate of EIM governing body candidates will be presented to the CAISO Board of Governors at its June 2016 meeting; however, this remains subject to the timing of the [overall EIM governance implementation effort](#).

be scheduled on a fifteen-minute basis is limited.<sup>15</sup> The difficulty of incorporating transaction costs into energy bids would discourage bidding.

The CAISO took all of these comments and considerations into account in its decision to undertake further stakeholder consideration before any imposition of mandatory allowance of bidding at the interties. All of these comments were in public fora. There is no basis for WPTF to claim an inability to understand the CAISO's basis for its decision.

**B. The Value of Economic Bidding at the Interties Is Not at Issue in this Proceeding.**

WPTF asserts that the CAISO intends to forbid intertie bidding forever and has not justified its position, which WPTF argues will have extensive negative consequences. WPTF is wrong on all points.

**1. The CAISO Has Not Proposed to Prohibit Economic Bidding at the Interties.**

WPTF argues that in light of what it contends is the CAISO's ineffective recurring stakeholder initiatives catalog process,<sup>16</sup> which the CAISO will discuss below, the Commission's failure to mandate a stakeholder process would effectively approve "the CAISO's intention to forever prohibit economic participation at the EIM external interties."<sup>17</sup> It then argues that the CAISO has not demonstrated the need to prohibit such bidding.<sup>18</sup>

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<sup>15</sup> WPTF has not provided any study results or other information that there would be more liquidity on EIM entity external interties than on CAISO scheduling points.

<sup>16</sup> See [Stakeholder Initiatives Catalog Process](#).

<sup>17</sup> WPTF at 10.

<sup>18</sup> *Id.*

The CAISO has not, however, proposed to prohibit economic bidding at the interties. The CAISO tariff has provided for economic bidding on EIM external interties from the beginning of the Energy Imbalance Market; however, there is currently no economic bidding at the interties because no EIM entity has requested that the CAISO enable it.<sup>19</sup> The CAISO's proposal does not preclude such requests. Rather, it simply requires the development of rules and procedures as a prerequisite for implementing economic bidding at the interties due to identified concerns, which WPTF agrees need to be resolved, before it can grant such requests.

## **2. The CAISO Has Justified Its Decision Not To Mandate Economic Bidding at the Interties at this Time.**

Even though the CAISO is simply maintaining the status quo, it explained in its transmittal letter why it is not proposing mandatory allowance of economic bidding at the interties at this time. It explained the stakeholder concerns expressed above. It also explained that it does not currently calculate default energy bids—which play a significant role in settlements—for fifteen-minute exports and imports. Default energy bids are necessary for the operation of the available balancing capacity mechanism for avoiding price excursions because the CAISO currently cannot mitigate a \$1000 bid or a negative \$150 bid, which could set the locational marginal price at the power balance constraint relaxation parameter price.

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<sup>19</sup> An EIM entity would need to inform the CAISO that they would like to enable FMM bidding on their EIM external interties regardless of the CAISO's proposed change.



WPTF challenges stakeholder concerns about economic intertie bidding by arguing that the challenges of bidding in the fifteen-minute timeframe do not prohibit the CAISO from initiating a stakeholder process to address these concerns.<sup>20</sup> But the CAISO made no such claim. The CAISO stated that it will conduct a further stakeholder process at the appropriate time;<sup>21</sup> it was merely unwilling to commit to a date certain in light of potential competing concerns.

WPTF then challenges the need for default energy bids on the basis that there has been no demonstration of market power at the EIM external interties.<sup>22</sup> The CAISO has, however, implemented market mitigation at EIM internal interties and the Commission has to date found that EIM entities have market power in their EIM balancing authority areas. Under such circumstances, the CAISO needs to mitigate the external interties in order to avoid undermining the available balancing capacity function.<sup>23</sup>

As the Commission is aware, the EIM is an extension of the ISO's real-time market and built upon the existing market mechanisms. Within the CAISO balancing authority area, economic bids at intertie scheduling points in the

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<sup>20</sup> *Id.*

<sup>21</sup> This question was considered by the CAISO in this stakeholder process as recently as the fall of 2015.

