

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

**California Independent System) Docket No. ER18-1339-000
Operator Corporation)**

**ANSWER AND MOTION FOR LEAVE TO ANSWER
OF THE DEPARTMENT OF MARKET MONITORING
OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

The Department of Market Monitoring (DMM), acting in its capacity as the Independent Market Monitor for the California Independent System Operator Corporation (“CAISO”), submits this answer to the reply comments submitted on May 2, 2018 by the CAISO in the above captioned proceeding.¹

I. SUMMARY

CAISO’s May 2 answer indicates that “No intervenor raises any objection to the waiver the CAISO actually requests in the April 10 Petition.”² DMM’s April 25 protest states that “DMM respectfully requests that the Commission deny the CAISO’s request for a waiver of certain market power mitigation provisions of the CAISO tariff” and provides numerous reasons for its objections to the waiver sought by the CAISO.³ DMM stands by the objections raised in its April 25

¹ DMM 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 DMM requests waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to permit it to answer the protests filed in the proceeding. 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, at P 6 (2011); *Cal. Indep. Sys. Operator Corp.*, 132 FERC ¶ 61,023, at P 16 (2010); *Xcel Energy Servs., Inc.*, 124 FERC ¶ 61,011, at P 20 (2008).

² CAISO answer, p. 2.

³ DMM protest, p. 1.

protest, and provides the following response to new arguments introduced in the CAISO's answer.

The CAISO's answer argues that "the adequacy of Powerex's default energy bid is not the subject of the requested waiver and is not the reason for freezing Powerex's exports in the circumstances described in the April 10 Petition," and contends that the Commission "should disregard DMM's arguments to the extent they concern the default energy bid issue, which is beyond the scope of this proceeding."⁴ CAISO's new position on this issue conflicts with its initial waiver request, which repeatedly cites the alleged inadequacy of Powerex's default energy bid as a key reason for the interim solution (i.e. restricting net exports out of Powerex) and related waiver request.⁵ Moreover, the CAISO's proposed longer term solution that will replace the need for the "interim solution" and waiver of mitigation procedures is to add a new option for a default energy bid in the CAISO tariff.⁶ The discussion of the negotiated default energy bid in DMM's protest and these reply comments is directly relevant because the CAISO can avoid the need for the interim solution and the waiver request by implementing a negotiated default energy bid that reflects Powerex's opportunity costs.

DMM's protest explains why the justifications for the interim solution provided in CAISO's April 10 petition are incorrect and inappropriate attacks on CAISO's market power mitigation design and default energy bid process.

⁴ CAISO answer, pp. 10-11.

⁵ CAISO April 10 petition, pp. 10, 12 and 13.

⁶ CAISO answer, p. 12.

Throughout its answer, the CAISO also argues that DMM's critiques of CAISO's justifications of the interim solution are "beyond the scope of this proceeding."⁷ CAISO argues that this is because "this proceeding solely concerns whether granting the April 10 Petition is justified as to the Powerex resource, not the merits of the interim solution".⁸ If the Commission agrees with the CAISO that all of the CAISO's arguments supporting the interim solution are beyond the scope of this proceeding, then the CAISO has failed to demonstrate that the requested tariff waiver is just and reasonable. As DMM explained in its protest, the CAISO's only justification for the tariff waiver is – ironically – that it is needed to prevent the interim solution from creating additional inefficiencies.⁹ Thus, if the Commission disregards all parties' arguments for or against the interim solution, then there is not a reasonable justification for the tariff waiver.

⁷ CAISO answer, p. 11.

⁸ CAISO answer, p. 20.

⁹ See CAISO April 10 petition, pp. 17-19.

