

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

California Independent System Operator Corporation))))	Docket No. ER13-1060-000
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**MOTION FOR LEAVE TO FILE ANSWER AND ANSWER OF
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

The California Independent System Operator Corporation (“ISO”) hereby submits this this Motion for Leave to Answer and Answer to the protest filed by the Western Power Trading Forum (“WPTF”) and to the Comments filed by Southern California Edison Co. in this proceeding on March 29, 2013.¹ WPTF filed its protest in response to the ISO’s proposed tariff amendment that reduces the real-time transmission congestion relaxation parameter, *i.e.*, the point at which the ISO will relax a transmission constraint rather than rely on increasingly expensive and ineffective supply bids to resolve congestion, from \$5,000 per megawatt-hour to \$1,500 per megawatt-hour. The ISO seeks to file this answer in order to bring the Commission’s attention to the incomplete assertions and erroneous contentions included in WPTF’s protest. The ISO also responds to Edison’s request that the Commission condition the ISO filing to a requirement that the ISO address certain issues outside the scope of this proceeding.

The proposed modification is an important step towards ensuring the ISO market participants incur reasonable congestion management costs. Of the

¹ The ISO submits this filing pursuant to Rules 212 and 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. §§ 385.212 and 385.213 (2012).

fourteen parties that intervened in this proceeding, WPTF stands alone in its protest.² All other intervening parties, including Edison, wholly support the ISO's proposal and urge the Commission to accept it. The ISO explains below that the conditions requested by Edison are outside the scope of this proceeding and that the Commission should leave to the ISO and its stakeholders to address through the ISO stakeholder process. The ISO respectfully requests that the Commission accept the ISO's filing and allow it to continue with its current stakeholder efforts to address the issue raised by Edison along with other market issues it has identified and prioritized with its stakeholders.

I. MOTION FOR LEAVE TO FILE ANSWER

Rule 213(a)(2) of the Commission's Rules of Practice and Procedure generally prohibits answers to protests.³ The Commission has accepted answers that are otherwise prohibited if such answers clarify the issues in dispute⁴ and where the information assists the Commission in making a decision.⁵

As discussed below, WPTF's protest includes incomplete assertions and erroneous contentions. The ISO believes that its clarifications provided below will assist the Commission's understanding of the issues the ISO seeks to address

² Fourteen parties intervened in this proceeding. Six parties filed supporting comments: California Department of Water Resources State Water Project; California Municipal Utilities Association; Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California; Northern California Power Agency; Pacific Gas and Electric Company; and Southern California Edison Company. Only WPTF filed a protest.

³ 18 C.F.R. § 385.213(a)(2) (2012).

⁴ See *Southwest Power Pool, Inc.*, 89 FERC ¶ 61,284 at 61,888 (1999).

⁵ See *El Paso Electric Co., et al. v. Southwestern Pub. Serv. Co.*, 72 FERC ¶ 61,292 at 62,256 (1995).

with this tariff amendment. The ISO therefore requests that the Commission accept this answer.

II. BACKGROUND

In its filing, the ISO proposed to revise the real-time transmission constraint relaxation parameter in response to a dramatic and sustained increase in real-time congestion offset costs. The real-time congestion offset cost is an account that records the difference between the ISO's real-time congestion payments to generators and its real-time congestion charges to load, primarily caused by transmission constraints that appear in real-time, but that the ISO software did not anticipate in the day-ahead market.

The transmission constraint relaxation parameter establishes the cost threshold at which the market software will relax an internal transmission constraint in order to avoid expensive and ineffective market solutions. A reduction in the transmission constraint relaxation parameter will reduce the costs of addressing real-time congestion and thus moderate the real-time congestion offset costs.