<sup>22</sup> *Id.*

<sup>23</sup> Separately and simultaneously, the CAISO was developing the available balancing capacity ("ABC") proposal. When developing that proposal, the CAISO highlighted that the last mitigated bid would set the price in the event of a shortfall. See *Cal. Indep. Sys. Operator Corp.*, 153 FERC ¶ 61,305 (2015) (December 17 Order). This could only be maintained with fifteen-minute market economic bidding if the CAISO had the ability to mitigate those bids. Otherwise, a single import bid at the cap or a single export bid at the bid floor would cause ABC pricing to be set at the bid floor/bid cap because the parameter price sets the price for ABC. This is an issue that must also be considered so long as there are EIM entities that are not internally competitive.

fifteen-minute market are not subject to market power mitigation procedures; the ISO balancing authority area is deemed competitive in that market because resource adequacy resources have must offer obligations from resources shown to meet load serving entities' resource adequacy requirements. In addition, the ISO has the residual unit commitment process, which allows the ISO to require that resources bid into the real-time market in the event that demand cleared through the integrated forward market is less than the ISO's forecast of demand. No default energy bids are required for real-time import bids at CAISO external interties because market power mitigation is not triggered based on the shadow price of the system power balance constraint, the only power balance constraint that elevates CAISO prices. CAISO, and the system as a whole, are deemed competitive by default. In contrast, market power mitigation is triggered based on the shadow price of each EIM balancing authority area's specific power balance constraint. Each EIM area is thereby tested for market power. Bids on external interties would contribute to the determination of whether or not the EIM area was competitive. Therefore, they would need to be mitigated if the EIM area was determined to be non-competitive. This distinguishes the real-time market in the CAISO balancing authority area from its extension to EIM entity balancing authority areas. Such differences would need to be reconciled for purposes of market power mitigation before enabling economic bidding on EIM external interties.

WPTF also contends that including flexible schedules instead of base schedules should not interfere with the function of the full network model.<sup>24</sup> The problem with this suggestion is that the CAISO must maintain consistency between the day-ahead and real-time with respect to how all interties are modeled and priced. EIM external interties use the pricing model that was developed for the full network model expansion project, phase 2, where the scheduling point is the aggregation of supply resources in the source or sink external balancing authority area for imports or exports, respectively. This was necessary to accurately model the energy flow through the EIM balancing authority areas for effective congestion management. As a result, the price at EIM external interties is the aggregate locational marginal price of the supply resource locations in the external balancing authority area, plus price components introduced by the intertie to the EIM balancing authority area, such as the EIM balancing authority area power balance and EIM transfer constraint shadow prices and the marginal greenhouse gas regulation cost. However, this model has not yet been implemented for CAISO interties, where the scheduling point is at the far end of the intertie, rather than at the aggregate supply location of the external balancing authority area, resulting in pricing inconsistency between EIM external and CAISO interties. Currently, this pricing inconsistency is immaterial because there is no settlement for base schedules at EIM external interties. Only operating adjustments to these schedules that are not the result of the market are settled. The CAISO does not have a mechanism to ensure

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<sup>24</sup> WPTF at 10-11.

consistency between the pricing at CAISO and EIM external interties, if economic EIM external intertie bidding were enabled.

Finally, WPTF complains about the CAISO's allegedly "ill-defined problem of possibly ' . . . shift[ing] flows to some interties.'"<sup>25</sup> WPTF, however, misses the fact that the CAISO cited this concern as an issue if one, but not other, EIM entities allowed economic bidding at the interties. WPTF does not challenge the CAISO's decision to abandon the existing discretionary authority for EIM entities to implement such bidding in the absence of uniform rules. This has nothing to do with the schedule for the development of rules to govern economic bidding at the interties.

**3. The Lack of Economic Bidding at External EIM Interties Is Not Interfering with Resource Transactions Throughout the Western Interconnection.**

WPTF points out that there remain many seams issues among Western balancing authority areas and regional markets and argues that, if the CAISO does not completely open its markets to economic EIM external intertie participation, the West's balancing authorities and regional markets will continue to be sub-divided into Energy Imbalance Market factions and non-Energy Imbalance Market factions in a geographical/topological fashion that disregards whether the Energy Imbalance Market consists of contiguous areas or disparate hubs and spokes. As a result, the non-Energy Imbalance Market factions will be marginalized.<sup>26</sup> WPTF cites no data or factual support for the contention that the

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<sup>25</sup> *Id.* at 11.

<sup>26</sup> *Id.* at 7.

lack of economic bidding at the interties contributes to these seams. Contrary to WPTF's suggestion, the lack of economic bidding at the EIM external interties is not a significant contributor.

WPTF asserts that limiting market participants to making hourly transactions on a bilateral basis, regardless of their resource characteristics, limits the pool of flexible capacity resources capable of integrating variable energy resources at least cost or relieving congestion in the Energy Imbalance Market; an outcome that seems diametrically at odds with the CAISO's current market needs given its periodic oversupply conditions and the shortage of flexible capacity witnessed in the CAISO's balancing authority area and, at times, in those of the EIM entities. Economic bidding at the interties will not, however, resolve these issues. Addressing resource sufficiency and flexibility requires resource-specific dispatch. Economic bids on EIM external interties do not provide necessary resource characteristics.