II. ANSWER

The CAISO can avoid the need for the interim solution and waiver by utilizing the negotiated default energy bid option in the current tariff

The CAISO's answer argues that "the adequacy of Powerex's default energy bid is not the subject of the requested waiver and is not the reason for freezing Powerex's exports in the circumstances described in the April 10 Petition," and contends that the Commission "should disregard DMM's arguments to the extent they concern the default energy bid issue, which is beyond the scope of this proceeding."¹⁰ The CAISO's position that "the adequacy of Powerex's default energy bid" is beyond the scope of this proceeding is inconsistent with the extensive discussion of the "problem" created by Powerex's default energy bid in the CAISO's initial April 10 petition. The CAISO's position that the negotiated default energy bid option is "beyond the scope of this proceeding" is also inconsistent with the fact that the CAISO's proposed longer term solution that will replace the need for the "interim solution" and tariff waiver of market power mitigation procedures is to add a new option for a default energy bid in the CAISO tariff.¹¹

As explained in DMM's protest, the discussion of the negotiated default energy bid in DMM's protest and these reply comments is directly relevant because under the current CAISO tariff the CAISO can avoid the need for the interim solution and the waiver by implementing a negotiated default energy bid that reflects Powerex's opportunity costs.¹² The CAISO's answer indicates that:

¹⁰ CAISO answer, pp. 10-11.

¹¹ CAISO answer, p. 12.

¹² DMM protest, pp.1, 4-7 and 14-15.

it was the CAISO's understanding based on DMM's communications to the CAISO month prior to parallel operations that DMM's past practices would prevent DMM from being able to accommodate Powerex's request ... The CAISO looked at both sides of the issue and concluded that, based on DMM's explanation of why the current approaches for determining a default energy bid do not sufficiently address Powerex's concerns, it was best to consider starting a stakeholder process to address the issue on a broader scale.¹³

DMM assumes that the "past practices" referenced by the CAISO is that DMM has consistently required that requests for negotiated default energy bids based on opportunity costs be supported by some documentation, analysis or data which show – or can be used by DMM to verify – that the requested default energy bid is a just and reasonable estimate of potential marginal (or opportunity) costs for the resource for use in market power mitigation.

Ultimately, the CAISO has retained full authority to approve and implement a negotiated default energy bid in the event of any disagreement between the CAISO, DMM and a participant.¹⁴ In the case of any disagreement or lack of information, the CAISO has the authority to implement a temporary default energy bid under Tariff Section 39.7.1.5, which states as follows:

If the Scheduling Coordinator does not elect to use any of the other options available pursuant to Section 39.7.1, or if sufficient data do not exist to calculate a Default Energy Bid using any of the available options, the CAISO will first seek to obtain from the Scheduling Coordinator any additional data required for calculating the Default Energy Bid options available pursuant to 39.7.1. If the provision of additional data by a Scheduling Coordinator results in additional or modified Default Energy Bid options pursuant to 39.7.1, the Scheduling Coordinator will have another opportunity to elect one of these options as its temporary Default Energy Bid. If the Scheduling Coordinator does not elect to use any of the options available pursuant to Section 39.7.1, or if sufficient data still do not exist to calculate a Default Energy Bid using any of the available options, the CAISO may establish a temporary Default Energy Bid based on one or more of the following: (1) operating cost data, opportunity cost, and other appropriate input from the Market Participant; (2) the CAISO's estimated operating costs of

¹³ CAISO answer, p. 12.

¹⁴ See CAISO Tariff Section 39.7.1.3.1

the Electric Facility, taking the best information available to the CAISO; (3) an appropriate average of competitive Bids of one or more similar Electric Facilities; or (4) any of the other options for determining a Default Energy Bid for which data are available. [emphasis added]

The CAISO's answer indicates that "months prior to parallel operations" the CAISO believed DMM would not be able to "accommodate Powerex's request."¹⁵ Thus, the CAISO and Powerex have had sufficient time to pursue and implement options available under the current tariff to establish a default energy bid that the CAISO feels is reasonable.

CAISO can implement the new default energy bid proposed by Powerex immediately without the waiver or a stakeholder process.

