

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

**California Independent System
Operator Corporation**

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**Docket Nos. ER15-861-000
and EL15-53-000**

**ANSWER OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
TO PROTESTS AND COMMENTS ON COMPLIANCE FILING**

The California Independent System Operator Corporation (“CAISO”) submits this answer to protests and comments filed by parties regarding the May 6, 2015 filing in compliance with the Commission’s March 16, 2015, order in this docket.¹ The protests and comments seek tariff revisions that go beyond what are needed to comply with the Commission’s order. The Commission should accept the CAISO’s tariff revisions as filed.

I. BACKGROUND

On January 15, 2015, the CAISO proposed revisions to its tariff provisions governing the Energy Imbalance Market (“EIM”) that would apply to each new entity joining the EIM (“EIM entity”) during such EIM entity’s initial year of Energy

¹ *Cal. Indep. Sys. Operator Corp.*, 150 FERC ¶ 61,191 (2015) (“March 16 Order”). The CAISO 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 CAISO requests leave to answer to the protests as the answer will aid the Commission in understanding the issues in the proceeding, provide additional information to assist the Commission in the decision-making process, and help to ensure a complete and accurate record in the case. *See, e.g., Equitrans, L.P.*, 134 FERC ¶ 61,250, at P 6 (2011); *Cal. Indep. Sys. Operator Corp.*, 132 FERC ¶ 61,023, at P 16 (2010); *Xcel Energy Services, Inc.*, 124 FERC ¶ 61,011, at P 20 (2008).

Imbalance Market participation.² The CAISO proposed these provisions to provide a transition period for entities that begin participating in centralized energy markets for the first time. The CAISO explained that implementing, participating in, and integrating into a centralized market framework constitutes a significant paradigm shift for new EIM entities and requires a period of time to allow these entities to gain important experience, make necessary system, operational, and functional changes and mature their practices to ensure that they can manage market systems and processes efficiently and effectively.

Although it rejected the proposed tariff amendments in its March 16, 2015 order,³ the Commission concluded that readiness safeguards are immediately necessary prior to full activation of any new EIM entity in the EIM. It therefore directed the CAISO to submit a compliance filing, within 60 days, to revise the tariff to include requirements to ensure readiness prior to new EIM entities commencing Energy Imbalance Market operations. The Commission stated that the revisions should include: (1) a robust market simulation and appropriate

² Specifically, the CAISO proposed that the CAISO would determine prices for intervals that experience transmission or system balance constraints within the new EIM entity's balancing authority area by using the last economic bid to establish the market clearing price, rather than using the existing tariff's \$1,000/MWh penalty price. Under the proposal, for a 12-month transition period after a new EIM Entity commences operations in the EIM, the CAISO would have set the flexible ramping constraint relaxation parameter between \$0 and \$0.01 (instead of \$60).

³ The Commission instituted a proceeding under section 206 of the Federal Power Act, to investigate the justness and reasonableness of the EIM provisions in CAISO's existing tariff related to the imbalance energy price spikes in PacifiCorp's balancing authority area that the CAISO had described in its tariff filing and in previous filings seeking a temporary waiver of the pricing parameters in sections 27.4.3.2 and 27.4.3.4 of its tariff. March 16 Order at ¶ 31. The Commission established a refund effective date 90 days from publication of notice in the Federal Register. *Id.* at 33. The Commission also directed staff to hold a technical conference to explore the issues raised by the CAISO. *Id.* at ¶ 31. The technical conference occurred on April 9, 2015. The Commission is in the process of receiving post-conference comments.

period of parallel operation to ensure that new entities joining the EIM have adequate opportunity to identify and resolve operational issues prior to full activation; and (2) a requirement that the CAISO and the new entrant each submit a market readiness certificate at least 30 days prior to full activation in the Energy Imbalance Market certifying the readiness of the new EIM entity's processes and systems. The Commission stated that the CAISO should develop measurable readiness criteria through a collaborative process with its stakeholders, upon which effectiveness of the new EIM entity's entry into the EIM can be predicated.⁴ The Commission further required that other entities in the process of joining the Energy Imbalance Market must certify their market readiness by filing a sworn affidavit from an officer of the company 30 days prior to the entity joining the EIM attesting that the new EIM entity's system is ready, including all communication systems and transparency to the CAISO of its units' status.

