

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

California Independent System Operator)
Corporation)

Docket No. ER17-1459

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

The California Independent System Operator Corporation (CAISO) submits this answer to the May 12, 2017 comments of Pacific Gas and Electric Company (PG&E) and the Western Area Power Administration (WAPA).¹

I. Executive Summary

On April 21, 2017, the CAISO requested the Commission determine that the CAISO does not need to implement certain outstanding directives from the Commission's Market Redesign and Technology Upgrade (MRTU) order issued on September 21, 2006,² including a two-tier allocation of real-time bid cost recovery uplift.³ PG&E supports suspending any obligation to implement a two-tier allocation of real-time bid cost recovery uplift until the Commission issues a final rule in its Uplift Allocation

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. WAPA and PG&E did not protest the CAISO's filing, but raised concerns. 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).

² *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274 (2006) (September 2006 Order).

³ CAISO April 21, 2017 filing in ER17-1459 at 6-12.

NOPR.⁴ PG&E does not, however, agree with the CAISO's assertion that exploring a two-tier uplift approach is no longer practical. The CAISO has assessed the feasibility of a two-tier allocation and has not identified an allocation approach consistent with cost causation principles. PG&E offers no evidence or argument to contradict this finding. The Commission should (1) find that the CAISO is no longer obligated to explore a two-tier allocation of real-time bid cost recovery costs and (2) not defer further action on this issue until its final rule on the Uplift Allocation NOPR.⁵

In its April 21, 2017 filing, the CAISO also requested that the Commission find that (1) the CAISO market is just and reasonable without additional flexibility for scheduling coordinators to substitute ancillary service awards for reasons other than an outage, and (2) the CAISO has satisfied the directive to provide functionality to support ancillary services exports. WAPA is the only stakeholder that raises issues regarding the CAISO's satisfaction of these directives, and its requests for additional functionality exceed the scope of the Commission's directives in the September 6 Order..

WAPA requests that the CAISO allow WAPA to elect alternative delivery points for ancillary services based on transmission scheduling issues. This request exceeds the scope of the Commission's directive regarding ancillary service substitution, which directed the CAISO to allow generators to substitute capacity for reasons other than an outage, if the substitute capacity met ancillary services performance and locational requirements.

⁴ *Uplift Cost Allocation and Transparency in Markets Operated by Regional Transmission Organizations and Independent System Operators*, 158 FERC ¶ 61,047 (Uplift Allocation NOPR).

⁵ This finding would not preclude the CAISO from discussing the issue further with stakeholders should they express sufficient interest in continuing to explore a two-tier allocation methodology for real-time bid cost recovery uplift.

WAPA also argues that the Commission should require the CAISO to allow external balancing authorities to procure ancillary services through a CAISO-operated market. This request not only exceeds the Commission's directive, and there is no basis to impose such a requirement on the CAISO. The Commission has not required any other organized market to permit external parties to procure ancillary service through its market or develop and operate a new market to allow such procurement. The CAISO has already satisfied the directive in the September 2006 Order by designing software to support exports of ancillary services. The Commission should not mandate that the CAISO also build a market clearing process for external balancing authority areas to procure ancillary services.

II. The CAISO's market is just and reasonable without a two tier allocation of real-time bid cost recovery uplift, and there is no reason for the Commission to delay a decision on this issue pending issuance of a final rule in the Uplift Allocation NOPR

PG&E does not protest the CAISO's April 21 filing. Instead, PG&E requests that the Commission delay making a decision on the CAISO's request to eliminate the directive to implement a two-tier process for the allocation of real-time bid cost recovery uplift costs until the Commission issues a final rule in its Uplift Allocation NOPR. PG&E states in a conclusory manner that a two-tier methodology for allocating real-time bid cost recovery uplift will more fairly allocate costs based on cost-causation.⁶ PG&E also asserts such a change would incentivize better market behavior, helping to reduce the overall magnitude of CAISO real-time bid cost recovery. PG&E does not explain, however, how a two-tier allocation of real-time bid cost recovery will achieve these ends or what specific cost allocation rules the CAISO should adopt.

⁶ Comments of PG&E at 3-4.

In its April 21, 2017 filing, the CAISO explained its efforts to develop a two-tier cost allocation methodology based on the causes of real-time unit commitment. The CAISO could find no strong correlation between deviations from schedules and CAISO real-time unit commitment decisions that may result in bid cost recovery uplift. PG&E presents no evidence or argument to contradict these findings, but instead states that the CAISO has a responsibility to allocate costs based on cost-causation, where possible and practical. The CAISO agrees, but based on its analysis a two-tier allocation of real-time bid cost recovery does meet cost causation principles.