During and subsequent to the stakeholder process on this proposed amendment, the ISO performed extensive analyses of the effect of a lower real-time transmission constraint relaxation parameter on its ability to operate the market and manage congestion effectively and efficiently. The analyses showed that a reduction in the parameter to \$1500 would produce significant savings (up to 36 percent) and with only a marginal reduction in effectiveness of resources bid into the market to relieve congestion. The fact that the reduction in effectiveness

is *de minimis* also means that the reduction to \$1500 would not negatively affect reliability. That is, by lowering the parameter the ISO would not be forgoing a significantly more enhanced market solution. For these reasons, the ISO proposed in its amendment to set the real-time transmission constraint relaxation parameter at \$1500 per megawatt hour.

III. ANSWER TO PROTEST

WPTF contends that the ISO “fails to support why the \$5,000[/]MWh relaxation point is no longer just and reasonable, nor [sic] why it is now just and reasonable to lower the transmission constraint relaxation parameter in the [real-time market] to \$1,500/MWh.”⁶ As an initial matter, it is important to stress that the ISO does not need to prove the \$5,000/MWh parameter is no longer just and reasonable. Under section 205 of the Federal Power Act, it is sufficient that the ISO demonstrate that the \$1,500/MWh parameter is just and reasonable. The ISO has provided an extensive data analysis to demonstrate that it is. In response, WPTF offers four arguments why it is not. None are supported by any analysis and none have any merit.

A. Market-Determined Costs Are Not the Only Just and Reasonable Rates.

WPTF states that the high real-time congestion offset costs are the result of real and legitimate grid needs. It contends that the ISO has not identified any

⁶ WPTF Protest at 2.

market power issues or improper bidding behavior, but makes this proposal solely to reduce redispatch costs.⁷

WPTF is essentially correct in highlighting that the proposal reduces the overall redispatch costs in the ISO market. WPTF states this as if it is a nefarious goal. While modification renders its market dispatch more efficient, the ISO's motivation is to limit the use of ineffective market solutions that come at an unjustifiable cost. The ISO's studies submitted with its filing clearly confirm that the current setting at times leads to only a very marginal improvement to congestion management solutions with a higher price tag that can be achieved at lower settings that come at a lower price tag. There should be no expectation in any competitive market that sellers make an unjustifiable profit. In a competitive market, it is sufficient that a supplier has the opportunity to recover its costs.⁸ WPTF presents no evidence, indeed no argument, that the proposed amendment will eliminate the opportunity for a supplier to recover its costs. Most notably, while the ISO recognizes that WPTF represents some of the supplier community, no other party has put forth such evidence.

The ISO's underlying premise of the ISO's operations is that the ISO will rely on market outcomes to the maximum extent reasonable. That does not require that the ISO accept inefficient market solutions. In accepting the ISO's initial proposed parameters, the Commission found that parameters were just and reasonable as they struck the proper balance between the need to ensure

⁷ *Id.* at 4-5.

⁸ See, e.g., *Bridgeport Energy, LLC*, 113 FERC ¶ 61,311 P 29 (2005).

maximum utilization of economic bids and prudent operation of the ISO's grid.⁹ It would be unreasonable to continue to require the exhaustion of all economic bids to the extent that it has to date before adjusting non-priced quantities. The determination of the level at which the parameter requires balancing the impact on load and the goal of relying on market solutions. When the factors that determine the balance change, it is appropriate to revise the parameter as long as a supplier still has a reasonable opportunity to recover its costs. Having now had the benefit of actual market experience, the ISO now is faced with significant evidence that warrants a modification of the scheduling transmission constraint relaxation parameter. WPTF has failed to provide evidence that suggests otherwise.

B. The Proposed Transmission Constraint Relaxation Parameter Is Consistent with Other Aspects of the ISO's Market Design.

WPTF further argues that the ISO's proposal undermines the Commission approved bid cap, would deprive market participants of the value of their congestion management services, and would increase the use of exceptional dispatch.¹⁰ As supported by the evidence provided by the ISO in its filing, WPTF is wrong on all points.

WPTF contends that, although the Commission has found the \$1,000/MWh bid cap to be just and reasonable, the proposed \$1500/MWh parameter would pre-empt the bid cap for very effective resources. WPTF provides an example, which it acknowledges is simplified, of a resource with a bid of \$450/MWh and an

⁹ *Cal. Indep. Sys. Operator Corp.*, 126 FERC ¶ 61,147 at P 43 (2009).

