

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

**California Independent System) Docket No. ER16-2445-000
Operator Corporation)**

**ANSWER OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
TO COMMENTS ON TARIFF AMENDMENT**

The California Independent System Operator Corporation (CAISO)¹ submits this answer to the comments² filed in response to the tariff amendment the CAISO filed in this proceeding on August 19, 2016 (“August 19 Amendment”).³ That filing proposed to maintain in effect, beyond November 30, 2016, certain tariff provisions approved by the Commission on an interim basis in its order on the CAISO’s tariff amendment to address issues surrounding the Aliso Canyon natural gas storage facility, but which the CAISO Board of Governors had approved as permanent tariff changes.⁴ Specifically, the CAISO proposed to make permanent Commission-approved tariff provisions to: (1) allow resources to rebid commitment costs in the CAISO real-time market if they were

¹ Capitalized terms not otherwise defined herein have the meanings set forth in appendix A to the CAISO tariff. References to section numbers are references to sections of the CAISO tariff as revised by the tariff amendment filed in this proceeding, unless otherwise specified.

² The following parties filed comments: the CAISO’s Department of Market Monitoring (DMM); Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, Six Cities); Pacific Gas and Electric Company (PG&E); Southern California Edison Company (SCE); and Western Power Trading Forum (WPTF).

³ The CAISO files this answer pursuant to Rule 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. §385.213. The CAISO filed an errata to the August 19 Amendment filing on August 23, 2016, correcting a section heading appearing on the clean and blackline tariff sheets submitted with the August 19 Amendment filing.

⁴ See *Cal. Indep. Sys. Operator Corp.*, 155 FERC ¶ 61,224 (2016) (June 1 Order).

not committed in the day-ahead market; (2) ensure that the CAISO short-term unit commitment process does not commit resources that did not submit bids into the real-time market unless they were scheduled or committed in the day-ahead or had a real-time must-offer obligation; and (3) allow scheduling coordinators to seek after-the-fact recovery of unrecovered commitment costs that exceed the commitment cost bid cap as a result of actual marginal fuel procurement costs pursuant to a filing submitted to the Commission under section 205 of the Federal Power Act (FPA).

Prior to the Aliso Canyon amendment, the CAISO stakeholdered these three items, and the CAISO Board of Governors approved them in March 2016 for permanent inclusion in the CAISO's tariff.⁵ However, recognizing that these items would also help address conditions relating to the limited operability of the Aliso Canyon facility, the CAISO bundled these provisions with a number of other Board-approved measures to be implemented on a temporary basis, and filed them all with the Commission on May 9, 2016.⁶ Because the CAISO requested expedited consideration and waiver of the 60-day notice requirement for the Aliso Canyon amendment, the CAISO designated all of the proposed tariff revisions in that amendment as effective only through November 30, 2016, recognizing that it would need to file a subsequent tariff amendment to make permanent the

⁵ These items were originally proposed and discussed as part of the CAISO's bidding rules enhancements stakeholder process.

⁶ Tariff Amendment to Enhance Gas-Electric Coordination to Address Risks Posed by Limited Operability of Aliso Canyon Natural Gas Storage Facility, Docket No. ER16-1649-000 (May 9, 2016) (Aliso Canyon Tariff Amendment).

measures the Board approved in March to be included in the CAISO tariff on an ongoing basis.

No party protested the August 19 Amendment. The CAISO's Department of Market Monitoring (DMM) expressed concerns regarding the proposal to allow re-bidding of commitment costs on an ongoing basis. The CAISO acknowledges DMM's concerns, but believes that they can be addressed while still allowing the applicable tariff provisions to go into effect. DMM also requested that the CAISO develop more specific guidelines regarding the after-the-fact cost recovery mechanism. As addressed in the Aliso Canyon Tariff Amendment proceeding, the CAISO believes that the after-the-fact cost recovery procedures are already sufficiently robust and does not support developing additional guidelines for a mechanism that the CAISO expects will be rarely used. The CAISO also addresses brief comments by PG&E and SCE regarding their support for extending the effectiveness of the after-the-fact cost recovery mechanism.

