California ISO
Your Link to Power

California Independent
System Operator Corporation

April 3, 2013

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: California Independent System Operator Corporation
Docket No. ER13-872- 000

Tariff Revisions Addressing Treatment of Market Participants with Suspended Market-Based Rate Authority Compliance Filing

Dear Secretary Bose:

The California Independent System Operator Corporation ("ISO") hereby submits for filing the attached amendment to its Fifth Replacement FERC Electric Tariff in compliance with the Commission's March 19 order in the above-identified docket.[1]

I. BACKGROUND

A. Market-Based Rate Suspension

On September 20, 2012, the Commission issued an order directing J.P. Morgan Ventures Energy Corporation ("JP Morgan") to show cause why its authorization to sell electric energy, capacity, and ancillary services at market-based rates should not be suspended.[2] The September 20 order directed JP Morgan to provide an explanation of why certain JP Morgan communications with the Commission, the ISO, and the ISO's Department of Market Monitoring should not be found to violate the Commission's Market Behavior Rules, which require sellers with market-based rates to "provide accurate and factual information and not submit false or misleading information, or omit material information, in any communication with the Commission, Commission-approved market monitors, Commission-approved regional transmission organizations, Commission-approved independent system operators, or jurisdictional transmission providers, unless Seller exercises due diligence to prevent such occurrences."[3]

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[1] *Cal. Indep. Sys. Operator Corp.*, 142 FERC ¶ 61,191 (2013).

[2] *J.P. Morgan Ventures Energy Corp.*, 140 FERC ¶ 61,227 (2012).

[3] 18 C.F.R. § 35.41(b) (2012).

In an order of November 14, 2012, the Commission found that JP Morgan's communications constitute violations of the Commission's Market Behavior Rules. In response to these violations, the Commission suspended JP Morgan's authority to sell energy, capacity, and ancillary services at market-based rates for a period of six months, effective on April 1, 2013. The Commission limited JP Morgan's participation in wholesale electricity markets to either scheduling quantities of energy products without an associated price or specifying a zero-price in its offer, as the relevant tariffs require. The Commission capped the rate that JP Morgan could receive at the higher of the applicable locational marginal price or its default energy bid.[4]

In response to comments made by the ISO in that proceeding, the November 14 order also provided additional time for the ISO to evaluate the reliability impacts of the Commission's suspension and related directives on system reliability and delayed the suspension until April 1, 2013.[5]

B. February 1 Filing

On February 1, 2013, the ISO filed amendments to the ISO tariff to implement the November 14 order. In its filing, the ISO explained that the November 14 order did not specifically list all implementation consequences for any particular market. In the case of the ISO markets, for example, the November 14 order left open certain details of the energy bidding mechanisms for the resources with suspended market-based rate authority that are subject to a must-offer obligation either because the resource is subject to a resource adequacy contract or because the resource has been designated under the ISO's capacity procurement mechanism. The November 14 order also did not specify how the ISO is to place the permitted bids for such resources in the appropriate merit order for dispatching the resources of such market participants.

The ISO's proposed tariff amendment sought to implement the directives of the November 14 order (and any future similar market-based rate suspension orders) in a manner that allows the ISO to maintain system reliability and avoids any distortions of the ISO's markets, while still providing the affected market participant with a fair opportunity to earn prices that effectively are capped at the higher of the market participant's default energy bid (or comparable cost-based bid) or the applicable locational marginal price.

This filing included proposed tariff revisions that define how market participants with suspended market-based rate authorizations can bid into the ISO's markets and be compensated consistent with the suspension order. These tariff revisions added a new Appendix II to the ISO tariff, which applies not only to JP Morgan, but also to any market

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4 *J.P. Morgan Energy Ventures Corp.*, 141 FERC ¶ 61,131 at P 53 (2012).

5 *Id.*

participant that is subject to a market-based rate suspension comparable to the suspension mandated in the November 14 order.

The proposed tariff revisions relevant to this compliance filing included the following:

- The affected resources may only participate in the day-ahead and real-time markets by submitting either a self-schedule or an economic bid with a price of zero (0) dollars per megawatt hour ($0/MWh).
- Prior to the execution of the applicable ISO market run, the ISO will replace all the resource's economic bid segments with a generated bid based on the resource's proxy costs.
- The resource may only participate in the ancillary services markets by submitting either a submission to self-provide ancillary services or an ancillary service bid with a zero price per megawatt ($0/MW).

