UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	))	**Docket No. ER21-1536**

ANSWER OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

The California Independent System Operator Corporation ("CAISO") respectfully submits its answer to comments in this proceeding.[1] Most parties filing comments support or do not oppose the CAISO's tariff revisions, which seek to prepare the CAISO for summer 2021 in light of extreme heat events and supply shortage conditions the CAISO experienced in 2020.[2] In their comments, PG&E, the EIM Entities, and Calpine request the Commission impose monitoring and reporting requirements on the CAISO and DMM. The Commission should not direct additional monitoring or reporting. The CAISO and DMM already perform, and will continue to perform, these activities. PG&E also asks the Commission to modify certain proposed tariff revisions and, in one case, reject a proposed tariff revision. For the reasons explained in this answer and in the CAISO's transmittal letter, the Commission should reject PG&E's arguments seeking to

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[1] The CAISO submits this answer pursuant to Rule 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213.

[2] The following entities filed substantive comments in response to the CAISO's tariff amendment: Bonneville Power Administration (Bonneville); Calpine Corporation (Calpine); the CAISO's Department of Market Monitoring (DMM); Arizona Public Service Company, Idaho Power Company, Portland General Electric, Salt River Project Agricultural Improvement and Power District, and Tucson Electric Power (collectively, the EIM Parties); Pacific Gas and Electric Company (PG&E); Powerex Corporation (Powerex); San Diego Gas & Electric (SDG&E); Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the Six Cities); and Southern California Edison (SCE).

modify or reject the CAISO's proposed tariff revisions and find the CAISO's March 26, 2021 filing is just and reasonable.

I. Introduction

The CAISO's proposed tariff revisions arise from the root cause analyses of the controlled load shed events in August 2020 and CAISO discussions with stakeholders in its Market Enhancements for Summer 2021 Readiness stakeholder initiative. The revisions reflect market rules and other enhancements the CAISO can implement by summer 2021 to promote electric grid reliability. The tariff revisions consist of five categories: (1) incentives for import schedules in the Hour Ahead Scheduling Process (HASP) during tight market conditions; (2) reliability demand response resource (RDRR) dispatch and real-time price impacts; (3) energy imbalance market (EIM) coordination and resource sufficiency test; (4) pricing enhancements during tight system conditions; and (5) generation interconnection process improvements. Each category of revisions is just and reasonable independent of the other categories.

Most parties filing comments support or do not oppose the CAISO's tariff revisions. Bonneville, Calpine, DMM, Six Cities, the EIM entities, SCE and SDG&E all submitted supportive comments. Powerex does not oppose the CAISO's tariff revisions. In this answer, the CAISO responds to comments that exceed the scope of the CAISO's tariff amendment or that request the Commission impose additional conditions on the CAISO or reject certain elements of what the CAISO proposed.

II. The Commission need not address comments that exceed the scope of the CAISO's tariff amendment and should reject PG&E's request to make the tariff revisions effective on an interim basis.

The CAISO's tariff revisions result from a stakeholder initiative to prepare for summer 2021. The tariff changes are separate and discrete from each other. Although they are separate elements of a multi-part filing, the tariff revisions are severable from each other. The Commission should evaluate the justness and reasonableness of each of the proposed tariff revisions on its individual merits.

In their comments, several parties ask the Commission to encourage the CAISO to address matters that go beyond the scope of the tariff revisions. For example, Calpine states it hopes the Commission will encourage the CAISO to pursue its stakeholder process to develop a comprehensive scarcity pricing proposal.[3] SCE asks the Commission to address system market power mitigation and the interaction of CAISO market rules with those in the rest of the western markets.[4] SDG&E argues the CAISO should work with stakeholders to develop a framework for wheeling schedules to pay for transmission on a long-term basis.[5] Powerex urges adoption of tariff rules to address other issues to ensure reliable market operations, but acknowledges that the CAISO is not proposing solutions to such issues in this proceeding.[6] The CAISO appreciates these parties' perspectives, but their comments go beyond the scope of this proceeding and the specific tariff revisions the CAISO has proposed.

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3 Calpine Comments at 6.