¹⁰ WPTF Protest at 5-7.

effectiveness of 25 percent. WPTF states the resource would not be dispatched because its contribution to the shadow price would be \$1800. The ISO would instead need to use exceptional dispatch, denying the resource the compensation and increasing reliance on exceptional dispatch.

WPTF's example proves nothing because of its simplification. That a unit may be very effective in isolation does not mean it is effective in addressing a constraint. As explained in great detail by Mr. Rothleder, the parameter is not triggered by one resource's contribution to the shadow price because that contribution is meaningless without information on the cost and effectiveness of the other resources being redispatched in the other direction. For example, using another simplified, but in this case helpful, example, if the redispatch required an incremental dispatch of WPTF's hypothetical unit and a decremental dispatch of another unit with 50 percent effectiveness and a \$0/MWh bid, the net cost of the redispatch would be \$600/MWh and would not trigger a constraint relaxation parameter. In fact, the \$450 incremental bid would be used to relieve the constraint even if the \$0 decremental bid was as low as -5% effective or a relative effectiveness of 30%. The resolution could well involve a dispatch of the WPTF's hypothetical unit, depending upon the relative cost and effectiveness of the other units involved in the redispatch. In the case the ISO has illustrated above the relative price difference of the resources is \$450 and the relative effectiveness is 75% and thus would result in the \$600 cost of relief.

Moreover, WPTF misunderstands the operation of the parameter. If the ISO cannot resolve a constraint at a cost below the parameter, the next step is

not exceptional dispatch. The next step is an evaluation of the constraint and potential other options including no other action if the amount of relaxation falls within the operational margin being used at the time.

Finally, in its filing, the ISO demonstrated that the impact of the new parameter on exceptional dispatch would be minimal. As Mr. Rothleder explained, the ISO's operational margin in real-time is normally set three to five percent below the actual limit of the transmission constraint to avoid having flows on transmission near the actual operating limit. The ISO's studies showed an average reduction in congestion relief of only three percent. It should not be necessary to make more out-of-market adjustments in order to ensure the ISO is operating within its reliability limits.

C. The Revised Parameter Is a Best Practice for the ISO.

Citing the relaxation prices of three other independent system operators or regional transmission organizations, WPTF asserts that the ISO's proposal is inconsistent with the "best practices" of such organizations.¹¹ This argument fails on several fronts.

First, as noted above, the issue before the Commission is whether the ISO's proposal is just and reasonable, not whether it is consistent with "best practices." The two are not equivalent and, in many cases, may be unrelated.

Second, WPTF cites only three out of four of the relaxation parameters of other organizations that the ISO described in its presentation to the ISO Board. The parameter used by the Southwest Power Pool is \$1000/MWh, less than that

¹¹ WPTF Protest at 7-8.

proposed by the ISO.¹² It is thus inaccurate to state, as WPTF does, that the ISO's proposed parameter is not comparable to those used by others.

Third, WPTF presents no evidence by which one can determine the practice that constitutes the "best practice." WPTF states that using voltage-differentiated relaxation parameters appears to be the best practice, but does not explain why. Despite the impression left by WPTF's selective citation of other parameters, it is not even the majority provision.

What constitutes a best practice depends upon the particular circumstances of a transmission system operator, not upon the practices of others. The existing \$5,000/MWh in the ISO tariff is greater than all the parameters used by the other organizations, with the exception of ERCOT's 500 kV parameter, but one would not expect WPTF to complain that the existing parameter is inconsistent with best practices.

As the ISO noted in its transmittal letter, the ISO is committed to continuing analysis evaluating the impact and appropriateness of the proposed transmission constraint relaxation parameter, including consideration of a tiered parameter that depends on the level of constraint relaxation, voltage level of constraint, or the system impact of the constraint. The ISO's systems, however, do not currently have the capability to implement such variations. That the ISO may, in its discretion, propose additional refinement in the future is not determinative of whether the current proposal is just and reasonable.

¹² See Attachment E to filing at 8.

