

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

**California Independent System
Operator Corporation**

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**Docket Nos. ER15-861-000
and EL15-53-000**

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
MOTION FOR RELIEF PENDING ORDER ON SECTION 206 PROCEEDING OR, IN
THE ALTERNATIVE, REQUEST FOR REHEARING**

The California Independent System Operator Corporation (“CAISO”) respectfully submits this motion seeking relief pending the Commission’s final order issued on March 16, 2015 in the above identified proceedings or, in the alternative, requests rehearing on a discrete aspect of the Commission’s final order.¹ The CAISO respectfully requests that the Commission revise the refund effective date established in FERC Docket EL15-53 to August 24, 2015. In addition, the CAISO respectfully requests that the Commission extend the existing waiver of sections 27.4.3.2 and 27.4.3.4 of the CAISO’s tariff initially granted by the Commission in FERC Docket No. ER15-402 to the date of the CAISO’s compliance with an order resolving the proceeding in Docket No. EL15-53. Such action is necessary to protect ratepayers from potential price spikes pending the implementation of remedial actions that will avoid such price spikes.

¹ *Cal. Indep. Sys. Operator Corp.*, 150 FERC ¶ 61,191 (2015). The CAISO files this motion or alternative rehearing request pursuant to Rule 212 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.212 (2014) and section 313 of the Federal Power Act, 16 U.S.C. § 8251 (2012).

I. Background

The CAISO implemented its Energy Imbalance Market (“EIM”) on November 1, 2014. Following implementation, certain transitional conditions arose that restricted the timing and amount of capacity available through the market clearing process. These conditions caused the transmission and system energy-balance constraints described in sections 27.4.3.2 and 27.4.3.4 of the CAISO tariff to bind more frequently than expected, producing atypically high prices in the fifteen-minute and five-minute markets in the balancing authority areas of PacifiCorp, the first participating EIM entity. The CAISO determined that system conditions, operations processes, the contemporaneous level of EIM participating resources, timeliness and accurate transmission of information regarding manual balancing authority actions, and the new operating environment were complicating the timing of, and restricting the amount of, effective economic bids necessary to relieve the constraints.

To address these circumstances, the CAISO, on November 13, 2014, requested that the Commission grant a 90-day limited waiver of CAISO tariff section 27.4.3.2 and the second sentence of section 27.4.3.4 such that the CAISO would retain the ability to relax the constraints described in those sections but not apply the administrative pricing parameter establishing the price at the maximum energy bid price of \$1,000/MWh. Instead, under the requested waiver the CAISO would use the pricing mechanism that applies when effective economic bids are sufficient to allow a feasible market solution, *i.e.*, market participants will pay or receive the applicable fifteen-minute market or real-time dispatch locational marginal price, as determined using the locational marginal

prices, consistent with Sections 27.1.1, 34.20, and Appendix C of the CAISO tariff.² On December 1, 2014, the Commission granted the CAISO's requested waiver.³ On February 12, 2015, the Commission extended the waiver, at the CAISO's request, until the earlier of March 16, 2015 or the date the Commission issued a subsequent order in this proceeding.

Although the CAISO and PacifiCorp had made significant progress in addressing the issues that gave rise to the price excursions, the CAISO concluded that it is likely that, as a new EIM entity moves through the changing seasons and conditions on the system, it will be necessary to adjust practices and procedures based on lessons learned and the need to tailor the systems to these changing needs. Therefore, on January 15, 2015, the CAISO proposed revisions to its tariff provisions governing the EIM that would apply to each new EIM Entity during such EIM Entity's initial year of EIM participation. Proposed tariff section 29.27(b)(1) provided that the CAISO would determine prices for intervals that experience transmission or system balance constraints within the new EIM Entity's balancing authority area by using the last economic bid to establish the market clearing price, rather than using the existing tariff's \$1,000/MWh penalty price. Proposed tariff section 29.27(b)(2) stated that, for a 12-month transition period after a new EIM Entity commences operations in the EIM, the CAISO will set the flexible ramping constraint relaxation parameter specified in tariff section 27.10 for the new EIM Entity's BAA at between \$0 and \$0.01 (instead of \$60).