In its answer, the CAISO indicates that based on the April 30 stakeholder workshop session on new default energy bid options, the CAISO believes it is "very clear that there may be a gap between the current methodologies used by DMM to negotiate default energy bids, and the type of flexibility some market participants feel they need to address issues related to certain types of resources such as Powerex's large scale fast hydro as well as the interaction of these issues with sales opportunities outside the EIM."¹⁶ As described in DMM's presentation at the April 30 workshop, a wide range of other options already exist under the default energy bid for energy limited resources with potential opportunity costs.¹⁷ The only proposal in the April 30 workshop was presented by Powerex and would be available for all

¹⁵ CAISO answer, p. 11.

¹⁶ CAISO answer, pp. 14-15.

¹⁷ *Negotiated Default Energy Bids*, Energy Imbalance Market Offer Rules Technical Workshop, April 30, 2018 Amelia Blanke, Ph.D., Department of Market Monitoring <http://www.caiso.com/Documents/DMMDefaultEnergyBidPresentation1-EnergyImbalanceMarketofferRulesTechnicalWorkshop.pdf>

energy limited hydro units in the EIM. Under Powerex's proposal, this new option would provide a default energy bid calculated as follows:¹⁸

Maximum (\$25/MWh, Reference Price + Min (300% x Reference Price, \$100/MWh))

Where the Reference Price could be set at ICE Day Ahead On-Peak Mid-C Index for energy limited resources in the northwest.

The proposal presented by Powerex was not proposed or reviewed by DMM as part of the aforementioned discussions of default energy bids that began months prior to parallel operations. However, the formula proposed by Powerex would be simple to implement immediately. If the CAISO believes this is a reasonable estimate of opportunity costs for Powerex, the CAISO could work with Powerex to approve and implement this approach – even on a temporary basis.

The interim solution and waiver have potential undesirable consequences that merit normal public review and discussion.

The CAISO answer contends that “DMM does not identify any such undesirable consequences [of the requested waiver] in its pleading.”¹⁹ DMM’s protest explains that the proposed interim solution may result in cases where Powerex and other adjacent EIM areas are jointly separated from the rest of the CAISO by congestion, so that resources in other BAAs could sell power at mitigated prices to other EIM BAAs while Powerex would be restricted from selling power at mitigated prices to other EIM BAAs.²⁰ DMM’s protest notes that

¹⁸ *Addressing LMPM / DEB Challenges for Energy-Limited EIM Participating Resources*, CAISO April 30 Workshop, Mark Holman, Powerex, April 30, 2018, pp. 16-19.

<http://www.caiso.com/Documents/PowerexDefaultEnergyBidPresentation-EnergyImbalanceMarketofferRulesTechnicalWorkshop.pdf>

¹⁹ CAISO answer, p. 7.

²⁰ DMM protest, p. 13, paragraph 2.

this scenario could be viewed as undesirable by some participants and should therefore be subject to a stakeholder process.

CAISO's answer admits that "this is a scenario where the implications of market power mitigation extend beyond the BC Hydro area," but argues "as noted in the April 10 Petition, in such cases the CAISO will not restrict transfers in the north-to-south direction precisely because of the concerns DMM raises."²¹ The CAISO's April 10 petition does not indicate that under the interim solution net exports from Powerex would not be limited in this scenario. On the contrary, Case A in Attachment A of the CAISO's April 10 petition provides an example of a scenario where the PSEI and BCHA areas are both separated by congestion from the CAISO and the rest of the EIM. In this scenario (Case A), the CAISO April 10 petition states that "with the interim solution, T1 and T2 [connecting BCHA to PSEI and CISO, respectively] will be limited in the export direction to a net of 0 MW ..."²²

In addition, the example in Case A of the CAISO's April 10 petition can also be used to illustrate a potential undesirable impact of the CAISO's interim solution on other EIM entities. In this example, assume that the supply bids and default energy bids in PACW are \$4.5/MW. In this case, PSEI would export energy into PACW since PSEI's mitigated bids (\$4) would be lower than mitigated bids in PACW (\$4.5). However, if there is a higher scheduling limit on

²¹ CAISO answer, p. 27.

²² CAISO April 10 petition, Attachment A, p. 1. The CAISO's example in Case A appears as though it may contain an error in stating that without the interim solution "in the market pass, T1 and T2 will reverse direction." It is not clear why the flow on T2 would reverse direction in the export direction from BCHA since the mitigated bid price in BCHA (\$3) would still be higher than the market price in CISO (\$2).