The ISO developed and vetted its proposed parameter through extensive analysis of its impact and in consultation with stakeholders. It has the support of all but one of the parties that submitted comments in this proceeding. The ISO has demonstrated that it reduces costs with a minimum impact on congestion relief.¹³ It is thus the best practice for the ISO at this time.

D. The ISO's Proposal Protects Ratepayers While the ISO Develops and Implements Solutions to the Underlying Problems.

WPTF complains that the ISO's proposal focuses on a narrow aspect of the ISO's operations, the costs of managing congestion, while failing to address the underlying problem.¹⁴ Although WPTF states that it will discuss the alternative actions available to the ISO, it does not do so – other than vaguely suggesting that the ISO should use real-time and other tools in order to manage congestion day-ahead.

As the ISO explained in its filing, it is already evaluating the means to address other drivers of an increased congestion offset, including accounting for expected congestion when running the day-ahead market, and will continue to do so. The ISO also has described actions it has already taken and others that it plans to take to reduce real-time congestion. Having identified that the reduction of the parameter justifiably reduces the cost of real-time congestion, there is no reason to continue to subject load to extremely high real-time congestion offset costs while the ISO addresses the underlying problem. The Commission recently rejected similar arguments in the context of the ISO's mitigation of certain

¹³ See Exh. ISO-1, Testimony of Mark Rothleder, at 47-55.

¹⁴ WPTF Protest at 8-11.

exceptional dispatches that present the opportunity for the exercise of market power.¹⁵

IV. ANSWER TO COMMENTS

In addition to comments in support of the ISO's proposed modification of the transmission constraints relaxation parameter, Southern California Edison filed comments raising an issue that is outside the scope of this proceeding. In brief, Edison essentially explains that transfers of capacity between the day-ahead and the real-time market provide the opportunity for convergence bidders to make "bets against the CAISO" that lead to unreasonable uplift to load. The ISO does not respond to every assertion by Edison in this answer because Edison's raises an issue that is outside the scope of this tariff amendment. In this proceeding, the ISO simply proposes to modify the transmission constraint parameter because of the impact the current setting has had to the real-time congestion offset. It is undisputed that the reduction of the parameter will provide a more reasonable accounting of the cost and value of relaxing that constraint. The Commission should accept this change without further conditions.

The ISO understands that Edison raises issues that warrant further consideration, but they are not issues that can be addressed without careful consideration of the numerous variables that contribute to the phenomena Edison illustrates in its comments. The ISO has already taken significant measures to address a significant contributing factor – the transfer of capacity from the day-ahead to the real-time. These efforts have already been fruitful in reducing the

¹⁵ See *Cal. Indep. Sys. Operator Corp.*, 141 FERC ¶ 61,069 PP 28, 38, 43 (2012).

more expansive amounts of real-time congestion offset observed in 2012 and the ISO will continue over time to ensure that such transfers are minimized. The ISO recognizes, however, that such transfers can never be eliminated, and it is prepared to consider whether additional measures are necessary and warranted.

Edison asks that the ISO be forced to reply with a solution within three months. This request is entirely outside of the scope and unrelated to whether or not the transmission constraint parameter should be lowered to \$1,500, the sole subject of this proceeding. Therefore, it would be inappropriate for the Commission to condition its approval as such. But more importantly, dictating such a requirement would derail the ISO's current efforts to enhance its markets and procedures that are likely to reduce the very issue Edison raises. Rushing the ISO and stakeholders could lead to "solution" that may have unintended consequences, which the ISO cannot fully mitigate within three months. The ISO appreciates Edison's active participation in all of its stakeholder processes and hopes to work with Edison and other stakeholders to find the appropriate solution to any remaining issues over the next year.

V. CONCLUSION

For the reasons explained above, the Commission should accept this answer and consider it in ruling on the Motions.

Respectfully submitted,

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Dated: April 15, 2013

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each party listed on the official service list for this proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Executed at Folsom, California on this 15th day of April, 2013.

/s/ Anna Pascuzzo

Anna Pascuzzo