4 SCE Comments at 3.

5 SDG&E Comments at 3.

6 Powerex comments at 2.

Section 205 of the Federal Power Act requires the CAISO to demonstrate that a proposed rate, term or condition is just and reasonable.[7] The CAISO need not justify why it has not made another tariff revision to address related or different issues. The Commission should approve the CAISO's proposal if it is just and reasonable; it need not be the only reasonable proposal to address an issue.[8] The Commission's inquiry into whether the rates proposed by the CAISO are just and reasonable should not extend to determining whether a proposed rate schedule is more or less reasonable than an alternative rate design.[9] Accordingly, the Commission need not address comments from parties that extend beyond the scope of the CAISO's proposed tariff revisions.

PG&E states it "generally supports the CAISO's [f]iling and related efforts to find near-term solutions to ensure grid reliability in the summer of 2021."[10] PG&E, however, raises concerns with the implementation timeline for these tariff revisions and asks the Commission to direct the CAISO to include a "sunset provision" of May 31, 2022 for them. PG&E's comments do not identify any specific concerns or problems with implementing these tariff revisions, and it does not explain how making the tariff revisions effective only on an interim basis will address its concern with implementation activities between now and summer 2021. With the exception of the tariff revisions regarding pricing enhancements during tight system conditions, which the CAISO

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7 16 U.S.C. § 824d.

8 *See Oxy USA, Inc. v. FERC*, 64 F.3d 679, 691, 314 U.S. App. D.C. 175 (D.C. Cir. 1995); *City of Bethany v. FERC*, 727 F.2d 1131, 1136, 234 U.S. App. D.C. 32 (D.C. Cir. 1984).

9 *See, e.g., Cal. Indep. Sys. Operator Corp*., 128 FERC ¶ 61,265, at P 21 (2009): "Under the Federal Power Act, the issue before the Commission is whether the CAISO's proposal is just and reasonable and not whether the proposal is more or less reasonable than other alternatives."

10 PG&E Comments at 3.

addresses below, PG&E offers no argument to justify imposing such a condition. If anything, PG&E's comments support making the CAISO's tariff revisions effective on a later date to provide more time for implementation work, but PG&E does not advocate for this outcome. PG&E's comments do not explain why the CAISO's tariff revisions may be just and reasonable this summer, but will no longer be so after May 2022. The Commission should reject PG&E's "alternative rate design" and limit its review to whether the CAISO has demonstrated its tariff revisions are just and reasonable.

III. The Commission should accept the CAISO's incentives for import schedules in the HASP during tight market conditions without modification

The CAISO has proposed to provide a make whole payment for hourly block economic imports that clear HASP during tight supply conditions. HASP produces advisory schedules for internal resources and binding hourly block energy schedules for imports and exports, *i.e.,* HASP block intertie schedules. Although HASP is operationally binding, the CAISO settles HASP block intertie schedules at prices generated by the CAISO's fifteen-minute market. As a result, the possibility exists that a scheduling coordinator may receive a payment below its bid. The make whole payment, which will apply only in limited circumstances, will provide a stronger incentive for suppliers to offer incremental import supply to the CAISO during tight supply conditions.

Make whole payments will only occur during hours in which a CAISO notice indicates it anticipates or is experiencing an operating reserve shortage. In all other hours, the CAISO will continue to settle hourly block intertie schedules at fifteen-minute market prices with no opportunity for a make whole payment the vast majority of the time. No party opposes these proposed tariff revisions.

In its comments, however, PG&E asks the Commission to require the CAISO and its DMM to conduct both an ongoing evaluation of market participants' intertie bidding practices during intervals identified for make whole payments, and an after-the-fact cost-benefit analysis of this proposal.[11] The Commission should reject PG&E's specific request as unnecessary. The CAISO has already committed to monitor bidding activity associated with the periods in which the make whole payment rule is in effect.[12] In addition, the CAISO publishes monthly market results and analysis and would do so if it triggers the make whole payments contemplated by these tariff revisions.[13] The CAISO would make this information available through its Market Performance and Planning Forum, which the CAISO holds every two months.[14] This forum provides an opportunity for stakeholders to review market performance issues and engage in dialogue on release planning, implementation and new market enhancements. This review would include an assessment of whether a new market enhancement is working as designed. PG&E regularly participates in this forum.

Consistent with Section 5.2 of Appendix P of the CAISO tariff, DMM also regularly prepares comprehensive reports that assess market outcomes and provide detailed analysis. DMM prepares these reports on at least a quarterly basis and

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11 PG&E Comments at 5-7.

