UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	**)** **)**	**Docket Nos. ER06-615-___ ER02-1656-___**

MOTION FOR LEAVE TO ANSWER AND ANSWER OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

The California Independent System Operator Corporation ("ISO") files this answer to the answers submitted in response to the ISO's March 24, 2014 motion for waiver of obligations to implement market design modifications or, in the alternative for extension of time ("March 24 motion").[1] No party opposes the merits of the ISO's request for a permanent waiver of three of the four directives discussed in the March 24 motion.[2] SCE, SWP, and PG&E all suggest that the ISO should receive an extension rather than a permanent waiver of the directive to implement two-tier allocation of bid cost recovery uplift. In response to this feedback, the ISO proposes to begin a stakeholder process by the end of November 2015 to consider a two-tier allocation of real-time bid cost recovery uplift, and respectfully requests an extension to April 2017 to make any appropriate filings regarding the two-tier allocation of bid cost recovery uplift.

[1] The ISO 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 ISO requests waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to permit it to answer the answers filed in this proceeding. Good cause for this waiver exists here because this answer will provide additional information to assist the Commission in understanding the issues in this proceeding and in its decision-making process. *See, e.g.*, *ISO New England Inc.*, 142 FERC ¶ 61,107, at P 12 (2013); *PPL Montana, LLC*, 145 FERC ¶ 61,043, at P 20 (2013); *Northern Natural Gas Co.*, 113 FERC ¶ 61,060, at P 11 (2005).

The Commission should grant an extension for the ISO to address that directive and grant a waiver of the other directives addressed in the March 24 motion.

I. Answer

The March 24 motion requested a permanent waiver of directives set forth in certain Commission orders[3] that require the ISO to implement the following four market design modifications:

- Assess whether and how to develop more flexibility in connection with ancillary services substitution;
- Implement two-tier allocation of real-time bid cost recovery uplift;
- Implement bid cost recovery changes to account for units running over multiple operating days; and
- Implement multi-hour constraints in the residual unit commitment process.

In the alternative, the March 24 motion requested a three-year extension, until April 2017, to submit a filing that either addresses any directives that have not been waived, or explains why the specified market design modifications are no longer needed under the market design in effect at that time.

In its answer to the March 24 motion, SCE states that it does not oppose the waiver request for three of the four directives "[g]iven the other changes subsequently implemented, as well as changed circumstances and experience gained with the MRTU market."[4] Both SCE and SWP ask that the Commission not grant a permanent waiver

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[2] Answers were filed by Southern California Edison Company ("SCE"), the California Department of Water Resources State Water Project ("SWP"), and Pacific Gas and Electric Company ("PG&E").

[3] *See California Independent System Operator Corp.*, 116 FERC ¶ 61,274, at PP 143, 301, 303, 533, 539 (2006), *order on reh'g*, 119 FERC ¶ 61,076, at PP 55-56, 87, 309 (2007); *California Independent System Operator Corp.*, 139 FERC ¶ 61,206, at PP 26-28 (2012).

[4] SCE answer at 1. SWP expresses no concerns about a waiver of three of the four directives.

at this time of the directive to implement two-tier allocation of real-time bid cost recovery uplift. SCE requests that the Commission give the ISO until September 1, 2015 to launch a stakeholder process to consider that topic.[5] SWP requests that the new implementation date for a two-tier allocation of real-time bid cost recovery uplift be no later than 18 months after the planned Fall 2014 implementation date of the real-time energy imbalance market.[6]

PG&E's answer supports the ISO's alternative request for a three-year extension to submit a filing but opposes any permanent waiver at this time. PG&E states that it "sees likely value" in implementing a two-tier allocation of real-time bid cost recovery uplift.[7] PG&E does not discuss the merits of the three other Commission directives addressed by the March 24 motion. PG&E suggests that the Commission should direct the ISO to conduct a stakeholder process within two years to determine whether granting the waivers is appropriate and then report on the outcome of that process.

For the reasons explained in the March 24 motion, the ISO believes that mandatory implementation of a two-tier allocation of real-time bid cost recovery uplift should not be mandated in the current market design. Key terms and conditions of the ISO's wholesale markets have evolved considerably since this directive was first issued. Among other things, the Commission has approved the ISO's proposal to separate the calculation and payment of bid cost recovery for the day-ahead and real-time markets, which will allow the ISO to efficiently dispatch a more liquid stack of real-time bids and

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5 SCE answer at 2.

