

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

**California Independent System
Operator Corporation**

**Docket Nos. ER12-1630; ER13-995;
ER13-1055**

**MOTION OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR
CORPORATION FOR AN EXTENSION OF TIME TO ACTIVATE ORDER 755
MARKET DESIGN**

I. Introduction

Pursuant to Rules 212 and 2008(a)¹ of the Commission's Rules of Practice, the California Independent System Operator Corporation (the ISO) files this motion for an extension of time - until June 1, 2013 - to activate software code associated with its market design implementing Commission Order 755.² While the ISO plans to deploy its software code on May 1, 2013 as part of its spring 2013 release of market enhancements, market participants have asked for additional time to assess market simulation results before the ISO implements its Order 755 market design. The ISO believes the Commission should afford market participants this additional time because market participants have raised valid concerns arising from the fact that simulation results do not match expected

¹ 18 C.F.R. §§ 385.212, 385.2008(a). If the Commission grants this motion, the ISO will submit a compliance filing to modify the effective date of the tariff records implementing the ISO's Order 755 market design. If the Commission denies this motion, the ISO will take immediate steps to activate its Order 755 software code that it will deploy on May 1, 2013. The ISO should be able to complete this effort within three business days. This time is necessary for the ISO to adjust the new effective dates in its master file before accepting mileage bids from resources in the day-ahead market.

² *Frequency Regulation Compensation in the Organized Wholesale Power Markets*, 137 FERC ¶ 61,064 (October 2011) (Order 755); rehearing denied 138 FERC ¶ 61,123 (February 2012) (Order 755-A).

outcomes. If the ISO ignores these concerns, market participants may immediately challenge market results and may choose not to offer their resources into the ISO regulation market. If granted additional time, the ISO commits to work diligently with market participants during this time to support their efforts to validate market simulation results, answer market participants' additional questions, and further assess readiness of this important market design feature.

II. Background

Over the last year and a half, the ISO has worked diligently to develop and implement tariff rules to comply with Order 755, which requires the ISO to compensate resources providing regulation service through (1) a capacity payment that reflects the marginal resource's opportunity costs and (2) a performance payment that reflects the quantity of regulation service actually provided by a resource when the resource accurately follows a control signal. The ISO's market design complies with these requirements in part by calculating a market clearing price for mileage on which to base performance payments for resources providing regulation (i.e., instructed mileage as adjusted for accuracy).

In September 2012, the Commission accepted the ISO's market design proposal to comply with Order 755, subject to a compliance filing.³ The ISO submitted its compliance filing in October 2012, which the Commission

³ *California Independent System Operator Corporation*, 140 FERC ¶ 61,206 (September 2012).

accepted.⁴ Separately, the ISO filed a motion to implement its Order 755 tariff provisions on May 1, 2013. The Commission granted that motion.⁵

The ISO has undertaken a market simulation to test how its Order 755 market design performs in conjunction with the day-ahead and real-time market systems, market quality system, scheduling and infrastructure business rules, energy management system and settlements. During this time, the ISO has provided market participants with simulated market data and settlement results to allow them to validate that their market and settlement processes are functioning consistent with the Order 755 market design. As part of its market simulation, the ISO also provided market participants with sample energy management system production data to allow them to validate instructed mileage and performance payment calculations against the actual performance of their resources in production.

During the week of April 15, 2013, market participants expressed concerns that they need more time to assess this production data and the simulated settlement results. Although the ISO calculated settlement data for several market simulation days, it was not until April 23, 2013, due to several software defects, that the ISO issued a successful end-to-end settlement to the market participants for their validation. This fact admittedly has not provided market participants sufficient time to validate the ISO's market simulation. Some market participants have also questioned the ISO's accuracy measurements with

⁴ *California Independent System Operator Corporation*, 142 FERC ¶ 61,233 (March 2013).

⁵ *California Independent System Operator Corporation*, 141 FERC ¶ 61,184 (December 2012).

respect to how their resources respond to the ISO's automatic generation control signal. These market participants have requested that the ISO delay implementation of its Order 755 market design until they can review and validate additional market simulation and production results and resolve any outstanding issues. This motion responds to those requests.

III. Good cause exists to grant the ISO an extension of time to implement its Order 755 market design.

The ISO believes that good cause exists to undertake additional market simulation activities before activating its Order 755 market design. The fact that market participants have been unable to validate the performance of their resources in response to the ISO's control signal through end-to-end testing raises concerns as to whether the ISO can ensure a successful launch of this market feature. Unless market participants gain confidence through additional testing that the ISO's market design is functioning as intended, there is increased risk that market participants will immediately initiate settlement disputes regarding regulation performance payments in order to protect their rights. Alternatively, resource owners may elect not to provide regulation to the ISO market until they are satisfied that the ISO's market design works. Neither outcome is acceptable. The ISO desires to implement Order No. 755 in a seamless manner. Further market simulation is necessary to ensure this seamless implementation.

During the month of May, the ISO commits to conduct additional market simulation work to ensure market participants can validate the performance of

their resources in response to the ISO's control signal through end-to-end testing. Specifically, the ISO will conduct at least one trade day of simulated operations under its Order 755 market design to demonstrate how it will clear the market based on the bids submitted and calculate performance payments to resources providing regulation based on the accuracy of their response to a control signal. This effort should provide a more robust set of results for market participants to assess the performance of their resources and the resulting settlements. In addition, the ISO will provide market participants with mileage calculation results based on production data from its energy management system at both the resource and system level. Sharing this information will allow the ISO and market participants to validate across both the ISO and market participants' systems to ensure that the results are consistent. If implementation issues persist after June 1, 2013, the ISO will consider initiating a stakeholder process to explore possible refinements to its Order 755 market design.

To signal the ISO's full intent to implement its Order 755 market design, the ISO will deploy its software code by May 1, 2013, but will leave the feature dormant until June 1, 2013. This is a significant step in implementing Order 755 and provides the appropriate signal to resource owners and developers of new resources that the ISO is moving forward with implementation in a timely and efficient manner. This step should mitigate any prejudice to market participants that want the ISO to activate its Order 755 market design as soon as possible.

But pending the outcome of this motion, the ISO plans to delay activation of its market and settlement systems associated with Order 755 implementation

until June 1, 2013 to permit additional market testing.⁶ This approach has the advantage of mitigating adverse market impacts that could result from implementing Order 755 in a manner that creates settlement disputes or discourages resources from submitting regulation bids into the market.

IV. Conclusion

The ISO requests that the Commission grant a limited extension of time, until June 1, 2013, for the ISO to activate its Order 755 market design. The ISO will deploy its software code for this enhancement by May 1, 2013, but asks that the Commission authorize the ISO to conduct additional market simulation testing during May 2013, prior to activating its software code on June 1, 2013.

Respectfully submitted,

By: /s/ Andrew Ulmer

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⁶ Under the ISO's release planning for new market enhancements, the ISO generally activates software code affecting settlement systems at the beginning of a calendar month.

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service lists for the above referenced proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2011).

Dated at Folsom, California this 24th day of April, 2013.

Jennifer Rotz

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