On May 6, 2015, the CAISO filed tariff revisions to comply with the March 16 Order. Two parties filed protests to the compliance filing.⁵ Four parties filed comments.⁶

II. ANSWER

As a general matter, the protest and comments seek tariff changes beyond the scope of compliance with the March 16 Order. The Commission

⁴ *Id.* at ¶ 34.

⁵ Deseret Generation and Transmission Co-Operative ("Deseret") and Western Power Trading Forum ("WPTF").

⁶ Bonneville Power Administration ("Bonneville"), PacifiCorp, Powerex, and Southern California Edison Company ("SoCal Edison").

provided the CAISO with clear directives on the matters to be included in a compliance filing, each of which the CAISO included.

Deseret claims that the CAISO did not propose qualitative or quantitative criteria to demonstrate readiness with respect to new EIM entities. It asserts that the CAISO “relegated” the criteria development to a stakeholder process that will not result in further tariff amendments, and Deseret finds this process to be insufficient.⁷ Bonneville offers similar arguments.⁸ These parties ignore that the Commission did not direct the CAISO to develop tariff criteria. It only required that the tariff include a certification of readiness, a market simulation, and a period of parallel operation, all of which the CAISO’s compliance filing achieves. The Commission also directed that the CAISO and EIM entity base the certification on criteria developed with stakeholders, which is precisely what the tariff provisions provide.

Deseret protests the CAISO’s ability to disregard stakeholder comments during the development of the readiness criteria.⁹ WPTF and Powerex contend that the criteria should be filed with the Commission.¹⁰ In addition, Deseret and Bonneville object that CAISO and EIM entity are left with discretion in determining readiness.¹¹ The Commission should reject these concerns. First, the Commission expressly directed the CAISO to conduct a stakeholder process

⁷ Deseret Protest at 4, 6.

⁸ Bonneville Power Administration Comments at 3-4.

⁹ Deseret at 7-8.

¹⁰ WPTF at 2-3; Powerex at 1-2.

¹¹ Deseret at 10.

to develop the criteria. This directive does not mean that the CAISO must agree with and accept all stakeholder comments during the development of the criteria. The CAISO will conduct a stakeholder process to develop the criteria,¹² and as part of that process the CAISO will respond to concerns and explain why it disagrees with specific stakeholder suggestions. Second, the Commission did not direct the CAISO to include the criteria in the tariff, and not including the criteria in the tariff will allow the CAISO, with stakeholder input, to more easily and in a more timely manner modify them based on lessons learned over time as new EIM entities join. Third, because the criteria will be implementation details, not provisions substantially affecting rates or the actual EIM service being provided, there is no requirement to include such provisions in the tariff. There are numerous instances where the CAISO and other ISOs and RTOs have applied readiness criteria before implementing major market design changes, and the Commission has not required those criteria to be included in the tariff.¹³ Finally, when developing general criteria, the CAISO and the candidate EIM entity need some flexibility to determine how the criteria should apply specifically to that candidate EIM entity. The CAISO believes that flexibility is necessary and appropriate under the circumstances as EIM entities will each be uniquely situated.

¹² The process for developing criteria for the readiness of NV Energy to join the Energy Imbalance Market is underway.

¹³ See, e.g., *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274, at P 1414 (2006) (“We direct the CAISO to file, at least 60 days prior to the effective date of MRTU Release 1, a statement certifying market readiness. As with other ISOs/RTOs, we do not find it necessary to direct the CAISO to make more than an informational filing.”); *New England Power Pool*, 100 FERC ¶ 61,287, at P 21 (2002) (directing ISO New England and the New England Power Pool to provide written advance notice of implementation of standard market design in New England).

The CAISO stresses that its consideration of lessons learned or unique circumstances will not be a unilateral exercise, but will occur during the stakeholder process that will involve, at a minimum, publication of revised criteria, opportunity to comment and a stakeholder call to discuss the comments. Accordingly, the criteria for each new EIM entity's readiness will build upon those for earlier EIM entities, both facilitating and enhancing the development of the criteria.

Deseret argues that the tariff should require the CAISO to provide detailed reports on the result of the market simulation and parallel operation.¹⁴ During the market simulation and parallel operation of PacifiCorp, the CAISO published the results, and it intends to do so in the future.¹⁵ The CAISO does not see the need to include this in the tariff, particularly in light of the well-established practices of the CAISO with respect to the transparency of market simulation activities.