12 CAISO March 26, 2021 transmittal letter at 20.

13 *See* Monthly Market Performance Reports available on the CAISO's website: http://www.caiso.com/market/Pages/ReportsBulletins/Default.aspx.

14 The schedule for Market Performance and Planning Forum is available on the CAISO's website: http://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=587B83F7-5396-404E-AB51-D8B469BF1390.

regularly monitors newly implemented changes to the market. PG&E offers no reason to think DMM would not continue to do so in this case. Accordingly, it is unnecessary for the Commission to direct DMM to undertake reporting and analysis in response to PG&E's comments.

For the reasons explained in the CAISO's March 26, 2021 transmittal letter and this answer, the CAISO respectfully requests the Commission accept, without modification, the tariff revisions to provide a make whole payment for hourly block economic imports dispatched by the real-time market during tight supply conditions.

IV. The tariff revisions regarding the RDRR reliability dispatch and real-time price impacts afford similar treatment to resources with hourly block schedules

The CAISO's proposed tariff revisions will extend to RDRRs the hourly block and fifteen-minute bidding and dispatch options currently available to intertie resources and proxy demand resources. Currently, the CAISO dispatches RDRRs only in the CAISO's five-minute market, which can be problematic for RDRRs with operational constraints that require more notice or can only respond to dispatches on a less granular level, *i.e.*, hourly as opposed to every 5 minutes. Extending the hourly block and fifteen-minute bidding options to RDRRs leverages existing market functionalities for other types of resources that face similar constraints. By enabling RDRRs to reflect their operational characteristics more accurately, the CAISO's proposal will help ensure RDRRs receive feasible schedules. Ultimately, these proposed revisions will mitigate the need for the CAISO to dispatch RDRRs manually through exceptional dispatch, thereby allowing the CAISO market prices to reflect RDRR dispatch.

Calpine argues the CAISO's proposal "could perpetuate price suppression from dispatch of RDRRs" if there is "a large migration of RDRRs to the hourly markets."[15] Calpine states "the Commission should require a follow-on informational filing by the CAISO reporting on the migration of RDRRs to hourly markets and any resulting price-suppressive effects."[16] Calpine also suggests the CAISO should alter its market design to "consider modeling any hourly discrete RDRR resources in a manner similar to continuous peaker pricing . . . which would allow them to set marginal prices in sequential markets." Both Calpine proposals are unnecessary.[17]

First, it is improbable there will be any "large migration" as Calpine speculates. The CAISO extended the hourly and fifteen minute options to proxy demand resources in 2019.[18] Since then, the majority of proxy demand resources have elected to be fifteen- or five-minute dispatchable resources. There is no reason to expect RDRRs would differ. The hourly option is no more attractive for RDRRs than the fifteen- or five-minute options, unless the RDRRs actually have the operational limitations that warrant hourly bids and schedules. Hourly RDRRs will not receive fifteen-minute market and real-time dispatches. They would be subject to price fluctuations within the hour and ineligible for bid cost recovery.[19]

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15 Calpine Comments at 3-4.

16 *Id*. at 4.

17 As explained above, the Commission's inquiry into whether the rates proposed by the CAISO are just and reasonable should not extend to determining whether a proposed rate schedule is more or less reasonable than an alternative rate design. As such, the Commission should not consider Calpine's proposal to model RDRRs differently. *See, e.g., Cal. Indep. Sys. Operator Corp*., 128 FERC ¶ 61,265, at P 21 (2009).

18 *Cal. Indep. Sys. Operator Corp., Letter Order*, Docket No. ER19-2733 (Nov. 6, 2019) (extending hourly block bidding to proxy demand resources under same rules as intertie resources).

19 Revised CAISO tariff section 11.6.4

Second, the fact that hourly RDRRs would not set the price in fifteen-minute market or real-time dispatch is not price suppression. To the contrary, that effect is an intended outcome of the market design, and a matter the Commission has already addressed in connection with the CAISO's implementation of Order No. 764. The Commission found the CAISO's market design for hourly intertie schedules seeks to encourage more flexible scheduling in the fifteen-minute market.[20] The CAISO's proposal would not require any RDRR to submit hourly block bids. However, by their nature, hourly block bids do not account for variations in load and supply that take place in the fifteen-minute market and real-time dispatch. Allowing RDRRs to set the price in these later market runs would contravene established pricing rules for hourly block resources.[21] Calpine's proposal would not avoid price suppression; it would cause price inflation. Because RDRRs must bid above 95% of the energy bid cap,[22] their inclusion in as many real-time markets as possible—even if they are not bidding or dispatched in those markets—would likely inflate prices inappropriately for other supply resources.