6 SWP answer at 4.

7 PG&E answer at 2-3.

thereby decrease real-time commitment costs generally. To address concerns regarding potential expansions to bid cost recovery uplift, the ISO also adopted the persistent deviation metric to ensure resources cannot expand their bid cost payments by deviating from dispatch. In addition, the ISO reinforced existing bid cost recovery accounting rules to ensure bid cost recovery uplift is appropriately withheld in cases where resources deviate from their day-ahead schedules or dispatch without an instruction by the ISO calling for such deviations. These provisions are designed, and are likely to lessen, the impact on bid cost recovery uplift related to supply resources deviations. Any assessment or design of tiered allocation of uplift costs prior to having a full opportunity to assess how these rule changes impact the drivers of uplift are likely to yield a stale and inappropriate proposal. Further, the ISO has committed to monitoring and reporting activities that will allow the ISO and stakeholders to identify any issues that might arise under the new bid cost recovery rules that might support a future change to those rules.[8]

Nevertheless, in consideration of the answers of SCE, SWP and PG&E expressing a desire to further explore this market design change, the ISO proposes to begin a stakeholder process by November 2015 to consider a two-tier allocation of real-time bid cost recovery uplift. This stakeholder process would result in either a filing of proposed tariff revisions to implement a two-tier allocation proposal, or an appropriate filing no later than April 2017 that explains the status or the outcome of the stakeholder process, which may yield the conclusion that the current allocation approach is just and

[8] March 24 motion at 20-22. The separation of the day-ahead and real-time bid cost recovery processes will go into effect on May 1, 2014. *California Independent System Operator Corp.*, 146 FERC ¶ 61,217 (2014).

reasonable, and not unduly discriminatory, under the new market design. This proposed timeframe provides the ISO and stakeholders the benefit of at least one year's worth of settlement data under the new market design, which the ISO will study and evaluate for a period of about six months before starting a stakeholder process to fashion a new allocation scheme. SCE, SWP, and all stakeholders would have a full opportunity to express their views on the topic in the proposed stakeholder process.

As explained in the March 24 motion, good cause exists to grant the ISO's waiver requests as to the directives to develop more flexibility in connection with ancillary services substitution, to implement bid cost recovery changes to account for units running over multiple operating days, and to implement multi-hour constraints in the residual unit commitment process. Each of these directives previously had been supported by SCE.[9] SCE's answer acknowledges that these directives are not needed in light of changed circumstances and experience with the ISO's current wholesale markets. Although PG&E indicates a preference for a three-year extension to a permanent waiver, PG&E provides no argument on the merits or evidence to support the continued application of these three directives. The Commission therefore should grant the requested permanent waiver for all of the directives discussed in the March 24 motion other than two-tier allocation of real-time bid cost recovery uplift.

III. Conclusion

For the foregoing reasons and for the reasons explained in the March 24 motion, the Commission should find that good cause exists to grant the ISO's request for a permanent waiver of the directives to develop more flexibility in connection with ancillary

[9] March 24 motion at 11, 23, and 25-26.

services substitution, to implement bid cost recovery changes to account for units running over multiple operating days, and to implement multi-hour constraints in the residual unit commitment process. The Commission should also grant an extension to allow the ISO to begin a stakeholder process by November 2015 to consider a two-tier allocation of real-time bid cost recovery uplift and submit a filing no later than April 2017.

Respectfully submitted,

By: */s/ Anna A. McKenna*

Roger E. Collanton
General Counsel
Anna A. McKenna
Assistant General Counsel
Andrew Ulmer
Director, Federal Regulatory Affairs
California Independent System
Operator Corporation
250 Outcropping Way
Folsom, CA 95630
Tel.: 916-351-4400
Fax: 916-608-7222
amckenna@caiso.com
aulmer@caiso.com

Sean Atkins
Bradley Miliauskas
Alston & Bird, LLP
The Atlantic Building
950 F. Street NW
Washington, DC 20004
Tel: 202-239-3300
Fax: 202-239-3333
sean.atkins@alston.com
bradley.miliauskas@alston.com

Counsel for the California Independent System Operator Corporation

Dated: April 23, 2014

CERTIFICATE OF SERVICE

I hereby 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, 2014.

/s/ Anna Pascuzzo
Anna Pascuzzo