I. Answer

A. DMM's Concerns Regarding the Commitment Cost Re-Bidding Provisions Can Be Addressed While Allowing These Provisions to Go Into Effect on a Non-Interim Basis

DMM expresses two concerns regarding the proposed policy permanently to allow re-bidding of commitment costs in the real-time market under certain circumstances. First, DMM states that the CAISO's implementation of the commitment cost re-bidding rules is broader than what DMM understood the approach would be in the bidding rules enhancements stakeholder process, insofar as the provisions permit resources to re-bid their commitment costs: (1)

during those hours in which they do not have a day-ahead schedule, as opposed to only being allowed to re-bid if they have no day-ahead schedule during any hour of the day; and (2) after being committed by the CAISO in real-time for trading hours outside the duration of their minimum run-time, as opposed to not being permitted to re-bid at all after being committed in real-time.⁷ Second, DMM notes that the re-bidding rules included in the Aliso Canyon Tariff Amendment could not be fully automated in the CAISO's market software, and that some after-the-fact monitoring is necessary to ensure compliance with the tariff rules.⁸ Based on these concerns, DMM recommends that the commitment cost re-bidding rules approved by the Commission in the Aliso Canyon Tariff Amendment be extended for no longer than a "reasonable interim period (e.g. end of summer 2017)" "pending further assessment of other limitations on rebidding of commitment costs that may be appropriate."⁹

The CAISO's implementation of the commitment cost re-bidding proposal is consistent with the proposal the Board of Governors approved in March of this year. In its memorandum to the Board, the CAISO explained that its proposal would "allow resources without a day-ahead schedule to update their commitment cost bids for use in the real-time market to better reflect current

⁷ DMM Comments at 3-5.

⁸ *Id.* at 5-6.

⁹ *Id.*

costs.”¹⁰ Based on this explanation, the Board authorized the CAISO to include the rebidding mechanism in its tariff on a permanent basis¹¹ The CAISO acknowledges that at the time of the Board’s review and approval, it had not fully determined the precise manner of implementing the policy. This is not unusual. The CAISO also acknowledges that implementation details evolved over the period between Board approval and the time it filed the provisions as part of the Aliso Canyon Tariff Amendment. This is also not unusual. However, the tariff language ultimately filed by the CAISO is fully consistent with the policy described in its memorandum and approved by the Board. Specifically, the CAISO chose to implement the restriction relating to “resources without a day-ahead schedule” based on whether a resource has a day-ahead schedule during a particular hour, as opposed to whether the resource has a day-ahead schedule at all during an entire day. Either implementation approach would be consistent with the explanation in the proposal filed with and approved by the Board for permanent inclusion in the CAISO tariff. The fact that the CAISO chose one approach over the other does not constitute a reason for conditioning the CAISO’s request that these provisions go into effect on a permanent basis.¹²

¹⁰ March 17, 2016 Memorandum to CAISO Board of Governors at p 6, available at <http://www.aiso.com/Documents/DecisionCommitmentCostBiddingImprovementsProposal-Memo-Mar2016.pdf>.

¹¹ The Board issued a resolution stating that its members unanimously “approve[d] the commitment cost bidding improvements proposal, as described in the memorandum.” See http://www.aiso.com/Documents/Decision_CombinationCostBiddingImprovementsProposal-RevisedMotion-Mar2016.pdf.

¹² With respect to the issue of allowing a resource to rebid its commitment costs in real-time after its minimum run-time has expired, the CAISO’s proposal to the Board, and the Board’s approval thereof, did not address this level of implementation detail. This implementation

Nevertheless, the CAISO does not object to further assessing the process reflected in the tariff language, including determining whether the CAISO can better automate that process so there is less reliance on after-the-fact monitoring to ensure compliance. Any assessment can occur between now and the end of summer 2017 and, if further revisions are appropriate, the CAISO can file them at any time during this period. Although the CAISO is not aware of any instances of non-compliance, if experience suggests that market participants are not complying with the bidding rules, the CAISO can file to remove the tariff provision or narrow its scope sufficiently to remove any such opportunity for non-compliance. Thus, there is no need for the Commission to place a sunset date on the commitment cost re-bidding provisions as part of the current tariff amendment.

B. The CAISO Addressed Concerns Regarding Developing Additional Guidelines for the After-the-Fact Recovery Process in the Aliso Canyon Tariff Amendment Proceeding

With respect to the after-the-fact cost recovery provisions, DMM states that although it supports this mechanism, it believes that it would be beneficial for the CAISO to work with stakeholders to “develop more specific guidelines, requirements and methodological details.”¹³ DMM raised this concern in the stakeholder process leading up to the Aliso Canyon tariff amendment, and the CAISO believes that it sufficiently addressed it in that proceeding.

approach is, however, well within the scope of the Board’s approval of the CAISO’s proposal, particularly given the CAISO’s stated policy rationale to allow resources to “better reflect current costs” in their commitment cost bids.

¹³ DMM Comments at 6-7.

