THE UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	))	**Docket No. ER14-____-000**

PETITION FOR LIMITED WAIVER OF TARIFF PROVISIONS AND REQUEST FOR NEXT-DAY COMMISSION ACTION

The California Independent System Operator Corporation ("ISO") respectfully requests that the Commission grant a limited waiver[1] of two provisions of the ISO tariff to allow the ISO to use updated natural gas price data for the limited purpose of financially settling certain types of transactions in the ISO market when natural gas prices for the affected trading day significantly exceed the applicable tariff-based gas price index. Natural gas prices faced by the ISO's electric suppliers in recent months have been uncharacteristically volatile and have peaked at unprecedented levels. Due to the requirement that the ISO calculate gas prices based on multiple price sources, and the timing of those publications, the gas price indices currently used to calculate fuel costs considered in the ISO day-ahead market have the potential to lead to inefficient market outcomes and unrecoverable fuel costs when significant and sudden jumps in the price of gas occur. Given the uncharacteristically volatile nature of natural gas prices observed this winter, the waiver requested in this filing is

[1] The ISO submits this petition pursuant to Rule 207 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.207 (2013). Capitalized terms not otherwise defined herein have the meanings set forth in appendix A to the ISO tariff, and references to sections are references to sections of the ISO tariff unless otherwise stated.

necessary to provide immediate and temporary relief and protection against potential adverse outcomes in the ISO's day-ahead market.

This petition is a more limited version of a second filing that the ISO is also making today which requests waiver of the same tariff provisions, but will apply to the inputs to the ISO's day-ahead market as well as the settlement of affected transactions. The current waiver, which is limited to updating gas prices solely for use in financial settlements, is intended to be a stop-gap mechanism remedy to address near-term adverse outcomes pending a Commission order on the broader companion waiver petition. As such, the ISO is requesting that the Commission issue an order on the current waiver by the close of business tomorrow, March 7.

I. Introduction and Summary of Filing

In both of the petitions being filed today, the ISO seeks temporary waiver of two ISO tariff provisions in order to ameliorate the impacts of any natural gas price spikes during the remaining winter and early spring period, which, based on price trends, is when the ISO believes they would most likely occur. An example of the type of event that this waiver is intended to address occurred on February 6, 2014. Per the ISO tariff, the day-ahead market for that day, which ran on the morning of February 5, utilized the gas price index calculated on the evening of February 4, derived from price data published on February 4, for gas delivered on February 5. However, between this calculation and the next publication of prices on the morning of February 5, for deliveries on February 6, natural gas prices increased by about 300 percent, with the result that natural gas prices for the February 6 trading day greatly exceeded the tariff-based gas price index calculated on February 4.

The ISO seeks temporary waiver of two sections of the ISO tariff to allow it to capture the impact of such gas price spikes in settling the outputs of its day-ahead market. First, the ISO requests waiver of the requirement in section 39.7.1.1.1.3 that the ISO determine natural gas cost inputs based on at least two natural gas price indices published the day prior to running the day-ahead market, which is almost two days prior to the applicable trading day. The ISO requests that it have the flexibility to settle day-ahead market transactions utilizing natural gas price data solely from Intercontinental Exchange ("ICE"), which is the only index specified in the tariff that is available prior to running the day-ahead market.[2] The ISO will also use this additional flexibility to ensure that settlements of resources based on ISO-generated cost-based default energy bids utilize a default energy bid that more accurately reflects the price of natural gas for the applicable day-ahead market.

Second, the ISO is also proposing waiver of section 30.4.1.2. That section allows resources that elect to bid their start-up and minimum load costs based on a monthly projected gas price calculation, known as the registered cost option, to switch to a daily calculation, known as the proxy cost option, when the proxy cost exceeds their registered cost. Resources that select the registered cost option are required to remain under that option for a minimum of 30 days.

[2] ICE generally publishes prices for the next trading day at or around 10:01 a.m. Pacific, and by noon Pacific at the latest.