Third, requiring the CAISO to report the number of RDRRs that elect to use the hourly option is unnecessary and would unlikely lead to any further action. Calpine suggests the hourly option may be inappropriate if it leads to large numbers of RDRRs

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[20] *See Cal. Indep. Sys. Operator Corp.*, 146 FERC ¶ 61,204 at PP *59 et seq*. (2014) (establishing hourly block bidding rules for intertie resources) ("An important goal of the revised market design, and one of the objectives of Order No. 764, is to encourage flexible scheduling on 15-minute intervals. We find that providing bid cost recovery for hourly bids would detract from this objective and effectively reinstate the prior 'bid or better' rule, which created gaming opportunities and resulted in substantial uplift costs. We find that CAISO has provided hourly schedulers with adequate opportunities to address any risks by, for example, participating in the day-ahead market or by reflecting the impact of their ineligibility for bid cost recovery in their hourly intertie bids").

[21] *See id*.; *Cal. Indep. Sys. Operator Corp., Letter Order*, Docket No. ER19-2733 (Nov. 6, 2019) (extending hourly block bidding to proxy demand resources under same rules as intertie resources).

[22] Existing CAISO tariff section 30.6.2.1.

being unable to set the prices in the fifteen-minute market or real-time dispatch. But if many RDRRs are operationally unable to meet a fifteen minute market or real-time dispatch schedule, the CAISO should not force them into those markets. The CAISO's Master File should accurately reflect each resource's actual operating characteristics to ensure feasible dispatches. RDRRs are demand response resources consisting of air conditioner cycling programs, industrial load centers, and other retail end users. It is unreasonable to expect them all to be fifteen- or five-minute dispatchable. Doing so would lead to price distortions and the issues that necessitated these tariff revisions in the first place. As such, a special reporting requirement would be unlikely to lead to further action. Moreover, the CAISO and DMM consistently monitor and audit demand response providers to verify accurate bidding and settlement.

The Commission should approve the CAISO's proposed tariff revisions for RDRRs with hourly operational constraints without modification or any reporting requirement. The CAISO's proposed tariff revisions leverage existing market functionalities for resources that face similar constraints. Approving the CAISO's tariff revisions will help the bidding, scheduling, and pricing of RDRRs and reflect their actual operating characteristics more accurately, thereby reducing the risk of price distortions and the need for manual intervention.

V. The Commission should accept the changes to include the uncertainty requirement in the Energy Imbalance Market resource sufficiency test

Except for PG&E, all parties either specifically support or do not oppose the CAISO proposal to include the uncertainty requirement in the capacity test portion of the

EIM resource sufficiency evaluation.[23] The comments express general appreciation for the CAISO's efforts to make incremental improvements in the resource sufficiency evaluation given the time constraints. They also broadly recognize that more work remains to consider comprehensively what additional improvements may be appropriate beyond those the CAISO proposes in its filing. The CAISO's filing acknowledged its commitment to consider improvements to the resource sufficiency evaluation in a subsequent stakeholder initiative. The CAISO affirms this commitment. Notwithstanding this commitment, the CAISO's has justified its proposal in this proceeding. Below the CAISO answers adverse comments and requests to impose further measures.

The Commission should accept the proposal to include the uncertainty requirement in the capacity test as just and reasonable without further obligation or condition. Bonneville requests that the CAISO file in this docket a specific timeline for its upcoming policy initiative regarding the resource sufficiency evaluation. There is no need to impose such an obligation. Further, it would be inappropriate for the CAISO to file a specific timeline in this docket concerning steps and stakeholder processes that are beyond the scope of its proposal. Bonneville specifically supports the incremental change requested by the CAISO and does not explain how a series of milestones or a "firm timeline" for additional changes to the resource sufficiency evaluation are necessary for the Commission to find the CAISO's proposed change is just and reasonable. Bonneville admits there is more work to undertake in the stakeholder

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[23] *See* Bonneville Comments at 3; DMM Comments at 4; EIM Entities Comments at 6; Powerex Comments at 2; SDG&E Comments at 3; Six Cities Comments at 2; and SCE Comments at 2.

process to explore additional enhancements to the resource sufficiency evaluation, and the CAISO agrees. The Commission should permit the CAISO and stakeholder consideration of any further enhancements to the resource sufficiency test through the normal course of the stakeholder initiative process.