² To effectuate this price discovery, it was also necessary to adjust the penalty price for the flexible ramping constraint parameter for the EIM balancing authority area in order to allow the market software to discover the marginal energy bid price that would set the locational marginal price, to avoid otherwise setting the price at the constraints parameter.

³ *Cal. Indep. Sys. Operator Corp.*, 149 FERC ¶ 61.194.

In its March 16, 2015 order, the Commission rejected the proposed tariff amendments. The Commission instituted a proceeding under section 206 of the Federal Power Act, to investigate the justness and reasonableness of the EIM provisions in CAISO's existing tariff related to the imbalance energy price spikes in PacifiCorp's balancing authority area that the CAISO had described in the tariff and waiver filings discussed above. The Commission established a refund effective date 90 days from publication of notice in the Federal Register.⁴ The Commission also directed staff to hold a technical conference to explore the issues raised by the CAISO.⁵ On March 24, the Commission noticed the technical conference for April 9, 2015 and set forth an agenda. On April 8, 2015, the Commission issued a supplemental notice establishing an April 23, 2015 date for supplemental comments following the technical conference. The technical conference occurred on April 9, 2015. On April 14, 2015, the Commission issued a notice of modification of comment schedule granting the CAISO's motion for extending the time to and including April 23, 2015 for CAISO to submit its proposal and initial comments; to and including May 7, 2015 for parties to submit comments on CAISO's proposal; and to and including May 21, 2015 for parties to file reply comments.

At the technical conference, the CAISO addressed the questions included in the agenda, which included a discussion of the specific actions taken to address the underlying causes of the price excursions and remedial enhancements currently under consideration. The CAISO will respond to any questions posed by Commission staff

⁴ Notice appeared in the Federal Register on March 24, 2015. 80 Fed Reg 15594 (Mar. 24, 2015). The refund effective date is thus June 22, 2015.

⁵ *Cal. Indep. Sys. Operator Corp.*, 150 FERC ¶ 61,191 (2015).

that it could not address at the conference, as well as providing a more detailed explanation of the remedial enhancements under consideration, in its post-conference comments, currently scheduled for April 23.⁶

III. Motion for Relief Pending Order

The remedial actions that have already been taken, which include enhancements to market systems visibility for PacifiCorp and extensive training, and numerous operational and process improvements adopted by PacifiCorp, have improved the stability of market operations, which has significantly reduced price excursions related to transitioning to a new market environment. However, the CAISO has concluded that unrelated to these learning curve issues, the market is still susceptible to price excursions to the extent the market run is not informed of the EIM entity's operational management of other available capacity, including regulation and reserves, in a timely and accurate manner. The experience of this first EIM has left both PacifiCorp and the CAISO to conclude that it is important to adopt an automated process that accounts for the EIM entity's management of their other available capacity which includes regulation and reserves. This would further reduce price excursions as it would eliminate the opportunity for manual errors in transmitting information related to the operational management of the EIM balancing authority area resources.⁷

The automated feature would, however, require both tariff and software changes that the CAISO will not be able adopt by the current refund effective date, June 22,

⁶ In a motion filed in this docket on April 10, 2015, the CAISO proposed a modified schedule, under which, on April 23, 2015, the CAISO would submit its comments responding to any questions posed by Commission staff that it could not address at the conference as well as a detailed explanation of the remedial enhancements currently under consideration. Parties would then have two weeks to consider and comment on the CAISO's filing. Then all parties, including the CAISO, would have two more weeks to file reply comments.

⁷ The CAISO may nonetheless still request a form of transition for new EIM Entities.

2015. The proposed changes will require software changes, additional operator and other staff training, and testing and validation of the new features. It is not possible for the CAISO and PacifiCorp to implement the automated procedure currently under consideration by June 22, 2015. Moreover, these are changes that are highly problematic to implement retroactively because they entail the need to inform specific market runs before they are executed and the information will impact the market solution. When market enhancements affect only the ex-post settlement runs, the CAISO can readily modify the rate changes through its established settlement statement re-runs so that they take effect on the effective trading day, even though they are actually charged or paid in subsequent settlement statements. However, when the changes entail modifications of market inputs, which alter the outcome of the market run, as is the case here, it is not possible to recreate the market runs with the revised inputs after the fact exactly as they would have been had they been originally executed with the modified inputs.