Should resources switch from the registered to the proxy cost option, that section requires the resources to remain under the proxy option for the balance of the 30-day period. The ISO seeks waiver of this section so that when a natural gas price spike occurs, resources who are under the registered cost option, and whose proxy cost exceeds their registered cost, will be settled using the proxy cost. Granting this waiver will ensure that resources subject to the registered cost option will have the same opportunity as resources subject to the proxy cost option to recover their actual production costs.

The relief requested in this waiver is intended to address significant price spikes that may occur, and thus the ISO does not intend to exercise the flexibility sought under this waiver on a daily basis. The ISO will exercise this flexibility only when there is a significant increase in the natural gas prices, which the ISO plans to define initially as 150 percent or more of the gas prices based on a comparison of the index calculated the previous evening and the ICE prices published the next day.[3] On all other days, the ISO will continue to utilize the gas price calculated in accordance with the current tariff provision. The applicable threshold and procedures for executing this flexibility on any given day will be specified in the ISO's business practices manuals.

Good cause exists to grant this waiver because it is of limited scope, it will remedy a concrete problem, and it will not have undesirable consequences. The waiver provides clear benefits because it will allow the more accurate natural gas

[3] For example, if prices calculated using the normal ISO tariff index the evening before the day ahead market are $8, and prices reported by ICE the following day are $12 or greater, then the 150% threshold would be triggered.

price to be used for purposes of settling transactions in the ISO market during periods when natural gas prices significantly increase, thereby helping to ensure that market participants can recover their actual production costs under such circumstances.

As explained above, the ISO is seeking relief through two filings, both of which would waive the application of Sections 37.9.1.1.1.3 and 30.4.1.2 in the event of a significant increase in the price of natural gas.[4] The current waiver, however, will only impact the settlement of transactions in the ISO day-ahead market that utilize the natural gas cost formula set forth in the ISO tariff, while the companion waiver would affect both market inputs and settlements. Should the Commission decline to grant the companion waiver, or require material changes to the ISO's proposal, it would be feasible for the ISO to reverse any settlements calculations performed under the procedures outlined in this waiver. Therefore, the ISO is requesting that the Commission issue an order allowing this limited waiver to take effect by tomorrow, *i.e*. March 7, 2014. With respect to the more comprehensive companion waiver, the ISO is requesting that the Commission issue an order on that petition by March 19, 2014. This two-filing process will ensure that the Commission has ample opportunity to consider the ISO's proposal, while at the same time providing resources a reasonable opportunity to recover their costs in the event that a spike in natural gas prices occurs while the more comprehensive waiver petition is pending. Because the companion petition

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[4] These petitions were the subject of an ISO stakeholder process conducted over the past two weeks. This process and the results thereof are discussed in detail in the companion waiver petition.

requests waiver of the same tariff provisions for both market and settlement purposes, Commission approval of the companion petition will automatically supersede its approval of the current waiver petition.

Although both of these waivers are necessary in order to provide the ISO with sufficient flexibility to respond to near-term natural gas price spikes, the ISO plans to commence a stakeholder process in April to address the issues raised by gas market conditions and more comprehensively develop interim and permanent tariff solutions. The ISO expects that the stakeholder process will require at least several months to complete but it is committed to developing an interim solution that can be implemented in the fall if such solutions do not require substantial system changes. The two waivers requested today will help the ISO and market participants to bridge this gap.

II. Background Regarding Need for Limited Tariff Waiver

A. Use of Gas Price Indices in the ISO Markets

1. Start-Up and Minimum Load Costs

In the day-ahead market, the ISO commits resources and publishes a financially binding day-ahead schedule. The costs that the market considers when making commitment decisions include the costs of starting up the resources (start-up costs) and the costs of running the resources at their minimum operating levels (minimum load costs).[5] On a 30-day basis, scheduling coordinators for resources may choose either the proxy cost option or the

[5] *See* tariff section 31.3; tariff appendix A, definitions of "start-up cost" and "minimum load costs."

registered cost option for specifying their start-up costs or minimum load costs for the resources in the ISO markets.[6]

For resources under the proxy cost option, the ISO calculates start up and minimum load costs using a natural gas price index.[7] Each day, the ISO calculates this price index between 7:00 p.m. and 10:00 p.m. Pacific time using up to four (but at least two) natural gas prices published that day from the following sources: Natural Gas Intelligence, SNL Energy/BTU's Daily Gas Wire, Platt's Gas Daily, and ICE. This gas price index is used in the next day's day-ahead market run for the following trading day as well as the real-time market for the following day.[8] Resources under the proxy cost option can submit bids for their start-up and minimum load costs in the day-ahead market so long as those bids do not exceed the calculated proxy cost.