Deseret also discusses the following hurdles to an EIM entity's participation that it asserts were revealed by PacifiCorp's entry into the Energy Imbalance Market: market data submittal deadlines that create forecast errors and the difference between resource portfolios available to serve imbalances and those available in the Energy Imbalance Market.¹⁶ Bonneville discussed the need to certify that the EIM entity has sufficient participating resources, also

¹⁴ Deseret at 9-10.

¹⁵ Market participant specific information is not made public because the CAISO considers that information to be proprietary to the market participant pursuant to section 20 of the CAISO tariff.

¹⁶ Deseret at 5-6.

citing PacifiCorp's entry.¹⁷ These parties misperceive the causes of the energy price spikes that occurred occasionally during the implementation of the Energy Imbalance Market, and this is not the appropriate forum in which to discuss these issues. The causes of, and solutions for, the energy price spikes are the subject of the technical conference and comments in this proceeding, which the Commission is now evaluating. The Commission did not suggest or expressly direct that the CAISO must to address these matters in the compliance filing.

Deseret and Bonneville contend that the stakeholder period is too short for the full development of criteria and is instead driven by the timeline for planned participation of new EIM entities. The March 16 Order did not establish a timeline for the stakeholder process - only the timeline for filing the compliance tariff language.¹⁸ Thus, to the extent that Deseret and Bonneville object to the CAISO's conduct of the current stakeholder process to develop criteria, that concern is beyond the scope of the compliance filing.

In addition, Deseret and SoCal Edison make technical criticisms of the tariff language. They both express concern that the specified certification that the CAISO is proposing in its tariff language pertains to the expected readiness of the EIM entity and its systems, rather than the actual readiness.¹⁹ Actual readiness, as opposed to compliance with readiness criteria, however, can only be determined after the fact. The CAISO does not believe that the Commission would have intended to require that the officers of the CAISO and the EIM entity

¹⁷ Bonneville at 5-6.

¹⁸ The March 16 Order directed the CAISO to submit a compliance filing within 60 days.

¹⁹ Deseret at 12, Edison at 1-3.

certify anything more than the readiness criteria are satisfied or will be satisfied by the planned implementation date. Deseret also complains that the tariff does not specify that the certification be made by an officer. Such a specification is unnecessary. Inherent in an organization's certification is that it is made by a person with authority to speak for, and bind, the organization.

Finally, Deseret asserts that if the CAISO and the EIM entity are unwilling to certify market readiness (as opposed to expected readiness), which the CAISO understands to refer to the CAISO's proposed certification containing an attestation of readiness by the proposed implementation date, then the tariff either should (1) authorize the CAISO to waive penalty pricing during an initial operation period to address instances that simulation and parallel operation criteria did not address, or (2) have a temporary reversion plan in place to reinstate the balancing authority area's prior energy imbalance pricing mechanism until defects are removed from the market design and implementation.²⁰ These requirements are unnecessary. First, if, despite a readiness certification, a condition expected to be satisfied by the implementation date is not, then the CAISO can delay implementation. Second, the CAISO has already publicly indicated that it plans to commence a stakeholder process in the near future aimed at developing a new tariff amendment to address transitional issues that new EIM entities may experience following the start of their participation in the Energy Imbalance Market, consistent with the directive in the March 16 Order that the CAISO could propose a future tariff amendment to

²⁰ Deseret at 13.

include a transitional period similar to its proposal in the January 15 filing, if it could demonstrate that the new proposal was commensurate with the need to address a new EIM entity's post-operation learning curve.²¹ Third, section 29.1(d) already provides for temporary reversion if the entry of a new EIM entity has an adverse impact on system or market operations. Finally, this concern is beyond the scope of the CAISO's compliance obligation which pertains solely to readiness criteria and preparation.

III. CONCLUSION

For the foregoing reasons, the CAISO requests that the Commission accept the CAISO compliance tariff provisions as filed.

Respectfully submitted,

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²¹ See CAISO Reply Comments on Technical Conference, Docket Nos. ER15-861-000 and EL15-53, at 29-30 (May 21, 2015).

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, under 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 11th day of June, 2015.

Is/ Anna Pascuzzo

Anna Pascuzzo