In 2012, the CAISO developed a set of guiding principles for assessing potential cost allocation approaches. Among others, these principles consider causation and incentivizing appropriate behavior to limit costs.⁷ Causation involves charging costs to resources and/or market participants that benefit from and/or create the costs. Incentivizing behavior means adopting rules that incentivize market participants to avoid behavior that causes the costs. As explained in its April 21, 2017 filing, numerous factors drive real-time uplift costs. The cause of individual real-time unit commitments may vary and is based not only on specific or local conditions, but also on system-wide economics and conditions. This makes developing an applicable second tier for allocating real-time bid cost recovery uplift problematic. As a result, any methodology for developing a two tier allocation approach is tenuous from a causation perspective and may not help achieve the objective of reducing real-time commitments. Moreover, the lack of a strong correlation between the causes of real-time unit commitment

⁷ More information regarding this initiative is available at the following website: <http://www.aiso.com/informed/Pages/StakeholderProcesses/CompletedStakeholderProcesses/CostAllocationGuidingPrinciples.aspx>

The complete list of principles are as follows: (1) Causation, (2) Comparable Treatment, (3) Accurate Price Signals, (4) Incentivize Behavior, (5) Manageable, (6) Synchronized, and (7) Rational.

undermines any expectation that a two tier allocation approach will incentivize market participants to modify their market behavior to mitigate these costs.

Absent an ability to isolate and clearly identify a cause for real-time unit commitments or identify a cost allocation methodology that will effectively incentivize market behavior to avoid real-time commitments, any new two-tier allocation would not be just and reasonable. The inability to achieve these objectives also supports a conclusion the CAISO's current cost allocation rules for real-time bid cost recovery uplift are just and reasonable. These rules allocate bid cost recovery costs incurred in the real-time market to all load-serving entities in a single-tier allocation according to demand, which includes all metered demand plus exports from the ISO balancing authority area.⁸ Absent a first tier that can effectively track cost causation, this demand would continue to shoulder the majority of the real-time bid cost recovery uplift in a two tier cost allocation.

PG&E also does not explain why the CAISO should remain subject to the directive to implement this feature pending the outcome of the Commission's Uplift Allocation NOPR. There is no reason to delay a decision in this proceeding. In the Uplift Allocation NOPR, the Commission states real-time uplift cost allocation practices may result in unjust and unreasonable rates by allocating costs to deviations that could not reasonably be expected to have caused those costs.⁹ The Commission expressly states it is not proposing to require RTOs/ISOs to allocate any amount of uplift costs to deviations, but is merely proposing reforms to uplift cost allocation to deviations *to the*

⁸ Tariff section 11.8.6.6.

⁹ Uplift Allocation NOPR at P 31.

*extent an RTO/ISO chooses to allocate some uplift costs to deviations.*¹⁰ Any final rule in the Uplift Allocation NOPR would directly affect the CAISO's market rules only if the CAISO were to implement a new deviation-based two-tier allocation scheme. Because the NOPR clearly states the Commission is not requiring parties to adopt a deviation-based allocation scheme, and the CAISO has not proposed one, there is no reason to delay making a decision on the CAISO's request in this proceeding.

Despite the CAISO's efforts, the CAISO has not identified a more efficient and fair methodology for allocating real-time bid cost recovery uplift, and PG&E does not identify one in its comments. At this point, there is no basis to continue to subjecting the CAISO to an explicit directive to develop a two-tier uplift cost allocation scheme, particularly given the pending Uplift Allocation NOPR acknowledges that cost allocation mechanisms based on deviations may not follow cost causation and therefore may not be just and reasonable.¹¹

III. The Commission should reject WAPA's request to broaden this proceeding to consider issues regarding transmission scheduling

WAPA asserts that the CAISO needs to develop flexibility for ancillary substitution for more than just an outage on the CAISO's system.¹² WAPA states that sometimes it needs to change the delivery point for an ancillary service award from one intertie point to another intertie point due to transmission scheduling issues arising from system constraints on WAPA's or a third party's system. WAPA bases its position on Section 22 of the Commission's *pro forma* open access tariff, which WAPA asserts

¹⁰ *Id.* (emphasis added)

¹¹ *Id.* at PP 31-34.