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6 Tariff section 30.4. A scheduling coordinator for a resource can choose the proxy cost option or the registered cost option for specifying either the start-up costs or the minimum load costs or both. *Id.* Thus, for a 30-day period, the scheduling coordinator could choose the proxy cost option for both the resource's start-up costs and minimum load costs, or could choose the proxy cost option for the resource's start-up costs and the registered cost option for the resource's minimum load costs, *etc.*

7 Tariff section 39.7.1.1.1.3 specifies how the ISO calculates the natural gas price index. The natural gas price index is uses for start-up and minimum load costs, variable cost default energy bids and generated bids. See also business practice manual for market instruments, section C.1 ("The daily Gas Price Index (GPI) is the index that is used in the calculation of the Default Energy Bids, as well as the generated bids including Startup Costs, and Minimum Load Costs."). The business practice manual for market instruments is available on the ISO website at http://bpmcm.caiso.com/BPM%20Document%20Library/Market%20Instruments/BPM_for_Market_Instruments_v31_clean.doc.

8 The result of this timing is that natural gas prices used in the day-ahead market for the applicable trading day are calculated based on prices published two days prior. An example of how this working in practice using the February 6 trading day is that natural gas prices are calculated between 7:00 and 10:00 pm on February 4, which are then utilized in the day-ahead market for the February 6 trading day, which closes at 10:00 am on February 5. The reason for using gas prices published on February 4 is that, except for ICE, all of the other price sources are published well after the close of the ISO's day-ahead market.

Of the four publications ICE publishes gas prices the earliest in the day – by as early as 10:01 a.m., or by noon at the latest.[9] The ISO's experience has been that ICE almost always publishes the gas prices by 10:01 a.m. This timing converges with the timing of the ISO's day-ahead market, which normally closes (*i.e.*, the ISO no longer accepts bids for the following trading day) at 10:00 a.m. and the results of which are normally published for the following trading day at 1:00 p.m.[10]

The registered cost option, on the other hand, allows scheduling coordinators to register fixed start-up and minimum load cost values of their choosing for each resource they represent in the ISO's master file, subject to a cost cap set at 150 percent of the projected proxy cost, which is calculated on a monthly basis.[11] Per section 30.4.1.2 of the ISO tariff, resources must remain under either the proxy or the registered cost option for a minimum of 30 days before they can switch. There is one exception: if the daily proxy cost calculation exceed its registered costs, a resource can switch from the registered cost option to the proxy cost option for the remainder of the 30-day period.

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[9] *See* business practice manual for market instruments at section C.3. The earliest that any of the other publications can provide gas prices is 4:00 p.m. *Id.*

[10] Tariff section 30.5.1(a); tariff appendix A, definition of "market close."

[11] Tariff sections 30.4.1.2, 39.6.1.6. Projected proxy cost is different from proxy cost and is determined using a different calculation.

2. Variable-Cost Default Energy Bids

The ISO uses default energy bids to mitigate bids of resources subject to local market power mitigation.[12] Importantly for this waiver filing, when a resource's bid is mitigated, the mitigated bid, based on the default energy bid, is substituted for use in the market clearing process and is also used to determine the resource's bid cost recovery compensation.[13] Default energy bids are also used to settle exceptional dispatches and in the settlement of residual imbalance energy.[14]

In determining default energy bids calculated using the variable cost option, the ISO is required to use the natural gas price index specified in section 39.7.1.1.1.3.[15] Therefore a natural gas price spike can have a similar effect on variable-cost default energy bids calculated for the day-ahead market as it does on start-up and minimum load costs, *i.e*. variable-cost default energy bids can reflect gas prices that are significantly lower than the actual gas prices for the trading day.