PG&E asks the Commission to reject the CAISO's proposal to include the uncertainty requirement in the capacity test component of the resource sufficiency evaluation because it believes the proposal does not advance the overall objective of improving reliability during tight system conditions.[24] PG&E is concerned the proposed tariff amendment will increase the likelihood of a capacity test failure, which could result in capped EIM transfers between balancing authority areas during potential system emergencies and potentially degrade regional reliability. Further, PG&E is concerned the heightened stringency could create uncertainty regarding the amount of additional forward capacity any individual load serving entity may need to procure to ensure each balancing authority area can pass the test. Given the limited procurement options available before the summer, PG&E asserts that this proposed amendment could inadvertently create reliability risks without any assurance of the CAISO's anticipated benefits of additional forward capacity procurement. Should the Commission approve the CAISO's proposed tariff amendment, PG&E asks the Commission, at a minimum, to require the CAISO to closely monitor and provide regular reports to market participants on the impact of the change to the resource sufficiency evaluation.

PG&E's concern about degrading regional reliability confuses the purpose of the resource sufficiency evaluation with the reliability obligations of each balancing authority

24 PG&E Comments at 7-12.

area participating in the EIM. The purpose of the resource sufficiency evaluation is to ensure each balancing authority area can adequately balance their own net supply without leaning on other balancing authority areas in real-time, *i.e.*, a balancing authority area should not rely on economic transfers to meet resource obligations that it should satisfy prior to participating in the real-time market. The resource sufficiency evaluation accomplishes this objective, in part, by restricting EIM transfers to the most recent interval when a capacity deficient balancing authority area passed the capacity test. To the extent EIM transfers are limited by the failure of a balancing authority area to pass the test, and additional external supply is available in real-time, balancing authorities can access that external supply outside of the EIM via emergency action to support reliability. This is the appropriate recourse because each balancing authority area is separately responsible for procuring or verifying that load serving entities within their balancing authority area procure sufficient capacity to meet their obligations before engaging in incremental EIM transfers with other balancing authority areas. The evaluation thus ensures resource sufficiency in advance of an entity participating in the real-time market, but it does not – and is not intended to – ensure reliability in real-time. The solution to any concern regarding regional reliability should be for each balancing authority area to demonstrate sufficient capacity before participating in the real-time market.

Increasing the stringency of the capacity test will not create an unreasonable or unnecessary level of unpredictability regarding the procurement obligation of a balancing authority or load serving entity within a balancing authority area. The CAISO proposal appropriately reduces the opportunity for a balancing authority to lean on the

EIM to address its uncertainty by increasing the requirement for an entity to pass the capacity test by a corresponding amount. A more stringent requirement could limit the economic benefit of EIM participation if a balancing authority area cannot meet this requirement, however, uncertainty itself does not increase forward procurement requirements. The resource sufficiency evaluation, including the capacity test, in no way creates a forward procurement obligation for a balancing authority or load serving entity within a balancing authority area. The capacity test merely determines whether each balancing authority area is able to meet their demand, historical intertie deviations, and as proposed by the CAISO in this tariff revision, uncertainty for all fifteen-minute intervals of an operating hour.

Uncertainty is an incremental measure of expected system load and supply variability at the time of the test. This ensures each EIM participating balancing authority can serve expected demand. The CAISO’s tariff revision does create the potential for the bid range capacity requirement to exceed the forecasted peak demand; however, including uncertainty in the capacity test does not itself create an increase in forward procurement requirements. The CAISO’s resource adequacy program, as well as EIM entity integrated resource plans, typically require procurement above the forecasted peak to ensure capacity is available for use as operating reserves and to account for forecast error. The addition of uncertainty to the capacity test appropriately requires some of this capacity also be available for use within the EIM should uncertainty arise. As a result, failure of the capacity test under stressed system conditions may indicate additional capacity should be procured on a long-term basis, but that determination is not established through the resource sufficiency evaluation. A balancing authority or load serving entity within a balancing authority area must make procurement decisions as necessary to fulfill its applicable resource adequacy and resource planning obligations. The incremental improvement in the capacity test proposed by the CAISO should help inform, not undermine, such determinations.