¹² Comments of WAPA at 3-4.

allows a transmission customer, on a non-firm basis, to substitute delivery points. In short, WAPA's argument implicates issues regarding transmission scheduling, not the design of the CAISO's ancillary services market. As such, WAPA's request exceeds the Commission's directive to the CAISO to explore greater ancillary services substitution flexibility.

As the Commission explained in the September 2006 Order, this issue arose based on generators' arguments that the CAISO should adopt an ancillary services substitution mechanism proposed in the CAISO's MRTU conceptual filing. This mechanism would permit market participants that self-scheduled or sold capacity to the CAISO in the day-ahead to substitute different resources in the hour-ahead, provided the substitute capacity meets the relevant ancillary services performance and locational requirements.¹³ The CAISO explained that because of software constraints, the initial release of MRTU would only permit substitution in the case of a resource outage, but committed to permit broader resource substitution in a future MRTU release. The Commission accepted the CAISO's proposal. Thus, neither the issue nor the Commission's directive pertained to allowing scheduling coordinators to select alternative delivery points to address constraints on third-party transmission systems, or any other matters involving transmission scheduling. Because WAPA's request goes beyond the scope of the ancillary services substitution directive imposed by the Commission in the September 2006 Order, the Commission should reject it.

In any event, WAPA's substantive arguments have no merit. The CAISO's current tariff provisions governing ancillary services procurement are just and reasonable without additional substitution flexibility. The CAISO market procures

¹³ *September 2006 Order* at P 296

ancillary services and appropriately compensates each resource based on an ancillary services marginal price that at least reflects a resource's energy sales opportunity cost. Under the CAISO tariff all qualified resources, including generation, storage, and demand response may offer ancillary services capacity.

Market participants have the ability to substitute resources supporting ancillary service capacity in the event of an outage. This provides each market participant some ability to maintain its ancillary service award if its resource experiences a constraint or an outage. WAPA argues that the requirement to resubmit a bid into the real-time market for day-ahead market awards may result in a price difference between the original award and subsequent award. However, this is true for all scheduling coordinators providing ancillary services in the CAISO market. Day-ahead market awards are financially binding for both internal and external resources. There is no reason to grant WAPA a special benefit in this regard, and doing so would be unduly preferential.

Moreover, Section 22 of the Commission's pro forma open access tariff applies to point-to-point transmission service not contemplated by the CAISO tariff provisions for procuring ancillary services. The CAISO tariff does not provide point-to-point transmission service. WAPA does not explain why the CAISO should be required to provide such service, and in any event, such matters are far beyond the scope of this proceeding. Finally, WAPA's request is also problematic insofar as it would also require the CAISO's market to hold scheduling coordinators such as WAPA harmless for outages or constraints that occur on adjacent transmission systems.

IV. The Commission should not require the CAISO to develop software functionality to allow other balancing authority areas to purchase ancillary services through a CAISO-operated market

In its comments, WAPA objects to the fact that the CASO has not developed software functionality to enable other balancing authority areas to procure ancillary services through a CAISO-operated market. WAPA argues that the Commission should require the CAISO to work with stakeholders to develop software functionality that would enable third parties to procure ancillary services through a market clearing process. WAPA asserts that the CAISO's current ancillary services market allows neighboring balancing authorities to sell ancillary services to the CAISO through an efficient market bidding mechanism, but does not allow neighboring balancing authorities to purchase ancillary services from the CAISO through a similar market bidding mechanism. Without a similar market bidding mechanism, WAPA asserts the CAISO's market affects the availability of ancillary services in other balancing authority areas.

WAPA's proposal to require the CAISO to enable other balancing authority areas to procure ancillary services through a CAISO-operated market clearing process goes far beyond the Commission's initial Commission directive that the CAISO develop software to support ancillary service exports. The Commission's September 2006 Order did not direct the CAISO to implement a separate market or any other specific type of market bidding mechanism to support exports of ancillary services. Rather, the Commission adopted a more generic directive that the ISO "develop software to support exports of ancillary services in the future through stakeholder processes and to propose

necessary tariff changes to implement this feature....”¹⁴ As discussed in its April 21 filing, the CAISO has sufficiently satisfied this directive.