In the Aliso Canyon Tariff Amendment, the CAISO explained that its after-the-fact recovery mechanism is similar to the one the Commission approved for ISO New England, in that it allows market participants to make a section 205 filing to demonstrate that they incurred actual marginal fuel procurement costs that could not be recovered through the CAISO's cost recovery mechanisms. Under this process, market participants bear the burden of proof and must provide to the Commission certain documentation, as specified in the tariff, supporting their claim. The CAISO did not support requests to explicitly include certain types of costs within the scope of eligibility for after-the-fact recovery,¹⁴ or to expressly limit the hours in a day for which a resource would be eligible to seek recovery,¹⁵ because the CAISO believed it would be inappropriate to prejudge such scenarios. In the June 1 Order, the Commission accepted the CAISO's proposal, and declined to order any additional explicit guidelines, stating that it would "carefully consider the costs incurred prior to approving them on a case-by-case basis."¹⁶

¹⁴ In its comments on the Aliso Canyon Tariff Amendment, NRG requested that FERC expand the tariff to expressly allow (1) that all operational flow order and real-time gas procurement costs incurred to follow CAISO dispatch instructions are included in the costs for which a generator may seek after-the-fact recovery from the Commission; and (2) that gas disposal costs are a legitimate ground on which to seek after-the-fact cost recovery. NRG Comments on Aliso Canyon Tariff Amendment at 10-11.

¹⁵ In its comments on the Aliso Canyon Tariff Amendment, PG&E requested that the Commission limit after-the-fact recovery to costs incurred due to a CAISO dispatch order occurring after 4:00 p.m. and before midnight, when generators are unable to update their gas nominations to adjust their supply in accordance with tariffs and system needs. PG&E Comments on Aliso Canyon Tariff Amendment at 4-5.

¹⁶ June 1 Order at PP 93, 96.

The CAISO does not support DMM's request to develop additional guidelines for the after-the-fact recovery process for the same reasons it objected to doing so in the Aliso Canyon Tariff Amendment. With all of the improvements the CAISO has made to its cost recovery mechanisms and with current initiatives underway to identify additional improvements, the CAISO believes that such section 205 filings should be extremely rare and would be limited to circumstances involving extreme and unanticipated conditions. Given this, the CAISO continues to believe that the best process is one that places the burden on the market participant to demonstrate the need for after-the-fact recovery through a section 205 filing, but that does not prejudge the individual circumstances surrounding such filings.

PG&E supports the CAISO's proposal to extend the after-the-fact recovery mechanism, but notes that it is "preferential over the longer term to develop and use available electric market tools to conform to gas system constraints, thus avoiding the need for exceptional cost recovery."¹⁷ The CAISO agrees. As stated above and in the Aliso Canyon Tariff Amendment, the CAISO views the after-the-fact recovery mechanism as a last-resort backstop, and continues to explore refinements to its market tools that will minimize the need for an after-the-fact recovery mechanism to the greatest extent possible.

PG&E also states that it "supports the CAISO's determination not to request an extension or permanent implementation" of the ability to request after-

¹⁷ PG&E Comments at 3-4.

the-fact recovery of incremental fuel costs associated with energy bids. The CAISO has not, however, made any such determination. The CAISO did not seek to extend the ability to seek after-the-fact recovery for fuel costs associated with energy bids as part of the August 19 Amendment because this feature was not a part of the procedure the CAISO Board originally approved for permanent adoption earlier this year. However, in the August 19 Amendment, the CAISO explained that this did not preclude the possibility the CAISO might request that this feature remain in effect as part of a future filing. The CAISO noted that it would discuss this issue with stakeholders as part of the separate stakeholder process addressing which, if any, of the interim tariff revisions that arose in the Aliso Canyon Tariff Amendment initiative should remain in effect beyond November 30.¹⁸ SCE states that it supports the CAISO's proposal to make the after-the-fact recovery mechanism permanent, "with the understanding that other interested parties will be permitted to intervene and comment on any such "after-the-fact" cost recovery filings."¹⁹ SCE's understanding mirrors the CAISO's own. Any after-the-fact recovery filings would need to be made under section 205 of the FPA, and the CAISO would expect that interested parties would be permitted to intervene and comment and/or protest in accordance with the Commission's regulations.

¹⁸ August 19 Amendment, Transmittal Letter at 16.

¹⁹ SCE Comments at 2.

II. Conclusion

For the foregoing reasons, the CAISO requests that the Commission accept the tariff revisions contained in the August 19 Amendment as filed.

Respectfully submitted,

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Dated: September 26, 2016

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 above-referenced proceeding, pursuant to the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Washington, DC this 26th day of September, 2016.

/s/ Michael Kunselman
Michael Kunselman