Also, there is no need to require the CAISO to undertake any further monitoring or reporting regarding the resource sufficiency evaluation, as requested by PG&E, or adopt a sunset date for these tariff revisions. The CAISO already provides information concerning the performance of the resource sufficiency evaluation through its Market Performance and Planning Forum.[25] Moreover, the CAISO proposal includes a safeguard against inappropriate capacity test failure resulting from including the uncertainty requirement. This feature obligates the CAISO to file a report explaining the reason for terminating the requirement. Thus, it is unnecessary to require the CAISO to undertake additional monitoring or reporting beyond what the CAISO already undertakes or will undertake pursuant to its tariff revisions. Additionally, the future stakeholder process concerning the resource sufficiency evaluation proposes to examine if additional reporting is necessary.

Finally, as explained *supra*, PG&E requests a "sunset provision" of May 31, 2022 for these tariff revisions without explaining why the provisions would be just and reasonable this summer but no longer be just and reasonable after May 2022. The Commission should accept the proposal to include the uncertainty requirement in the capacity test as just and reasonable without further considering any "alternative rate design", obligation or condition.

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[25] *See, e.g.*, May 4, 2021 Market Planning and Performance Forum Presentation at: http://www.caiso.com/Documents/Presentation-MarketPerformance-PlanningForum-Mar4-2021.pdf.

VI. The CAISO's proposed pricing enhancements during tight system conditions reflect an appropriate administrative price signal

The CAISO's proposed tariff revisions will price all operating reserves at the energy bid cap when dispatched to provide energy in a system emergency. Currently when the CAISO dispatches contingency reserves because of a contingency, the CAISO prices energy dispatched from the contingency reserves at the energy bid price submitted by market participant. Only when the CAISO is responding to a system emergency and has run out of economic bids, with no contingency, does the tariff allow the CAISO to price the energy dispatched from contingency reserves at the bid cap. However, the CAISO can only price "contingency only" reserves dispatched to provide energy at the bid cap under these circumstances, not other types of reserves.[26] The current practice can cause real-time prices to decrease because the price of the energy bids can be below the current real-time market price, thereby suppressing prices even though the market needs more energy.

Under the CAISO's proposal, when the CAISO arms load to meet reserve obligations and has exhausted energy bids, the CAISO will price the energy released from contingency reserves at the applicable energy bid cap. This proposal not only will avoid deflating real-time prices during tight system conditions, it should help attract additional supply when most needed and encourage load-serving entities to schedule demand in the day-ahead market to mitigate their exposure to high real-time prices during tight conditions.

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[26] CAISO tariff section 34.10.

PG&E "acknowledges that the pricing last summer was problematic and believes that prices during system reliability events should transparently reflect the shortage of supply and, just as importantly, the costs of the resources providing the needed supply."[27] Nevertheless, PG&E "worries" the CAISO's proposal "could incentivize physical withholding."[28] Based on this worry, PG&E suggests "an alternative" of inserting bids for the dispatched reserves "at the maximum of i) the resource's calculated Default Energy Bid (DEB) price, ii) the last cleared economic bid, or iii) the established $1,000/MWh market energy offer soft cap."[29]

As indicated above, the Commission's inquiry into whether the rates proposed by the CAISO are just and reasonable should not extend to determining whether a proposed rate schedule is more or less reasonable than an alternative rate design.[30] Accordingly, the Commission need not address PG&E's suggested alternative rate design that extends beyond the scope of the CAISO's proposed tariff revisions. Moreover, pricing reserves dispatched during emergencies when the CAISO has exhausted its energy bids at the energy bid cap is consistent with the CAISO's existing tariff. As part of the CAISO's compliance with Order No. 831, the Commission approved using the hard energy bid cap to price Contingency-Only operating reserves dispatched in an emergency to provide energy.[31] The CAISO is merely extending that practice to non-contingency-only reserves to avoid the real-time price deflation

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27 PG&E Comments at 13.

28 *Id*.

29 *Id*. at 14.

30 *See, e.g., Cal. Indep. Sys. Operator Corp*., 128 FERC ¶ 61,265, at P 21 (2009).

31 *Existing* CAISO tariff section 34.10.

experienced during the August heat wave and to help signal tight supply conditions in real-time. PG&E offers no argument why contingency-only and non-contingency-only reserves should be priced differently, and instead makes a collateral attack on an existing practice beyond the scope of this proceeding.