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[12] *See* tariff section 39.7.1, *et seq.* Each scheduling coordinator can choose one of the following three options as its preferred option for calculating default energy bids: (1) the variable cost option, (2) the negotiated rate option, or (3) the locational marginal price option. Of these options, only variable-cost default energy bids, which are addressed in tariff section 39.7.1.1, are subject to this request for tariff waiver.

[13] Tariff section 11.8.

[14] See tariff sections 11.5.6 and 11.5.5, respectively.

[15] *See supra* note 7.

3. Generated Bids

The ISO generates cost-based bids when a scheduling coordinator does not submit a bid for a resource is subject to a must-offer requirement under either a resource adequacy requirement or the scheduling and infrastructure bidding rules as set forth in the ISO tariff and applicable business practice manual.[16] As with start-up and minimum load costs, the ISO is required to use the indexes specified in section 39.7.1.1.1.3 to produce generated bids.[17]

B. Higher and More Volatile Natural Gas Prices Experienced in the West During Winter 2013-2014 and the Impacts Thereof

In December 2013 and the first two months of 2014, the ISO markets have been subjected to uncharacteristically higher and more volatile natural gas prices than the markets have previously experienced since the ISO's current market design went into effect in April 2009. In particular, in early February, California natural gas markets experienced an increase in prices to levels amounting to roughly 300 percent of previous levels in less than twenty-four hours. On February 4, 2014 at 9:50 p.m., the natural gas index prices applicable to resources in the ISO markets ranged from $7.63/MMBtu to $8.62/MMBtu. But by February 5, 2014 at 10:01 a.m., those prices had increased to a range of $12.29/MMBtu to $23.53/MMBtu.

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16 *See* tariff sections 30.7.3.4, 40.6.8; tariff appendix A, definition of "generated bid".

17 *See supra* note 7. As with the tariff provisions discussed above regarding the recovery of start-up and minimum load costs under the proxy cost option, although the tariff provisions regarding generated bids do not directly reference section 39.7.1.1.1.3, the ISO interprets the provisions in section 39.7.1.1.1.3 to apply to the calculation of generated bids.

The higher natural gas prices experienced on February 5 were not reflected in the proxy cost calculation of start-up and minimum load costs for resources that were committed in the ISO's day-ahead market on February 5 for the February 6 trading day. Instead, per the calculation methodology set forth in section 39.7.1.1.1.3, the ISO's day-ahead market for the February 6 trading day utilized gas prices published on February 4 for gas deliveries for February 5. Likewise, these prices were not directly reflected in the costs of those resources utilizing the registered cost option on this date because such resources are limited to bidding commitment costs no greater than 150 percent of their projected proxy costs calculated on a monthly basis. As a result, a number of generators expressed concerns to the ISO regarding their ability to adequately recover their production costs as a result of the February natural gas spike. Some generators also expressed concern regarding the ISO's dispatches on February 6, which due to a price differential between commitment costs and incremental energy bids, committed a number of resources to minimum load in lieu of dispatching them for incremental energy.

Under normal conditions, the risk of a recurrence of this type of spike in natural gas prices could be expected to decline as the winter season ends in California, which typically happens around April 1 each year. But this year unusual conditions currently present in the electricity and natural gas markets create a heightened possibility that such natural gas price spiking events may occur again even after April 1. Specifically, gas conditions in California are challenged by low storage inventory in California and an increase in demand in the west, the Midwest, and Canada due to the uncharacteristically cold weather being experienced in portions of the United States and Canada. These conditions have contributed to increased gas price volatility among the major companies that supply natural gas to California.

Given these conditions, the ISO believes there is a heightened risk that price spikes similar to the one in early February may recur until the end of the cold weather season in the United States and Canada, which may persist through March and to the end of April. Therefore, the ISO is requesting that the more comprehensive waiver described the companion filing it is submitting today remain in effect until April 30, 2014.