WPTF notes that, prior to the Energy Imbalance Market a party could procure transmission through a transmission provider's Open Access Transmission Tariff, schedule its transfers up to 20 minutes in advance of the flow hour, and for the most part have firm, price-certain transport of energy to or from the counterparty with whom they transacted. With the Energy Imbalance Market, however, a third party must submit a financially binding base schedule to the Energy Imbalance Market at 57 minutes before the hour, well in advance of the time requirements of the Western Energy Coordinating Council. WPTF contends that this disconnect has begun to severely limit hourly and sub-hourly

resource transactions and optimizations across the West, effectively forcing the overall market timeline for completing and scheduling the transactions to be pushed back as much as an hour. According to WPTF, especially for variable energy resources in a bilateral market balancing authority area, committing to deliver a firm hourly schedule to an Energy Imbalance Market party at 57 minutes before the hour is highly costly and inefficient as the forecast error for variable resources increases significantly the further out the estimate is made.<sup>27</sup> This simply is not true. As an initial matter, consistent with Order No. 764,<sup>28</sup> the tariff allows fifteen-minute schedule changes until 37.5 minutes prior to each interval. Moreover, in the CAISO's experience, variable energy resources do not commit to firm hourly schedules. There is no basis for concluding that economic bidding at the external EIM interties will change that fact.

WPTF further points out that third parties are subject to congestion charges within the EIM party's balancing authority area at a cost that is essentially entirely outside their control, which drives up the cost of power, prohibits efficient price formation, and reduces the Energy Imbalance Market and bilateral market liquidity.<sup>29</sup> This is not an issue resolved by economic bidding at the interties. The inefficiencies of congestion exist independently of the Energy Imbalance Market mechanisms. The Energy Imbalance Market simply makes

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<sup>27</sup> *Id.* at 7-8.

<sup>28</sup> The CAISO notes that the Commission has already addressed this issue and found it just and reasonable to incorporate congestion charges in the locational marginal prices for interchange transactions. *Nevada Power*, 151 FERC ¶ 61,131 at P 162 (2015).

<sup>29</sup> *Id.* at 8.

the inefficiencies more transparent and assigns cost-responsibility where it belongs. The absence of economic bidding at the EIM external interties is not the cause of such inefficiencies.<sup>30</sup>

The CAISO understands that WPTF makes these assertions in an effort to further its position, but this simply is not the forum for addressing broader issues that may exist in the Western Interconnection. That would require much wider participation than represented in this proceeding. The CAISO will continue its regional coordination and collaboration efforts with all interested stakeholders to enhance the options and benefits of participation in the Energy Imbalance Market, but the interested stakeholders, not just WPTF, should set the priorities for such an effort.

**C. WPTF's Criticisms of the CAISO's Initiative Scheduling Process Are Unjustified.**

Underlying WPTF's arguments is a complaint that the CAISO's stakeholder initiative catalog process is not sufficiently responsive to stakeholder needs and that the Commission should step in and dictate the CAISO's priorities. This is neither WPTF's nor the Commission's role.

As an independent entity, the CAISO must determine the best use of its resources. The market initiatives roadmap process administered by the CAISO is open to all stakeholders and is a transparent process to allocate scarce resources. The first and most important consideration is operating its markets in

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<sup>30</sup> See generally, *Nevada Power*, 151 FERC ¶ 61,131 at PP 134-164 (addressing WPTF's and others' concerns with respect to the differences in timing between the bilateral market and the CAISO market).

compliance with its tariff and Commission orders. While stakeholders can provide input into initiatives for market improvements, the CAISO cannot delegate its responsibility to make such decisions to its stakeholders without violating independence requirements.

The CAISO will shortly be seating an EIM governing body as noted above. WPTF can work with that body, the body of state regulators, and the associated EIM participant forum to promote its positions. The CAISO proposal does nothing to interfere with WPTF pursuing these options. What the Commission should not allow WPTF to do is to appropriate the Commission's tariff revision proceedings in order to short-circuit the EIM stakeholder process.

### **III. Conclusion**

For the reasons explained above and in the ISO's April 28, 2016 filing in these proceedings, the Commission should accept the proposed tariff revisions as filed and without condition.



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Dated: May 27, 2016

## CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for the above-referenced proceeding, 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., this 27th day of May, 2016.

/s/ Daniel Klein  
Daniel Klein