

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

California Independent System) Docket No. ER13-2063-000
Operator Corporation)

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

The California Independent System Operator Corporation (ISO)¹ hereby files this answer to the comments and limited protest submitted in response to the ISO's July 30, 2013 tariff amendment in this proceeding.² In its filing, the ISO proposed to amend its tariff to make registration as a multi-stage generation resource mandatory for most resources that are operable in multiple configurations.³ Southern California Edison Company (SCE) filed comments supporting the ISO proposal but raised other concerns regarding bid cost recovery. In their limited joint protest, the NRG and the Dynegy Companies argue that the proposed new definition of multi-stage generation resource is overly broad and unjust and unreasonable.

The proposal the ISO filed was the result of an involved stakeholder process. SCE raises issues that were not part of the stakeholder process or this proceeding and

¹ The ISO is also sometimes referred to as the CAISO. Capitalized terms not otherwise defined herein have the meanings set forth in Appendix A to the ISO tariff.

² The ISO submits 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 ISO requests waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to permit it to answer the protest filed in this 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 its decision-making process, and help to ensure a complete and accurate record in this case. See, e.g., *Entergy Services, Inc.*, 116 FERC ¶ 61,286, at P 6 (2006); *Midwest Independent Transmission System Operator, Inc.*, 116 FERC ¶ 61,124, at P 11 (2006); *High Island Offshore System, L.L.C.*, 113 FERC ¶ 61,202, at P 8 (2005).

³ The ISO also proposed to modify the minimum load cost tolerance band test. That aspect of the filing was not the subject of comment or protest.

supports the actual tariff amendments filed in this proceeding. NRG objects to the ISO's inclusion of certain multi-stage resources as part of the mandatory registration, but does not provide any actual evidence to establish that the ISO proposal is unjust and unreasonable. Accordingly, the Commission should accept the proposed expansion of the scope of the multi-stage functionality without further amendment.⁴

I. ANSWER

A. Response to SCE Comments

SCE filed comments in support of the ISO's proposed implementation of mandatory MSG registration. SCE supports the ISO's proposal in the instant filing and asks that the Commission accept the proposal agreeing that "a more granular and accurate modeling of Resources' characteristics provides greater market efficiency and reduces opportunities for exploitation and abuse." SCE raises two concerns unrelated to the ISO's proposal in the instant filing. The Commission should accept the ISO's proposal as filed. The ISO addresses SCE's two concerns below.

First, SCE raises with the Commission the possibility that market participants may currently be exploiting market vulnerabilities the ISO identified in a recent stakeholder process established to address the impact of certain market behavior on bid cost recovery for resources (*i.e.*, Bid Cost Recovery Mitigation stakeholder process). The ISO is not aware of any evidence that market participants are currently exploiting vulnerabilities identified in the bid cost recovery mitigation stakeholder process.

⁴ The ISO has delayed the implementation of enhancements related to the RIMPR 1/BCR Mitigation Measures policy changes. Because of enhancements to the settlement of multi-stage generating resources' minimum load in the RIMPR 1 policy changes, the ISO had committed to adopt the mandatory adoption of the multi-stage functionality contemporaneously with those changes. The delay of the RIMPR 1 functionality therefore requires the delay of the mandatory multi-stage functionality. The ISO will be filing a motion separately to extend the effective date of the instant tariff amendment to April 1, 2014.

The Commission should reject SCE's request that "the Commission study the CAISO-identified gaps and order the CAISO to act immediately to resolve them if they are currently being exploited by market participants." The ISO and stakeholders studied bid cost recovery in the context of today's markets and pending rule changes over a period of almost two years and determined that there is no evidence that there are gaps being exploited in today's market that need to be addressed immediately. While the ISO cannot guarantee that, at any given time, market participants are not engaged in market behavior that can adversely impact its markets, it monitors its markets closely, and if it observes adverse behavior to expand bid cost recovery, it will take immediate action to address those issues.

Second, SCE raises a concern that the bifurcation of the day-ahead and real-time bid cost recovery processes may create unintended loopholes. This bifurcation is not a proposal the ISO has made in the instant filing, and is entirely outside of the scope of this filing. The Commission can accept the instant proposal without any regards to these comments.

The ISO did identify certain rule changes in the context of its upcoming proposal to separate bid cost recovery for the day-ahead and real-time markets as part of its Renewable Integration Market Product Review 1 and Bid Cost Recovery Mitigation stakeholder processes, and will be filing that tariff amendment with the Commission later this month. The Commission should consider the merits of the ISO's proposal in its upcoming filing and should not bias the outcome of that filing in light of SCE's comments in the instant proceeding.