T1 than T2, transfers from BCHA into PACW through PSEI may be limited by the limit of 0 MW placed on net exports from BCHA.

In its answer, the CAISO may be arguing that the interim solution the CAISO now plans to implement is actually different than the interim solution the CAISO explained in its April 10 petition. In any event, the contradictions and ambiguity between the CAISO's initial April 10 petition and its May 2 answer further highlight the need for the proposal to be vetted through a normal process of public review and discussion.

CAISO introduces new arguments in its answer that should be rejected in this proceeding.

In its answer, the CAISO argues that “the fact that BC Hydro and Powerex are Canadian entities is a critical difference between them and EIM market participants in the United States.”²³ The CAISO then proceeds to explain why Powerex being Canadian makes them unique with respect to the “flow reversal” issue. This is an entirely new argument that the CAISO is making in its answer that the CAISO did not present in its April 10 petition. In its April 10 petition, CAISO simply argued that the flow reversal issue was unique to Powerex. As DMM explained in its protest, this is clearly not the case. In its answer, the CAISO introduces the new argument that Powerex is actually unique with respect to the flow reversal issue because Powerex is the only Canadian (or other foreign) participant in the EIM.

²³ CAISO answer, p. 21.

In this proceeding, neither DMM nor any other stakeholder has been given the ability to consider the just and reasonableness of this new argument made in CAISO's answer. Therefore, the Commission should reject the new arguments made by the CAISO to justify the interim solution in the CAISO's answer. If these new arguments are indeed the CAISO's actual justification for the interim solution, the CAISO should explain its actual justification in a public stakeholder process and file a new waiver at FERC based on this new justification for the interim solution and allow stakeholders to comment.

If all arguments regarding the interim solution are “beyond the scope of this proceeding,” the CAISO has not justified the waiver as being needed.

DMM's protest explains why the justifications for the interim solution provided in CAISO's April 10 petition are incorrect and inappropriate attacks on CAISO's market power mitigation design and default energy bid process. Throughout its answer, the CAISO argues that DMM's critiques of CAISO's justifications of the interim solution are “beyond the scope of this proceeding.”²⁴ CAISO argues that this is because “this proceeding solely concerns whether granting the April 10 Petition is justified as to the Powerex resource, not the merits of the interim solution”.²⁵

If the Commission agrees with the CAISO that all of the CAISO's arguments supporting the interim solution are beyond the scope of this proceeding, then the CAISO has failed to demonstrate that the requested tariff waiver is just and reasonable. This is because, as DMM explained in its

²⁴ CAISO answer, p. 11.

²⁵ CAISO answer, p. 20.

protest,²⁶ the CAISO's only justification for the tariff waiver is – ironically – that it is needed to prevent the interim solution from creating additional inefficiencies.²⁷ The CAISO argues that it needs the tariff waiver to reduce the harm that would be caused by the CAISO's implementation of an interim solution that gives Powerex the ability to restrict its EIM transfers in a way that no other EIM entity can.²⁸ If the CAISO was not implementing the interim solution, it would not be requesting the waiver of market power mitigation procedures. Thus, if the Commission disregards all parties' arguments for or against the interim solution, then there is not a reasonable justification for the tariff waiver.

²⁶ DMM protest, pp. 13-14.

²⁷ See CAISO April 10 petition, pp. 17-19.

²⁸ As DMM explained on p. 11 of its protest, "if CAISO automates the transfer restriction in the way described in the transmittal letter, Powerex will be the only EIM entity that will be able to limit its EIM transfer limits in the middle of the FMM or RTD optimization runs that determine binding market schedules."

II. CONCLUSION

DMM respectfully requests the Commission reject the CAISO's request for a waiver of certain market power mitigation provisions of the CAISO.

Respectfully submitted,

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Independent Market Monitor for the California
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Dated: May 4, 2018

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service lists in the above-referenced proceedings, 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 4th day of May, 2018.

Grace Clark
Grace Clark