

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

California Independent System Operator
Corporation

Docket No. ER16-1483

**MOTION OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR
CORPORATION TO FILE ANSWER AND ANSWER TO PROTESTS AND
COMMENTS**

I. INTRODUCTION

The California Independent System Operator Corporation (CAISO) files this answer to comments submitted in response to the CAISO's tariff amendment to facilitate compliance with reliability standard BAL-003-1 of the North American Electric Reliability Corporation (NERC).¹ As part of its filing, the CAISO proposed tariff revisions to allow it to procure transferred frequency response from other balancing authorities in the Western Interconnection. NERC's reporting forms associated with BAL-003-1 explicitly recognize transferred frequency response as a means for balancing authorities to comply with the requirements of BAL-003-1.

Several parties filed comments or protests to the CAISO's tariff amendment raising concerns with respect to the CAISO's proposal to procure transferred frequency

¹ 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. Rule 213(a)(2) prohibits answers to protests absent permission of the Commission and the CAISO hereby moves for leave to make the answer to the protest. Good cause for this waiver exists here because 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, P 6 (2011); *Cal. Indep. Sys. Operator Corp.*, 132 FERC ¶ 61,023, P 16 (2010); *Xcel Energy Services, Inc.*, 124 FERC ¶ 61,011, P 20 (2008).

response and recommending additional tariff changes.² In this answer, the CAISO responds to these concerns and agrees to make further tariff changes on compliance to address concerns raised by Six Cities. To address concerns expressed by CDWR, NRG, and WPTF, the CAISO plans to initiate a stakeholder process later this year to examine a mechanism to compensate CAISO resources for providing frequency response service.

II. ANSWER

A. Transferred frequency response allows balancing authorities to make adjustments to frequency response compliance reports submitted to NERC

As explained in the CAISO's tariff amendment, transferred frequency response does not involve the provision of an energy or capacity product at a specific delivery point or from a specific resource. Instead, it is a value agreed upon between balancing authorities and expressed in MW/0.1 Hz.³ Balancing authorities may use this agreed-upon value to make adjustments to the frequency response measure if there is a frequency deviation event that then becomes a reportable event under BAL-003-1.⁴ In its comments, Powerex notes that transferred frequency response is factored into the calculation of applicable balancing authority's frequency response measure and does not necessarily result in any change to a balancing authority's frequency response

² The following entities filed comments: the California Department of Water Resources State Water Project (CDWR) and Powerex. The following parties filed protests: the Cities of Anaheim, Azusa, Banning, Colton, Pasadena and Riverside, California (collectively Six Cities); NRG Power Marketing LLC and GenOn Energy Management, LLC (collectively NRG) and the Western Power Trading Forum (WPTF).

³ See CAISO proposed definition for transferred frequency response, Appendix A to CAISO tariff, Master Definitions Supplement.

⁴ See NERC FRS Form 1 submitted as part of Appendix K of Petition of NERC for Approval of Proposed Reliability Standard BAL-003-1 - Frequency Response and Frequency Bias Setting under RM13-11; <http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=13219072>

obligation.⁵ The CAISO agrees with Powerex. Transferred frequency response will not adjust a balancing authority's obligation itself. That obligation is established by NERC. Instead, it will adjust how NERC calculates balancing authorities' annual frequency response measure in relation to that obligation.⁶

B. The CAISO is willing to modify its tariff on compliance to include language to guide the procurement of transferred frequency response

In its protest, Six Cities asks that the Commission require the CAISO to include a requirement to reject any bids from external balancing authorities for transferred frequency response that are higher than the reasonably anticipated cost of using exceptional dispatch to meet the frequency response obligation.⁷ Six Cities argues that the CAISO committed in its stakeholder process that it would evaluate offers for transferred frequency response based on its expectation of costs the market would incur from committing resources through exceptional dispatches to ensure it had sufficient primary frequency response capability to meet the requirements of BAL-003-1. Although the CAISO has acknowledged that it will need to justify any costs for transferred frequency response that it plans to allocate to market participants, Six Cities asserts that the CAISO's proposed tariff language is too permissive because it would allow the CAISO to accept an offer when there would appear to be a viable, less

⁵ See Comments of Powerex at 6, fn 17.

⁶ The CAISO offered a simplified example of the effects of transferred frequency response in its April 21, 2016 transmittal letter. Transferred frequency response will not actually change a balancing authority's obligation but will instead impact the calculation of a balancing authority's annual frequency response measure in connection with frequency deviation events that occur and are selected by NERC for measurement.