C. March 19 Order

In the March 19 order, the Commission conditionally accepted the ISO's filing, to be effective April 1, 2013. The Commission concluded that the amendment represented a reasonable implementation of the November 14 order.[6] In particular, the Commission found that the ISO's proposal to replace applicable zero-priced bids with generated bids was appropriate, agreeing with the ISO that the use of zero-priced bids could have the unintended effect of depressing the market clearing prices in the ISO markets.[7]

The Commission stated, however, that the amendment might produce a confiscatory rate in the event that the locational marginal price produced by such generated bids falls below an applicable resource's default energy bid. The Commission explained that the generated bid does not account for all of a market participant's costs, specifically fixed or incidental costs. Therefore, if the location marginal price were below the resource's default energy bid, it would not be sufficient for the resource to recover its costs of generating electricity. The Commission accordingly directed the ISO to submit a compliance filing, within 15 days, to provide that a market participant subject to Appendix II will receive the higher of its default energy bid or the applicable locational marginal price.[8]

The Commission also concluded that the rate a resource subject to Appendix II might be paid for mitigated exceptional dispatches may be confiscatory. The Commission ruled that section 11.5.6.7.3 of the ISO tariff should not apply to market participants with suspended market-based rate authority. It directed the ISO to revise its tariff within 15 days to provide that market participants subject to Appendix II that

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[6] March 19 order at P 26.

[7] *Id. at* P 28.

[8] *Id. at P* 29.

receive exceptional dispatches subject to mitigation will receive the higher of their default energy bid or the applicable LMP.[9]

Finally, for the purposes of this compliance filing, the Commission found that proposed section 5.1 of Appendix II conflicts with the plain language of the November 14 order in failing to permit market participants to self-schedule ancillary services. Section 5.1 as filed would permit a market participant to offer either a "Submission to Self-Provide Ancillary Services, or an Ancillary Services Bid with a $0/MW price." The March 19 order states that the ISO tariff defines a "Submission to Self-Provide Ancillary Services" differently than it defines "self-schedule." The Commission directed the ISO, in its 15-day compliance filing, to revise Section 5.1 in a manner consistent with the November 14 order.[10]

II. DESCRIPTION OF COMPLIANCE AMENDMENTS

In paragraphs 28 and 29 of the March 19 order, the Commission approved the ISO's proposed substitution of generated bids for zero-priced bids, but directed that, in such circumstances, the resource should receive the higher of the locational marginal price or its default energy bid. The ISO proposes to modify section 1 of Appendix II to provide for such payment. The ISO notes that this payment will not be produced by the ISO's market software; rather, in instances in which the locational marginal price is less than the default energy bid for a resource bid by an affected market participant, the ISO will replace the locational marginal price with the default energy bid price (for the affected resource) during the settlement process.

The ISO wishes to call the Commission's and market participants' attention to the fact that the structure established by the Commission order – clearing the market using the generated bid while paying the resource the higher of its default energy bid or the locational marginal price – will in some circumstances create market inefficiencies. The ISO will need to pay a market participant subject to Appendix II an above-market price when the default energy bid is higher than the locational marginal price. This difference between the default energy bid and the locational marginal price will be accounted for through the existing settlement accounts that capture any neutrality type discrepancies reflected in Section 11 of the ISO tariff. For example, the payment of the default energy bid for real-time market settlement of JP Morgan's energy settlement may impact the settlement account reflected in Section 11.5.4 of the ISO tariff for the purposes of allocating non-zero amounts. Consistent with the Commission's order, after the applicable market clearing process is complete but prior to processing the settlement of market charges and payments, if the applicable locational marginal price is lower than the default energy bid, the ISO will replace the locational marginal price with the default energy bid for the affected transactions prior. This intermediary process allows the ISO

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9 *Id. at* P 30.

10 *Id. at* P 31.

to ensure JP Morgan is paid the higher of the default energy bid or the locational marginal price and obviates the need for a new account for allocating the costs incurred for such a guarantee.