In this case, the automated solutions under current consideration will, at a minimum, require the market to be informed of the amount of capacity that will be made available to the Energy Imbalance Market prior to execution of the market. It would be problematic for the CAISO to attempt to re-run the market to incorporate this and other necessary information after the fact because it is not possible to reconstruct exactly the market outcome that would have occurred had the market been executed with all the appropriate inputs in the first place. Moreover, conducting such re-runs requires considerable dedication of people and technology, which takes resources away from actual operation of the market. In the interest of market certainty and minimizing undue

hardship to the market, the Commission should minimize the timeframe for possible refunds.

Finally, the Commission will be receiving comments from intervenors on the CAISO's proposed solutions that may further influence the Commission's final action in this proceeding. The CAISO intends to participate fully in this proceeding to address the issues that led to price spikes that were not reflective of the EIM entity's use of its available capacity, and to implement any solutions as soon as possible. However, it is possible that the solutions ultimately directed by the Commission in the EL15-53 docket will not be entirely consistent with the solutions anticipated by the CAISO at this time. Therefore, the Commission should provide the CAISO and ratepayers the benefit of the maximum five-month period permitted under Section 206 of the Federal Power Act before establishing a refund effective date.

As the CAISO explained at the technical conference, and will explain in greater detail in the post-conference Comments, if it and PacifiCorp continue to make progress in addressing the price excursions, in both the fifteen- and five-minute markets, the frequency of the excursions will be lower than previously experienced. As demonstrated by the data presented at the April 9, 2015, technical conference, the frequency of infeasibilities in March was less than half than that experienced in the period November through February. Nonetheless, absent actual implementation of remedial actions currently under consideration in this proceeding, a number of price excursions are still likely to recur, because the current remedial actions are based on manual procedures which are still susceptible to human error and challenges as system conditions change. Therefore, absent action by the Commission, ratepayers will be

subject to the unjust and unreasonable prices that result from these excursions from the refund effective date to the time at which the CAISO can implement the changes.

Accordingly, the CAISO also requests that the Commission protect ratepayers by extending the waiver until the CAISO's actual implementation of the Commission's order resolving the section 206 proceeding in Docket No. EL15-53. This will allow the Commission to direct exclusively prospective relief, avoiding the need for any retroactive actions. At the April 9, 2015 technical conference the CAISO again explained the potential for unjust and unreasonable pricing under the current tariff-based pricing when there are market infeasibilities due to failure to communicate to the market optimization manual actions taken by the EIM entity in managing the full scope of their available capacity. The CAISO will be making every effort to implement solutions coming out of the EL15-53 docket as soon as possible. But these procedures will need to be fully developed and tested through this proceeding, and there may be certain changes that cannot be fully implemented until a date beyond August 24, 2015. Therefore, the CAISO respectfully asks that the Commission continue to protect ratepayers by also extending the waiver issued in ER15-402 until the automated procedures necessary to resolve the issues identified in this proceeding can be fully implemented.

IV. Alternative Request for Rehearing

A. Statement of Errors and Issues

- The Commission erred by establishing a refund effective date that provides insufficient time for the implementation of remedial actions.
- The Commission erred by establishing a date for termination of the existing waiver of sections 27.4.3.2 and 27.4.3.4 of the CAISO's tariff that will expose ratepayers to unjust and unreasonable prices during the time required for the CAISO's implementation of remedial actions.

B. Discussion

The CAISO has explained above how the current refund effective date and termination of the waiver expose ratepayers to unjust and unreasonable prices. These circumstances, if not otherwise corrected, are sufficient to require rehearing granting the requested relief.

V. Conclusion

For the foregoing reasons, the CAISO requests that the Commission provide the relief requested above.

Respectfully submitted,

/s/ Michael E. Ward

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Dated: April 15, 2015

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 15th day of April, 2015.

/s/ Michael Kunselman

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