⁷ Protest of Six Cities at 2-4.

expensive alternative through the use of exceptional dispatch.⁸ Six Cities recommends that the Commission direct the CAISO to revise proposed tariff section 42.2.1 as follows (underlined language reflects additions):

The CAISO shall select the bids that permit the CAISO to satisfy Applicable Reliability Criteria at lowest cost consistent with the seller's capability to provide Transferred Frequency Response and not to exceed the estimated cost of satisfying Applicable Reliability Criteria using exceptional dispatch.

The CAISO is willing to make this change on compliance, if the Commission so directs.

C. The CAISO's proposal to procure transferred frequency response will enhance the tools available to the CAISO to meet applicable reliability criteria and is not unduly discriminatory

In their protests, WPTF and NRG argue that the Commission should reject the CAISO's proposal to establish authority to procure transferred frequency response on the grounds that it unduly discriminates against CAISO resources and is inconsistent with the Commission's guidance relating to competitive solicitations.⁹ WPTF also argues that the CAISO will discriminate against resources outside of its balancing authority by compensating a balancing authority as opposed to the generating units within that balancing authority. WPTF also argues the CAISO's proposed solicitation is not open because generating units within the CAISO's balancing authority cannot participate in the solicitation. NRG makes similar arguments.

The Commission should reject these arguments because the CAISO is not proposing to procure frequency response service but a compliance instrument that only other balancing authorities can provide. Only balancing authorities within the Western Interconnection with compliance obligations under BAL-003-1 can provide this

⁸ *Id.* at 3.

⁹ Protest of WPTF at 3-4; Protest of NRG at 2-6.

compliance instrument and they may all participate in the CAISO's solicitation. Accordingly, the CAISO's proposal does not discriminate and is an open solicitation process.

The Commission has allowed other market operators to take targeted out of market actions for reliability purposes, especially when they are only temporary measures. The CAISO is proposing to procure transferred frequency response only as an interim measure until it can examine through a stakeholder process compensation approaches for the provision of frequency response service. The Commission itself is examining whether organized markets should provide compensation for frequency response service in a notice of inquiry and should not prejudge this issue in response to WPTF and NRG's protests.

As explained in its tariff amendment and this answer, the CAISO is not proposing to procure frequency response service. As WPTF correctly acknowledges, the CAISO proposes to compensate another balancing authority or its authorized sellers and not compensate individual resources.¹⁰ Under a contract for transferred frequency response, the CAISO will not pay a balancing authority at the time that its resources provide primary frequency response after a disturbance event or pay the balancing authority a rate based on the performance of any specific resource or group of resources. The contract will not place any delivery obligations for frequency response service on the balancing authority providing transferred frequency response or resources within the balancing authority's footprint. The contract will only create an obligation for contracting balancing authorities to make reporting adjustments across a

¹⁰ Protest of WPTF at 4.

compliance period for each frequency deviation event that NERC selects to calculate an annual measure of balancing authorities' annual frequency response measure. Given that NERC has recognized this compliance instrument, the Commission should not entertain arguments that procuring transferred frequency response somehow creates an unduly discriminatory practice. Moreover, both WPTF and NRG both question the need for the CAISO to procure transferred frequency response as insurance to meet the requirements of BAL-003-1. The CAISO, however, is the responsible entity under BAL-003-1 and the Commission should not limit the tools available to the CAISO to comply with the standard. WPTF and NRG present no evidence to counter the observed downward trend in performance responding to a frequency response event presented by the CAISO in its tariff filing.¹¹

The Commission has provided authority to independent system operators/regional transmission operators to take out of market actions necessary to advance reliability. For example, the Commission granted ISO New England broad authority to implement a winter reliability program that included, among other elements, payments to generator resources for maintaining a minimum fuel oil inventory, payments to generators that contracted for liquefied natural gas, and payments to demand response assets that are not otherwise participating in ISO-NE's wholesale markets or have capacity in excess of capacity supply obligations already committed in ISO-NE's forward capacity market.¹² With respect to payments for fuel adequacy, the Commission rejected arguments that the program was unduly discriminatory because it

¹¹ CAISO transmittal letter in ER16-1483 dated April 21, 2016 at 3-5.

¹² *ISO New England Inc.*, 148 FERC ¶ 61,179 (September 2014).

did not pay all resources for providing firm fuel service.¹³ The Commission essentially described the program as an insurance mechanism - helping to “ensure fuel adequacy by creating incentives for resources to procure more fuel than they would have procured in the absence of the [p]rogram.”¹⁴ The CAISO’s proposal to procure transferred frequency response creates a similar insurance program. It will provide the CAISO an interim tool to help it meet the requirements of BAL-003-1 beyond the primary frequency response provided by resources with the CAISO’s balancing authority.