III. Request for Limited Waiver of ISO Tariff Provisions

The Commission has previously granted requests for tariff waivers in situations where (1) the waiver is of limited scope, (2) a concrete problem needed to be remedied, and (3) the waiver did not have undesirable consequences, such as harming third parties.[18]

In this case, all three elements under Commission precedent for granting a tariff waiver are satisfied. Therefore, good cause exists to grant the ISO's request for waiver.

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[18] *See, e.g.*, *New York Independent System Operator, Inc.*, 146 FERC ¶ 61,061, at P 19 (2014); *PJM Interconnection, L.L.C.*, 141 FERC ¶ 61,103, at P 8 (2012); *ISO New England Inc.*, 134 FERC ¶ 61,182, at P 8 (2011); *California Independent System Operator Corp.*, 132 FERC ¶ 61,004, at P 10 (2010).

A. The Requested Waiver

The ISO requests waiver of certain provisions in sections 30.4.1.2 and 39.7.1.1.1.3 of the ISO tariff in order to allow the ISO to utilize the most recently available natural gas prices in the event of a significant price spike for the limited purpose of settling market transactions. As explained above, the ISO is, in a companion petition also being filed today, requesting a more comprehensive waiver of these same provisions for purposes of both determining inputs into the ISO's day-ahead market as well as settling the results thereof.

With respect to section 39.7.1.1.1.3, under normal conditions the ISO will continue to calculate the daily gas price index pursuant to the requirements of this section for use in the next day's day-ahead market run. If the ICE prices published that next day do not equal or exceed the gas price increase threshold, then the gas prices calculated the night before will be utilized in settling the day-ahead market, per the normal process set forth in section 39.7.1.1.1.3.[19]

However, if the ICE prices equal or exceed the threshold for any of the gas price regions used in the ISO markets, the ISO will exercise the flexibility provided under the requested waiver to re-calculate the gas price index using just the ICE prices published on the same day as the day-ahead market is executed. The ISO will utilize these updated prices when it settles the outputs of the day-ahead market, pursuant to the ISO's existing procedures for bid cost recovery

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[19] ICE publishes gas price data for several regions in California. The ISO proposes that the special waiver procedures discussed herein will be triggered if a price increase in any of these regions exceeds the threshold.

and exceptional dispatch settlements.[20] The reason for relying solely on ICE under the circumstances in which prices exceed the threshold is that ICE's index is the only price index available for the applicable trading day that is published around the time that the day-ahead market closes (10:00 a.m.), and this index is already reflected in section 39.7.1.1.1.3. Utilizing the ICE prices in these circumstances is appropriate. When a significant spike in gas prices occurs, settling resources using gas prices that reflect the differential in prices for the applicable trading day will provide those resources a better opportunity to recover their actual production costs, even if this means using the only available source for up-to-date gas prices.

The exception to this process involves variable-cost default energy bids, which cannot be timely updated because they are produced by an independent entity rather than the ISO. Instead of recalculating default energy bids based on an updated gas price index, which is not practical given time constraints, the ISO proposes instead to settle these transactions based on the variable-cost default energy bids sent by the independent entity for the following day, which will reflect the increased gas prices as calculated based on the methodology set forth in section 39.7.1.1.3. This will ensure that those settlements that utilize default energy bids will reflect the impacts of any sudden gas price spikes.

[20] Under these circumstances, the ISO will also notify the market that the threshold has been triggered and that this alternate process will be utilized.

In addition, in order to permit resources subject to the registered cost option to have the same opportunity as resources subject to the proxy cost option to recover their actual production costs through the bid cost recovery and exceptional dispatch settlements when the threshold is triggered, the ISO requests a waiver of Section 30.4.1.2. The ISO requests waiver of this provision so that if a gas price spike occurs, the ISO will settle resources under the registered cost option using the updated proxy cost calculations, assuming that the updated proxy cost exceeds their registered costs.[21] A resource will continue to have its start-up and minimum load costs determined in this manner until gas prices decline to the point that the resource's proxy cost no longer exceeds its registered cost. When this occurs, the resource's commitment costs will revert to being settled based on the normal registered cost rules.