The ISO also notes, as explained in the ISO's filing, that if the market participant subject to Appendix II choses to self-schedule its capacity (agrees to be a price-taker) in the ISO's energy market rather than to submit a zero-priced bid, the market participant will receive the locational marginal price. The provisions approved by the Commission do not replace self-schedules (which are submitted without an offer price) with generated bids.[11] Self-schedules are thus not within the matters discussed in paragraphs 28 and 29, and the ISO's compliance filing does not modify the treatment of energy self-schedules.

In paragraph 30 of the March 19 Order, the Commission directed that a market participant subject to Appendix II that receives an exceptional dispatch subject to mitigation during the suspension period will be paid the higher of its default energy bid or the applicable locational marginal price. The ISO proposes to add a new section 1.4 to Appendix II to provide for the payment of the higher of the resource's default energy bid or the applicable locational marginal price in such circumstances. Note that this provision applies to all intervals in which the resource is dispatched or committed by the ISO, including any exceptional dispatches.

Finally, consistent with paragraph 31 of the March 19 order, the ISO proposes to revise sections 5.1 and 5.2 of Appendix II to replace the original references to "Submission to Self-Provide an Ancillary Service" with references to self-schedules of Ancillary Services in accordance with the ISO tariff. The ISO does not intend by this compliance filing to suggest that there is a substantive distinction between a submission to self-provide ancillary service and self-scheduling of ancillary services.[12]

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[11] Transmittal letter at 13-14. *See also* Appendix II, § 1.3, which provides that the ISO will "replace all the resource's Economic Bid segments with a Generated Bid." By definition, a self-schedule has no Economic Bid segments.

[12] *See, e.g.,* ISO Tariff §§ 4.9.8.1, 8.6.2, 30.7.6.1.

III. CONCLUSION

For the reasons set forth above, the ISO respectfully requests that the Commission approve the tariff modifications in Attachments A and B, effective as of April 1, 2013.

Respectfully submitted,

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Dated: April 3, 2013.

Attachment A
Clean Tariff – ER13-872

Tariff Revisions Addressing Treatment of Market Participants with Suspended Market-Based Rate Authority

Compliance Filing
April 3, 2013

APPENDIX II

Market-Based Rate Authority Suspension

This Appendix provides the rates, terms and conditions that apply to Scheduling Coordinators that submit Bids into the CAISO Markets for resources of Market Participants affected by a suspension or revocation of the Market Participant's market-based rate authority, issued pursuant to Section 35, Subpart H of the Federal Energy Regulatory Commission's Rules of Practice and Procedure (18 C.F.R §§ 35.36 to 35.42) where the Federal Energy Regulatory Commission has restricted participation to the following terms:

1) The Market Participant's authority to sell energy, capacity, and ancillary services at market-based rates is suspended or revoked.

2) The Market Participant will only be allowed to participate in wholesale electricity markets by either scheduling quantities of energy products without an associated price or by specifying a zero-price in their offer, as the relevant tariffs require.

3) The rate received by the Market Participant will be capped at the higher of the applicable Locational Marginal Price or its Default Energy Bid.

This Appendix details the application of the terms specified above as they apply to Market Participants engaged in transactions under the CAISO Tariff. These additional rates, terms and conditions apply in addition to those already specified in other provisions of the CAISO Tariff, which remain in effect for Scheduling Coordinators subject to this Appendix to the extent not inconsistent with this Appendix.

1. Bids for and Settlement of Energy

1.1. The Scheduling Coordinator may only participate in the Day-Ahead and Real-Time Markets for the resources of Market Participants subject to this Appendix by submitting either a Self-Schedule or an Economic Bid with a price of zero (0) dollars per megawatthour ($0/MWh).

1.2. Prior to the Market Close of the applicable CAISO Market, the CAISO will validate the Bids submitted by such Scheduling Coordinator based on the Resource ID. If the Scheduling Coordinator submits a Bid that is not either a Self-Schedule or an Economic Bid with a price of $0/MWh, the CAISO will reject the Bid.

1.3. Prior to the execution of the applicable CAISO Market run, the CAISO will replace all the resource's Economic Bid segments with a Generated Bid based on the resource's Proxy Costs.

1.4. After the execution of the CAISO Market run, for intervals in which the resource is dispatched or committed by the CAISO, including any Exceptional Dispatches, the CAISO will pay the higher of its Default Energy Bid or the applicable Locational Marginal Price.

