UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	))	**Docket No. ER15-15-001**

LIMITED ANSWER OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CLARIFYING IMPLEMENTATION OF COMMITMENT COST TARIFF AMENDMENT

The California Independent System Operator Corporation ("CAISO") provides this limited answer to the comments filed regarding its November 25, 2014 response to the Commission's November 6, 2014 deficiency letter. As explained below, the Commission should deny Pacific Gas and Electric Company's ("PG&E") request that the Commission require the CAISO to submit a report within a year. The CAISO also clarifies the implementation timeline and process for the proposed modifications to the CAISO's commitment cost recovery mechanisms contained in the October 1, 2014 tariff amendment initating this docket, so as to avoid any confusion among parties and the Commission.

In the October 1 tariff amendment, the CAISO proposed to modify its commitment cost recovery provisions to: (1) increase the daily proxy cost bid cap from 100 percent to 125 percent; (2) eliminate the registered cost option for generating resources other than use-limited resources; and (3) add provisions to allow the CAISO to use updated natural gas price data in the day-ahead market when a daily gas price reported by the Intercontinental Exchange ("ICE") on the morning of a day-ahead market run exceeds 125 percent of the gas price index calculated for the day-ahead market during the previous night.[1] On November 6, 2014, Commission Staff issued a letter indicating that additional information is required by the Commission to evaluate the October 1 tariff filing. The CAISO filed its response on November 25, requesting waiver of the 60-day notice requirement and expedited Commission decision so as to allow the tariff changes in the October 1 filing to go into effect by December 9, 2014, or as soon thereafter as possible. Four parties filed comments on the CAISO's response. All four support the October 1 filing and the December 9 effective date, noting the need for quick implementation of the October 1 tariff amendment because of the increased risk of price spikes during the winter period.[2]

To avoid any potential misunderstanding, the CAISO wishes to clarify the timing of the implementation of the second and third components of the October 1 filing – elimination of the registered cost option for non-use-limited resources and updating the proxy calculation with an ICE-only gas price when a significant price spike occurs. Changing a resource's designation between the registered and proxy cost options requires a change to the resource's data in the CAISO's Master File, which contains all of the information regarding generating units and loads.[3] Therefore, assuming that the Commission approves the proposal to

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1 Capitalized terms not otherwise defined herein have the meanings set forth in Appendix A to the CAISO tariff as revised by the October 1 tariff filing, and references to section numbers are references to sections of the CAISO tariff as revised by the October 1 tariff filing unless otherwise specified.

2 The four parties are NRG, Pacific Gas and Electric Company, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California, and the Northern California Power Agency.

3 *See* CAISO Tariff, Appendix A, definition of "Master File."

move non-use limited resources to the proxy cost option, those resources will need to have their Master File listings updated to reflect this change. The CAISO tariff specifies that updates to the Master File require between five and eleven business days to process, thus the CAISO's business process is by no means a "same day" or "next day" process.[4] The CAISO has developed an implementation plan to reduce the processing time for Master File updates to three business days for non-use limited resoures that are still under the registered cost option when the October 1 filing goes into effect. During this brief interim period, such resources will remain subject to the registered cost option, unless price spike conditions occur, in which case a different mechanism will be used for the temporary switching of resources to the proxy cost opion.

The three-business-day period required to switch resources from registered to proxy does not impact the CAISO's ability to implement the ICE-only alternate gas price calculation. This is because if the price spike threshold is met, the CAISO will implement the alternative gas price calculation using a manual process that bypasses the Master File.[5] In other words, the CAISO will be able to implement the ICE-only alternative calculation process upon the effective date of the October 1 tariff amendment. Therefore, if a price spike were to occur during the three-business-day-switching period, non-use limited

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[4] CAISO Tariff, Section 30.7.3.2.

[5] The CAISO cannot use this manual process to bypass the Master File under normal, non-price-spike conditions because it would interfere with the normal bidding timelines for the CAISO's day-ahead market. This process is feasible under price-spike conditions because there will be a narrow window for resources to re-submit bids after gas prices are recalculated using the ICE-only index.

resources will be switched to the the proxy cost option if the proxy cost, calculated with the ICE-only price, exceeds the resource's existing registered cost.[6]

In its comments, PG&E states that it "recognizes that immediate action on the CAISO proposal should not be the end of the activity relating to these issues. . . . [but] recommends that the Commission also require the CAISO to submit a report within one year to address any outstanding concerns the Commission might still have, concerns illustrated by the November 6 letter."[7] The CAISO opposes any additional reporting obligation for two reasons. First, it is not at all clear to the CAISO what the Commission's concerns are, or if any still remain after the CAISO provided its response to the deficiency letter. Second, the CAISO is under several reporting obligations and each additional obligation imposes an increasing burden on CAISO resources. Unless the Commission has very specific concerns, the CAISO urges the Commissoin to reject PG&E's suggestion. The CAISO's proposed tariff changes are well-justified and consistent with the Commission's orders approving several CAISO tariff amendments proposing incremental improvements to the CAISO's start-up and minimum load cost recovery mechanisms. The October 1 filing is just the latest

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6 If a resources' registered commitment costs are greater than those calculated using the proxy option with the ICE-only price, the CAISO will not reset the resource's costs using the proxy option. This approach is consistent with the fundamental purpose of the alternative price calculation mechanism, which is to ensure that resources have a fair opportunity to recover their costs when a significant gas price increase occurs. If a resource's registered costs already afford it this opportunity, then the resource will continue to recover its commitment costs under the registred cost approach until the Master File is updated.

7 PG&E Comments at 1.

in this series of incremental improvements, and does not warrant imposing on the CAISO an additional reporting requirement.

Respectfully submitted,

*/s/ Michael Kunselman*_

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Dated: December 8, 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 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 8th day of December, 2014.

/s/ Michael Kunselman _
Michael Kunselman