The ISO will include the applicable price increase threshold that must be met to trigger the additional flexibility under the requested waiver in the ISO's business practice manual for market instruments. The ISO proposes to commence with a price increase threshold that will trigger if the ICE prices published at or about10:00 a.m. equal or exceed 150 percent of the price index calculated the previous evening under the normal tariff methodology.[22] The ISO believes this amount of a price increase represents a reasonable initial trigger as

[21] A resource's proxy or registered cost election is reflected in the ISO master file for resources. The ISO cannot mechanically change this election in the master file in the time between the recalculation of gas prices and the execution of the day-ahead market. Therefore, resources whose updated proxy cost calculation exceeds their registered cost will technically still be considered to be under the registered cost option, but will be calculated and settled using the proxy cost when the natural gas price exceeds the applicable threshold.

[22] *See supra* note 10 and accompanying text.

it is analogous to the cost of fuel exceeding the maximum start-up and minimum load cost values that can be registered in the master file for a resource that has elected the registered cost option, *i.e.*, 150 percent of the projected proxy cost.

In normal circumstances, the ISO will go through a stakeholder process in order to modify the threshold to be set forth in the business practice manual.[23] However, if emergency circumstances require it, the ISO may promptly and unilaterally revise the threshold. Any revisions the ISO may make to the business practice manual in such circumstances will promptly be announced in a market notice and be subject to stakeholder review either beforehand or subsequently.[24]

B. The Waiver Will Be of Limited Scope

While the ISO requests general waiver of the provisions in Sections 30.4.1.2 and 39.7.1.1.1.3, the ISO will apply the additional flexibility granted by the waiver only in the limited circumstances when the daily gas prices published by ICE exceed, by a significant margin, the gas price index calculated the night before. Also, this waiver will be for a discrete period -- until the Commission approves the broader companion waiver filing in which the ISO requests a Commission order by March 14, 2014 to be effective through April 30, 2014. This will provide the ISO and stakeholders with sufficient safeguards until the

[23] *See* tariff sections 22.4.3, 22.11.

[24] See tariff sections 22.4.3, 22.11.1.7; business practice manual for business practice manual change management at section 2.6.

Commission approves the companion waiver filing for the balance of the winter and early spring when there is a greater risk of gas price spikes.

The ISO plans to commence a stakeholder process in April to address the issues raised by the gas market conditions and to more comprehensively develop interim and permanent tariff solutions.[25] The ISO expects that the stakeholder process will require at least several months to complete but is committed to developing an interim solution that can be implemented in the fall if such solutions do not require substantial system changes. While the ISO does not have any preconceived ideas about what permanent solution may finally be reached, the ISO anticipates that stakeholders may propose a variety of solutions and such potential solutions may have different components.[26] Any solution resulting from the stakeholder process will be submitted to the ISO Governing Board for approval, and then the ISO will file any tariff revisions required to implement that solution for Commission acceptance.

C. The Waiver Will Address a Concrete Problem that Needs to Be Remedied

As discussed above, the approximately 300 percent spike in natural gas prices in early February caused certain disparities in resource commitment and

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[25] The ISO originally contemplated beginning the stakeholder process in the fall but now believes it should start sooner.

[26] For example, some stakeholders may wish to suggest that the permanent solution include tariff provisions to allow resources to recover penalty costs for violating natural gas pipeline balancing orders and costs of emissions of nitrogen oxide (NOx) and sulfur oxide (SOx) as part of the bid cost recovery mechanism under the tariff. The ISO originally proposed to include such tariff provisions in its 2013 tariff amendment to include additional categories of costs eligible for inclusion in proxy cost calculations for start-up and minimum load, generated bids, and variable cost default energy bids, but the ISO subsequently deferred that proposal because it required further consideration and development. *See* transmittal letter for ISO tariff amendment, Docket No. ER13-2296-000, at 4-5 (Aug. 30, 2013).

led to the possible under-recovery of natural gas related costs by resources participating in the ISO markets. Cost recovery is a fundamental principle of the ISO market. Granting the requested waiver will enable the ISO to take necessary measures to compensate resources accordingly in the event of a significant increase in near-term natural gas prices.