2. Residual Unit Commitment Bids

2.1. The Scheduling Coordinator may only participate in the Residual Unit Commitment for the resources of Market Participants subject to this Appendix by submitting a RUC Availability Bid of zero (0) dollars per megawatt per hour ($0/MW-hour).

2.2. Prior to the Market Close of the applicable CAISO Market, the CAISO will validate the bids submitted by such Scheduling Coordinator based on the Resource ID. If the

Scheduling Coordinator submits a RUC Availability Bid that is not a $0/MW-hour, the CAISO will reject the RUC Availability Bid.

3. Default Energy Bid

3.1. The Scheduling Coordinator will not be entitled to select the Negotiated and LMP options for the resources of Market Participants subject to this Appendix and can only select the Variable Cost Option as specified in Section 39.7 of the CAISO Tariff for their Default Energy Bid during the period of the suspension.

3.2. If the resource lacks a Variable Cost Option Default Energy Bid during the period of the suspension or revocation, the CAISO will create a Default Energy Bid with a $0/MWh price for the resource.

4. Minimum Load, Start-Up, and Transition Costs

4.1. The Scheduling Coordinator responsible for submitting the resource's Minimum Load and Start-Up Costs for the resources of Market Participants subject to this Appendix will not be entitled to select the Registered Cost option available under Section 30.4.1.2 and can only select the Proxy Cost option as specified in Section 30.4.1.1 of the CAISO Tariff for their Minimum Load and Start-Up Costs.

4.2. If the resource is registered with the CAISO as a Multi-Stage Generating Unit resource, the Scheduling Coordinator may only register a Transition Cost of $0 per MW hour.

4.3. If the resource lacks a Start-Up or Minimum Load Cost in any market intervals, the CAISO will insert the Start-Up or Minimum Load Costs calculated based on the Proxy Cost option.

5. Ancillary Services

5.1. The Scheduling Coordinator for the resources of Market Participants subject to this Appendix may only submit either an Ancillary Services self-schedule consistent with the requirements of the ISO tariff or an Ancillary Service Bid with a zero price per megawatt ($0/MW).

5.2. Prior to the Market Close, the CAISO will reject any Ancillary Services Bid submitted for such resource that is not an Ancillary Services self-schedule consistent with the requirements of the ISO tariff or an Ancillary Services Bid with a $0/MW price.

6. Ramping Rates

6.1. All of the Operating Reserve, Operational and Regulating Ramp Rates for the resources of Market Participants subject to this Appendix will be based on the maximum ramp rate registered in the Master File.

6.2. To the extent the Scheduling Coordinator for such resources submits something other than the maximum ramp rate registered in the Master File for these rates, the CAISO will replace the ramp with the maximum ramp rate value in the Master File.

6.3. In the Real-Time Market, the Scheduling Coordinator may only modify their maximum Ramp Rate through a SLIC submission based on actual changes in physical conditions of the resource.

Attachment B
Marked Tariff – ER13-872

Tariff Revisions Addressing Treatment of Market Participants with Suspended Market-Based Rate Authority

Compliance Filing
April 3, 2013

APPENDIX II

Market-Based Rate Authority Suspension

This Appendix provides the rates, terms and conditions that apply to Scheduling Coordinators that submit Bids into the CAISO Markets for resources of Market Participants affected by a suspension or revocation of the Market Participant's market-based rate authority, issued pursuant to Section 35, Subpart H of the Federal Energy Regulatory Commission's Rules of Practice and Procedure (18 C.F.R §§ 35.36 to 35.42) where the Federal Energy Regulatory Commission has restricted participation to the following terms:

1) The Market Participant's authority to sell energy, capacity, and ancillary services at market-based rates is suspended or revoked.

2) The Market Participant will only be allowed to participate in wholesale electricity markets by either scheduling quantities of energy products without an associated price or by specifying a zero-price in their offer, as the relevant tariffs require.

3) The rate received by the Market Participant will be capped at the higher of the applicable L~~l~~ocational M~~m~~arginal P~~p~~rice or its Default Energy Bid.