In any case, PG&E's concern that the CAISO's tariff revisions could lead to physical withholding lacks merit. Contrary to incentivizing suppliers to withhold supply from the CAISO market, the CAISO's tariff revisions should incentivize suppliers to offer additional supply during tight supply conditions. Both the CAISO's DMM and the Market Surveillance Committee found the CAISO's proposal will help avoid price suppression, thereby incentivizing imports and additional supply, not withholding. In its opinion on this proposal, the Market Surveillance Committee stated:

> With the proposed pricing changes, it is anticipated that the CAISO market software will send a price signal that will attract additional imports during periods that load has been armed for shedding. If available, this additional supply will reduce the amount of load that would need to be shed following a significant generation or transmission contingency and also reduce the likelihood that reserves will fall to a level that requires load shedding. Setting prices at a level that will attract additional net interchange in HASP and FMM will be even more important prospectively than in the past because of the increased potential for the CAISO to be locked out of receiving incremental EIM imports as a result of failing the resource sufficiency bid range test.[32]

DMM agreed, stating:

> DMM supports this proposal as a way of helping to ensure prices are relatively high when system conditions are extremely tight, such that controlled dropping of load needs to be relied upon for operating reserve.

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[32] MSC Opinion at 4, available at http://www.caiso.com/Documents/MSCOpiniononMarketEnhancementsfor2021SummerReadiness-Mar8_2021.pdf.

> This proposal is an extension of how contingency only reserves are prices when these resources are called upon to provide energy.[33]

Moreover, it is unreasonable to expect scheduling coordinators would withhold capacity to force the CAISO to arm firm load and release non-contingency reserves into the market, thus reaching prices at the offer cap. Under the CAISO's resource adequacy rules, scheduling coordinators must offer their resource adequacy capacity into the market and face significant financial exposure if they engage in physical withholding with the objective of influencing CAISO market outcomes. In addition, scheduling coordinators will seek energy payments when supply is short. There is a very low probability scheduling coordinators would try to withhold capacity and forego energy payments on the remote chance the CAISO may need to arm firm load and release non-contingency reserves. Situations causing the CAISO to release contingency reserve are very rare, and the scheduling coordinators' opportunity costs for lost energy payments would be very high whenever the CAISO does not dispatch operating reserves to provide energy. Even during the summer 2020 heat events, no investigative body or regulator found evidence of physical withholding.

PG&E also argues the Commission "should only accept this proposal for a one-year period and require the CAISO to address the[] overlapping issues" of the Capacity Procurement Mechanism—which was not an element of this proceeding—and system market power mitigation—which the CAISO is still developing with stakeholders. PG&E's comments do not explain how those issues concern the justness and

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33 Comments on Market Enhancements for Summer 2021 Readiness Draft Final Proposal, Department of Market Monitoring (Feb. 26, 2021) at 2, available at http://www.caiso.com/Documents/DMMComments-on-Market-Enhancements-for-Summer-2021-Readiness-Draft-Final-Proposal-Feb26-2021.pdf.

reasonableness of the CAISO's proposal. Instead, PG&E's arguments raise concern about an unrelated tariff provision. The Commission should direct PG&E to explore these concerns through the CAISO's stakeholder initiative process or pursue any relief it believes is appropriate outside of this proceeding.

PG&E also offers no explanation why it is appropriate to limit the CAISO's proposal to one year. The Commission should disregard PG&E's arguments because they fall outside the scope of this proceeding. The Commission should approve the CAISO's proposal as just and reasonable without modification or sunset. The CAISO's proposal merely extends its existing, approved policy for the administrative pricing of operating reserves dispatched during an emergency when the CAISO has exhausted available energy bids and armed load to protect against contingencies. Failing to price non-contingency-only reserves like contingency-only reserves resulted in price suppression during the August 2020 heat event. The CAISO's enhancement is a necessary correction that will help signal tight conditions and attract additional supply.

[Continued on next page.]

VII. Conclusion

Based on its March 26, 2021 filing and this answer, the CAISO respectfully requests that the Commission accept its tariff revisions in this proceeding as just and reasonable without modification. The majority of parties support acceptance of the CAISO's tariff revisions, and the concerns expressed by some parties do not merit changes to the CAISO's tariff amendment.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I certify that I have served the foregoing document upon the parties listed on the official service list in the captioned proceedings, 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 Folsom, California this 23rd day of April, 2021.

/s/ Martha Sedgley
Martha Sedgley