In a comparable recent situation, the Commission found that good cause existed to grant requests for waiver filed by the New York Independent System Operator, Inc. ("NYISO") and PJM Interconnection ("PJM") of their tariff provisions setting a bid cap of $1,000/MWh.[27] In response to spikes in natural gas costs caused by recent extreme cold weather in the northeast, the NYISO and PJM requested that the Commission grant a temporary waiver to allow generators to recover demonstrated costs that they actually incur to operate, should those costs exceed the $1,000/MWh bid restriction.[28] The Commission explained that granting the NYISO's request for waiver "addresses the concrete problem that generators might be required to provide service to support reliability but without being able to recoup the incremental operating costs that they incur, which would discourage generators from offering service at a time when they are needed."[29] Similarly, in *PJM*, the Commission explained that waiver was necessary in order to "address the reliability concerns posed by the extreme weather currently being experienced in the PJM Region and maintain confidence

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[27] *New York Independent System Operator, Inc.*, 146 FERC ¶ 61,061 ("*NYISO*"); *PJM Interconnection, LLC*, 146 ¶ 61,041 (2014) ("*PJM*").

[28] *NYISO* at P 1; *PJM* at P 3.

[29] *NYISO* at P 20.

in market operations."[30] Likewise, granting the ISO's request for waiver will enhance the ability of generators to recoup their actual production costs and thus will encourage generators to offer service into the ISO market.

D. The Waiver Will Not Have Undesirable Consequences

No undesirable consequences will result from approving this waiver petition. The ISO recognizes that the temporary solution proposed herein may result in increased payments to generators for bid cost recovery and exceptional dispatch when natural gas prices spike, which may ultimately increase the costs paid by load. However, it is appropriate that generators are compensated for their production and marginal costs based on the most up-to-date gas prices during atypical events, and doing so will help to ensure continued, reliable electric service in the ISO market. In the NYISO waiver order discussed above, the Commission found that, "although granting waiver may result in increased costs to load and increased cost to certain market participants if generators incur verifiable actual energy production costs above $1,000/MWh, we find that it is appropriate to allow generators to recover such costs in this exigent circumstance."[31] Similarly, the Commission should find that possible increases in costs to load are not an undesirable consequence that should preclude granting this ISO request for waiver.

The waiver also does not require the adoption of additional rates, terms and conditions because the settlement impact of the use of the updated indices

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[30] *PJM* at P 5.

[31] *New York Independent System Operator, Inc.*, 146 FERC ¶ 61,061, at P 20.

will flow through the ISO's existing settlement authority for bid cost recovery, exceptional dispatch and residual imbalance energy.[32]

IV. Request for Expedited Commission Action by March 7, 2014

The ISO respectfully requests that the Commission act expeditiously and issue an order by close of business tomorrow, March 7, 2014, that grants this waiver petition effective as of the date of the order. As explained above, the ISO is also requesting that the Commission issue an order granting the more comprehensive companion waiver petition by March 14. Granting this limited waiver by tomorrow will provide the Commission with sufficient time to consider the ISO's full waiver proposal, while in the interim protecting resources participating in the ISO's markets in the event that a natural gas price spike were to occur while the more comprehensive waiver is pending. As explained above, Commission approval of the comprehensive waiver petition will automatically supersede its approval of the current, more limited, petition.

V. Service

The ISO has served copies of this filing upon the California Public Utilities Commission and all parties with effective scheduling coordinator service agreements under the ISO tariff. In addition, the ISO has posted this filing on its website.

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[32] *See* tariff sections 11.8, 11.5.6, and 11.5.5, respectively.

VI. Correspondence

The ISO requests that all correspondence, pleadings and other communications concerning this filing be served upon the following:

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VII. Conclusion

The ISO respectfully requests that the Commission grant a limited waiver of provisions in tariff sections 30.4.1.2 and 39.7.1.1.1.3 as discussed above until the Commission approves the companion waiver filing the ISO is filing today.

Respectfully submitted,

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