The cases cited by NRG to argue the CAISO’s proposal is unduly discriminatory are inapposite. The first involves compensation paid to market resources for the provision of reactive support in the MISO region.¹⁵ In that case, MISO proposed different rate structures to compensate resources for reactive power based on whether the resource was supplying reactive power to MISO as of June 25, 2004. The Commission determined that this distinction was inadequate. In this filing, the CAISO is not proposing to compensate resources for frequency response service under either a uniform or different rates.

The second case involves a day-ahead market program for demand response resources administered by the NYISO.¹⁶ In that order, the Commission determined that tariff provisions excluding demand response facilitated by behind-the-meter generation from participation in the day ahead market program, while permitting participation by similarly-situated demand response accomplished without the use of such behind-the-

¹³ *Id.* at P 43.

¹⁴ *Id.*

¹⁵ *Midwest Indep. Trans. Sys.*, 109 FERC ¶ 61,005 (2004).

¹⁶ *Demand Response Supporters v. New York Indep. System Operator, Inc.*, 145 FERC ¶ 61,162 (2013).

meter generation, was unduly discriminatory. Again, the CAISO is not proposing a compensation scheme for frequency response service that treats market resources in a disparate manner. The CAISO is instead proposing to procure a reporting adjustment for purposes of compliance with a Commission approved NERC reliability standard.

In arguing that the CAISO transferred frequency response unduly discriminates against resources that can provide frequency response and is not open, WPTF and NRG are attempting to expand the scope of this proceeding. They are seeking to leverage these arguments to pressure the CAISO to compensate resources for frequency response service. However, this is not the authority the CAISO has proposed in this tariff amendment. The CAISO is not proposing to compensate one set of resources for frequency response service and exclude another set of resources from that compensation. The CAISO, however, does plan to undertake a stakeholder initiative to examine how to compensate all resources technically capable of providing frequency response service. This is currently a matter the Commission itself is evaluating in its notice of inquiry.¹⁷ These efforts should proceed but they are not mutually exclusive of the authority the CAISO is requesting to use transferred frequency response for other balancing authority areas as an interim tool to comply with BAL-003-1.

D. The CAISO plans to initiate a stakeholder process to examine compensation for CAISO resources providing frequency response service

In its comments, CDWR states it understands that the procurement of transferred frequency response is not a long-term solution and that any market mechanisms developed with respect to primary frequency response should allow for equal

¹⁷ See *Essential Reliability Services and the Evolving Bulk-Power System—Primary Frequency Response*, Notice of Inquiry in Docket RM16-6, 154 FERC ¶ 61,117 (2016).

participation, fair compensation, and a cost allocation methodology that provides the appropriate incentives to all market participants.¹⁸ In its protest, WPTF asks that the Commission reject the CAISO's proposal to conduct a competitive solicitation for transferred frequency response and instead direct the CAISO to conduct an expedited stakeholder process to develop an administratively-determined level of compensation for the generators within the CAISO's balancing authority. NRG asks that, if the Commission does not reject the CAISO's proposal to procure transferred frequency response, the Commission should direct the CAISO to create a new frequency response product by the fall of 2017. These requests illustrate why additional stakeholder discussion are necessary. First, any new market rules to compensate resources for frequency response service need to apply to all technically capable resources, not just generators. Second, while WPTF recommends the CAISO implement an administrative payment starting on December 1, 2016, NRG recommends the CAISO develop a market product by fall of 2017, presumably for the 2017-2018 compliance year under Bal-003-1. The CAISO and its stakeholders need to consider and discuss compensation approaches and cost allocation issues associated with the procurement of frequency response service. To address the concerns of CDWR, WPTF and NRG, the CAISO plans to initiate a stakeholder process later this year to examine compensation for CAISO resources providing frequency response service.

¹⁸ Comments of CDWR at 5-6. CDWR has expressed concerns with the CAISO's cost allocation methodology for transferred frequency response but also states that "[d]ue to the need for CAISO to have a mechanism in place to satisfy obligations that will begin to apply this year, and CAISO's commitment to engage in a stakeholder process to design a more permanent solution, [CDWR] does not object to this interim cost allocation methodology here."

III. CONCLUSION

The CAISO's proposed tariff revisions will ensure the CAISO can meet the requirements of NERC Reliability Standard BAL-003-01, starting on December 1, 2016. The Commission should approve the CAISO's tariff amendment with the changes the CAISO agrees to make in this answer. The Commission should also reject protests that argue the CAISO is unduly discriminating against electric generators in the CAISO balancing authority by not allowing these resources to participate in a request for proposals to secure transferred frequency response. At this time, there is no Commission mandate for organized markets to compensate resources for frequency response. The CAISO, however, plans to start as stakeholder initiative to examine compensation approaches for frequency response service.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for 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 Folsom, California this 19th day of May 2016.

Anna Pascuzzo
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