Further, WAPA’s argument that it is inappropriate for the CAISO to allow external suppliers to participate in its ancillary services market but not allow external balancing authority areas to buy ancillary services from the CAISO’s market is unsustainable.¹⁵ The CAISO market is the mechanism the CAISO has established to procure the ancillary services it needs to meet its balancing authority area obligations under NERC and WECC reliability standards. Other balancing authorities have opted to procure ancillary services through different means, including competitive solicitations, requests for offers, and bilateral procurement. Nothing precludes other balancing authorities from establishing a market to procure their ancillary services. WAPA’s request is essentially the equivalent of requiring a transmission provider that is conducting a competitive solicitation to procure ancillary services to meet its reliability needs to allow another transmission provider to procure its ancillary services through the same competitive solicitation. The CAISO is not aware of any instance where the Commission has required (1) a transmission provider to allow external parties to procure ancillary services through its competitive solicitations or (2) an independent system operator or regional transmission organization to involuntarily allow external

¹⁴ *September 2006 Order* at P 355.

¹⁵ WAPA also ignores that the CAISO market procures ancillary services from scheduling coordinators for supply resources that voluntarily offer into the CAISO market, not other balancing authorities.

parties to procure ancillary services through its existing market or to create a new market mechanism to allow such procurement.¹⁶

Notwithstanding WAPA's claims, other balancing authorities may procure capacity from resources internal to the CAISO and the CAISO has developed mechanisms to facilitate these transactions. In its April 21 filing, the CAISO explained that it has adopted market rules to support dynamic transfer functionality that can facilitate the export of ancillary services.¹⁷ These market rules effectively fulfill the Commission's directive that the ISO implement functionality to export ancillary services as part of new software releases.

WAPA argues there is little incentive for an entity that desires to export ancillary services from the CAISO to negotiate separately a bilateral ancillary services contract when the CAISO already has a fluid market. The CAISO appreciates WAPA's perspective that a market-based mechanism may be preferential to bilateral contracting in securing ancillary services necessary to help integrate renewables and meet contingencies. But WAPA wrongly asserts that sellers into the CAISO can make daily sales; whereas, exporters of ancillary services must commit to long-term sales of ancillary services. The CAISO does not preclude internal resources from providing ancillary services to external entities. Furthermore, no provision of the CAISO's

¹⁶ See *generally*, Midwest Independent Transmission System Operator, Inc. 129 FERC ¶ 61,283 (2009) at PP 13 and 23, rejecting arguments that Midwest ISO's proposal to afford balancing authorities whose loads and resources are connected to an integrating transmission owner's facilities the opportunity to meet their NERC reserve obligations by obtaining contingency reserves from Midwest ISO's Energy and Operating Reserves Markets during the Transmission Owner's integration creates an inappropriate preference because all transmission owners agreeing to integrate into the Midwest ISO can receive contingency reserve service pending their integration. The Commission did not require the Midwest ISO to provide this service to external transmission owners who had not agreed to integrate their systems into the Midwest ISO. See also, *Southwest Power Pool, Inc.*, 141 FERC ¶61,048 at P 342 (2012) (SPP is not obligated to provide reserve sharing service to external parties).

¹⁷ CAISO filing in docket ER17-14 59 at 23-24.

dynamic transfer protocol requires that an internal generator have a long-term supply contract with an external balancing authority in order to export ancillary services. To the contrary, as the CAISO indicated in its April 21 filing, resources can dynamically schedule all or a portion of their actual real-time output to another balancing authority, and the CAISO can dispatch resources on a five-minute basis to honor ancillary service export obligations. The Commission should not require the CAISO to re-direct resources needed to address critical and pressing market issues in order to provide bidding functionality that the Commission did not expressly require in its September 2006 Order.

V. Conclusion

The Commission should reject the comments of PG&E and WAPA and accept the CAISO's April 21, 2017 filing. The CAISO requests that the Commission find the CAISO's current market structure is just and reasonable without implementation of the outstanding directives from the Commission's September 2006 Order, and there is no need for the CAISO to implement these directives.

Dated: May 30, 2017

Respectfully submitted,

By: /s/ Andrew Ulmer

Roger Collanton

General Counsel

Anthony Ivancovich

Deputy General Counsel

Andrew Ulmer

Director, Federal Regulatory Affairs

California Independent System

Operator Corporation

250 Outcropping Way

Folsom, CA 95630

T: 916-608-7209

F: 916-608-7222

Email: aulmer@caiso.com

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 30th day of May 2017.

Anna Pascuzzo
Anna Pascuzzo