This Appendix details the application of the terms specified above as they apply to Market Participants engaged in transactions under the CAISO Tariff. These additional rates, terms and conditions apply in addition to those already specified in other provisions of the CAISO Tariff, which remain in effect for Scheduling Coordinators subject to this Appendix to the extent not inconsistent with this Appendix.

1. Bids for and Settlement of Energy

1.1. The Scheduling Coordinator may only participate in the Day-Ahead and Real-Time Markets for the resources of Market Participants subject to this Appendix by submitting either a Self-Schedule or an Economic Bid with a price of zero (0) dollars per megawatthour ($0/MWh).

1.2. Prior to the Market Close of the applicable CAISO Market, the CAISO will validate the Bids submitted by such Scheduling Coordinator based on the Resource ID. If the Scheduling Coordinator submits a Bid that is not either a Self-Schedule or an Economic Bid with a price of $0/MWh, the CAISO will reject the Bid.

1.3. Prior to the execution of the applicable CAISO Market run, the CAISO will replace all the resource's Economic Bid segments with a Generated Bid based on the resource's Proxy Costs.

1.4. After the execution of the CAISO Market run, for intervals in which the resource is dispatched or committed by the CAISO, including any Exceptional Dispatches, the CAISO will pay the higher of its Default Energy Bid or the applicable Locational Marginal Price.

2. Residual Unit Commitment Bids

2.1. The Scheduling Coordinator may only participate in the Residual Unit Commitment for the resources of Market Participants subject to this Appendix by submitting a RUC Availability Bid of zero (0) dollars per megawatt per hour ($0/MW-hour).

2.2. Prior to the Market Close of the applicable CAISO Market, the CAISO will validate the bids submitted by such Scheduling Coordinator based on the Resource ID. If the

Scheduling Coordinator submits a RUC Availability Bid that is not a $0/MW-hour, the CAISO will reject the RUC Availability Bid.

3. Default Energy Bid

3.1. The Scheduling Coordinator will not be entitled to select the Negotiated and LMP options for the resources of Market Participants subject to this Appendix and can only select the Variable Cost Option as specified in Section 39.7 of the CAISO Tariff for their Default Energy Bid during the period of the suspension.

3.2. If the resource lacks a Variable Cost Option Default Energy Bid during the period of the suspension or revocation, the CAISO will create a Default Energy Bid with a $0/MWh price for the resource.

4. Minimum Load, Start-Up, and Transition Costs

4.1. The Scheduling Coordinator responsible for submitting the resource's Minimum Load and Start-Up Costs for the resources of Market Participants subject to this Appendix will not be entitled to select the Registered Cost option available under Section 30.4.1.2 and can only select the Proxy Cost option as specified in Section 30.4.1.1 of the CAISO Tariff for their Minimum Load and Start-Up Costs.

4.2. If the resource is registered with the CAISO as a Multi-Stage Generating Unit resource, the Scheduling Coordinator may only register a Transition Cost of $0 per MW hour.

4.3. If the resource lacks a Start-Up or Minimum Load Cost in any market intervals, the CAISO will insert the Start-Up or Minimum Load Costs calculated based on the Proxy Cost option.

5. Ancillary Services

5.1. The Scheduling Coordinator for the resources of Market Participants subject to this Appendix may only submit either an Ancillary Services self-schedule ~~Submission to Self-Provide Ancillary Services~~ consistent with the requirements of the ISO tariff or an Ancillary Service Bid with a zero price per megawatt ($0/MW).

5.2. Prior to the Market Close, the CAISO will reject any Ancillary Services Bid submitted for such resource that is not ~~a Submission to Self-Provide~~ an Ancillary Services self-schedule consistent with the requirements of the ISO tariff~~,~~ or an Ancillary Services Bid with a $0/MW price.

6. Ramping Rates

6.1. All of the Operating Reserve, Operational and Regulating Ramp Rates for the resources of Market Participants subject to this Appendix will be based on the maximum ramp rate registered in the Master File.

6.2. To the extent the Scheduling Coordinator for such resources submits something other than the maximum ramp rate registered in the Master File for these rates, the CAISO will replace the ramp with the maximum ramp rate value in the Master File.

6.3. In the Real-Time Market, the Scheduling Coordinator may only modify their maximum Ramp Rate through a SLIC submission based on actual changes in physical conditions of the resource.