B. NRG/Dynegy Limited Protest

The Commission should reject NRG/Dynegy's protest as it is outside the scope of this proceeding. The crux of the NRG/Dynegy protest is their claim that the multistage functionality "began as a method for more accurately modeling the unique operational characteristics of combined-cycle units" but that the current ISO proposal expands it far beyond that limited application. In support of this claim, NRG/Dynegy cite a Commission order from 2006 in which the Commission ordered the ISO to implement "more comprehensive modeling software . . . to accurately reflect the operating characteristics of combined-cycle units."⁵ This order was made as part of the Commission's approval of the ISO's new market system that went into effect in April 2009.

Under the instant ISO proposal, mandatory participation in the multistage functionality would apply to combined cycle units and extend to other types of generators that have a defined set of operating characteristics. NRG/Dynegy argue that extending mandatory participation to these additional resources is overbroad and unjust and unreasonable. They assert that "by expanding the applicability of MSG, the CAISO is now trying to fit a square peg in a round hole instead of narrowly tailoring the necessary remedy."⁶ Accordingly, they "request that the Commission reject the portion of the CAISO Proposal that makes MSG registration mandatory for resources other than combined-cycle resources."⁷

⁵ *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274 at P 567, P 573 (2006).

⁶ NRG/Dynegy Limited Protest, at 4.

⁷ NRG/Dynegy Limited Protest, at 1.

The NRG/Dynegy protest suffers from several fatal weaknesses and as such, provides the Commission no basis whatsoever for finding that the ISO proposal is unjust and unreasonable.

The most critical point is that the multistage functionality has never been solely about modeling combined cycle units. In the initial tariff filing to implement the multistage functionality, the ISO stated that the functionality would be used “to accurately model the unique operational and economic parameters of combined cycle generating units *and other resources that have multiple operating or regulating ranges that limit the resource to operate in only one of those ranges at any particular point in time.*”⁸ The class of units over which NRG/Dynegy lodges its protest are those “other resources that have multiple operating or regulating ranges” that always have had the option of participating in the multistage functionality on the same basis as a combined cycle unit. Including these units within the ambit of the multistage functionality is thus nothing new. And it is also something over which neither NRG nor Dynegy previously have expressed concern in prior Commission tariff processes.

It is also irrelevant and misleading to cite the ISO’s 2006 compliance obligation in opposition to the current proposal. The current proposal moves beyond mere compliance with the Commission’s 2006 compliance mandate and is no way filed as a compliance filing in response to that order. The ISO’s ability to amend its tariff, however, unquestionably is not limited to compliance with Commission mandates. Under its FPA section 205 rights, the ISO can always propose to amend its tariff. In considering whether those proposed amendments should be accepted, it is the

⁸ *Cal. Indep. Sys. Operator Corp.*, Transmittal Letter at 1-2, FERC Docket Nos. ER10-1360-000, ER10-2159-000 & ER10-2560-000 (May 27, 2010) (May 2010 Transmittal Letter) (emphasis added).

Commission's role to determine whether the new rates, terms, and conditions would be just and reasonable. In merely pointing out that an ISO proposal filed in 2013 goes beyond the narrow scope of a compliance obligation created in 2006, NRG/Dynegy does nothing to establish that the ISO proposal is unjust and unreasonable.

The July 30 filing explains what issues the proposal is meant to address related to bid cost recovery and ancillary services. Those issues are equally applicable to combined cycle units and to the units that NRG/Dynegy seeks to exclude from the multistage generating unit definition. Notably, NRG/Dynegy makes no effort to explain why that is not the case. For that reason, the ISO proposal is just and reasonable and an appropriate response to identified market issues.

From the outset of the ISO's overall stakeholder engagement on the multistage functionality, which began in November 2008, it was abundantly clear that the functionality would not be limited to combined cycle units. For example, the initial ISO issue paper on multistage generating, published November 7, 2008, stated: "There are currently about 85 multi-stage generating units in the California ISO control area. Of these, 34 are Combined Cycle units."⁹

The ISO stakeholder community has known from the beginning that the multistage functionality was about much more than just combined cycle units and accepted the stakeholder processes as part of the ISO efforts to implement and refine the multistage functionality. Granting the NRG/Dynegy protest would turn the current ISO proposal, and the MSG mechanism more generally, into a fundamentally different

⁹ See CAL. INDEP. SYS. OPERATOR CORP., MODELING OF MULTI-STAGE GENERATING UNITS at 1, (2008), available at (2009), available at <http://www.caiso.com/Documents/IssuePaper-Multi-StageGeneratingUnitModeling.pdf>.

item from what was considered in the stakeholder process on this tariff filing and what was considered in stakeholder processes going back nearly five years.

II. CONCLUSION

For the reasons provided herein, the Commission should accept the ISO's July 30 proposal as filed.

Respectfully submitted,

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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 September 2013.

Is/ Anna Pascuzzo

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