California Independent
System Operator Corporation

January 22, 2014

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: California Independent System Operator Corporation Compliance Filing

Docket No. ER13-2452-____

Dear Secretary Bose:

The California Independent System Operator Corporation (ISO) respectfully submits this compliance filing in response to the Commission's December 19, 2013 order[1] conditionally accepting the ISO's September 25, 2013 amendment to the ISO open access transmission tariff (tariff) in which the ISO proposed to lower the energy bid floor and modify the bid cost recovery settlement rules to pay bid cost recovery separately for the day-ahead and real-time markets. Specifically, the ISO submits revised tariff sheets to remove the "catch-all" provisions from the relevant tariff provisions for both the day-ahead metered energy adjustment factor and real-time performance metric.[2] The ISO also provides the requested information on the steps the ISO will take to improve the transparency of bid cost recovery uplift payments.[3]

The ISO respectfully requests that the Commission accept this compliance filing as filed.

I. Background

On September 25, 2013, the ISO filed an amendment to its tariff to lower the energy bid floor, modify the bid cost recovery settlement rules to pay bid cost

---

1 *Cal. Indep. Sys. Operator Corp.,* 145 FERC ¶ 61,254 (2013) (*December 19 Order*).

2 *December 19 Order*, at P 38.

3 *Id.*, at PP 41 and 42.

recovery separately for the day-ahead and real-time markets, and make necessary changes to bid cost recovery payments to address potential behavioral issues. The ISO's filing provided necessary market design modifications targeted at considering the characteristics of variable energy resources as the state of California moves to increase their presence in the ISO markets. The modifications are necessary to streamline uplift payments and in some cases are also necessary to eliminate the potential incentives for adverse market behavior targeted at unjustly expanding bid cost recovery or residual imbalance energy payments.

The ISO's tariff currently contains an energy bid floor of negative $30/MWh in the ISO day-ahead and real-time markets. The bid floor provides the minimum price at which energy will be cleared in the ISO market. Negative prices indicate the cost of supplying energy when there is an over-abundance of supply. A negative bid, in turn, reflects the maximum price that a resource is willing to pay to provide energy to the market. The ISO proposed to lower the bid floor to negative $150/MWh to provide appropriate market signals for increased real-time economic bids from variable energy resources.

The ISO tariff authorizes the ISO to allow resources to compensate energy bid costs, along with start-up and minimum load costs, through bid cost recovery payments when market revenues do not cover these costs. Currently, the ISO nets a resource's market costs and revenues across the individual market days and then across the day-ahead and real-time markets for the same trading day. If a resource's combined revenues from the day-ahead and real-time markets exceed its combined costs in the two markets, the resource does not receive a bid cost recovery payment. To encourage more decremental economic bids in real-time, which will enable ISO to address over-generation conditions through the market, the ISO proposes to no longer net the costs and revenues across the two markets and instead net them for each day. In addition to addressing over-generation situations, the bid cost recovery revisions proposed here are designed to create incentives for all resources to submit economic bids in real-time, both incremental and decremental, and follow dispatch instructions so that the ISO can more efficiently dispatch resources to meet system needs reliably.

The proposal to eliminate bid cost recovery costs and payments across the days, raises the potential for incentives for adverse market behavior. Therefore, concurrent with the adoption of the proposed netting rules, the ISO also proposed to implement new mitigation measures as a safeguard against inflated bid cost recovery and residual imbalance energy payments.

On December 19, 2013, the Commission conditionally accepted the ISO's filing subject to further compliance as further discussed herein.

II. Discussion

A. Elimination of "catch-all" Provisions

In paragraph 38 of the *December 19 Order*, the Commission order the ISO to submit a compliance filing that removes the "catch-all" language from the relevant tariff provisions for both the day-ahead metered energy adjustment factor and real-time performance metric within 30 days of the date of this order. The two affected tariff provisions are Sections 11.8.2.5 and 11.8.4.4.

In compliance, the ISO is submitting revised tariff sheets removing the "catch-all" language in Section 11.8.2.5 and 11.8.4.4.

B. Reports and Market Performance and Planning Forum Stakeholder Meetings

In response to concerns raised by Six Cities regarding the possibility that separate bid cost recovery for the day-ahead and real-time markets may increase the overall cost of bid cost recovery payments to market participants, the Commission ordered the ISO to improve transparency into bid cost recovery costs. Specifically, the Commission directed the ISO to improve the transparency of bid cost recovery uplift payments by revising its current monthly reports to track the impact of these revisions and including this information as a standing item on the agenda for the Market Performance and Planning Forum stakeholder meetings, consistent with the actions suggested by the ISO in its answer. Accordingly, the ISO has included a standing agenda item for the Market Performance and Planning Forum.

The Commission noted that the ISO "currently reports aggregated bid cost recovery payment amounts for each market process that resulted in the need for an uplift payment (for example, residual unit commitment) and for each type of cost a generator is compensated for (for example, minimum load cost)." The Commission stated that the "revised report should aggregate bid cost recovery amounts by need, type of cost and area, or combination of areas, where the resources receiving bid cost recovery payments are located." The Commission found that the "locational information, in combination with the other data specified above, will provide the necessary transparency on the extent to which the revisions proposed here increase market efficiency due to changes in real-time bidding behavior." The Commission directed the ISO to submit a compliance filing within 30 days of the date of the *December 19 Order* that describes in detail how the ISO proposes to revise its monthly reports. The Commission also stated that the ISO's proposal should address confidentiality and reporting timelines as well as the specific data to be reported.

Accordingly, the ISO submits this explanation of how the ISO proposes to revise the monthly reports.

Currently, the ISO publishes the reports provided in Attachment C on a monthly basis. Figures 16 through 19 provide bid cost recovery costs on a daily basis for each month. Figure 16, provides the total costs by the cause of the uplift, *i.e.*, the market in which the uplift is incurred. Figures 17, 18 and 19, then provide the bid cost recovery costs by the type of costs incurred, *i.e.*, start-up costs, minimum load costs or energy bid costs.

The ISO proposes to provide each of these charts in five locations that reflect five utility distribution company areas to provide locational information regarding these costs. The breakdown of the cost data by utility distribution company will be provided in an appendix to the monthly reports and will be made available on the ISO's website at the same location. The reports would provide the bid cost recovery payments made to resources located in the utility distribution company areas as discussed above for each current report as reflected in Attachment C.

The utility distribution company areas consist of the areas over which an entity owns and operates a distribution system for delivery of energy to and from the ISO controlled grid, and provides service to end-use customers. There are a total of sixteen utility distribution company areas defined for the ISO system. The ISO proposes to provide the data covering the four major utility distribution company areas (*i.e.*, Pacific Gas and Electric, Southern California Edison, San Diego Gas and Electric, and Northern California Power Agency) separately, and provide the data for all remaining utility distribution companies in one aggregate group.

Resource-specific bid cost recovery cost data is, arguably, confidential information as it reflects the cost of paying their energy bid price, start-up costs, and minimum load costs. The ISO intends to provide the data in a format that does not create a risk of exposing such information. In each of the four major utility distribution company areas there are more than ten resources with multiple ownership and representation of those resources. In contrast, in the case of the remaining utility distribution company area definitions there are fewer than ten resources and as few as one, or where there are more than ten resources identified, those resources are all owned or operated by one entity. The ISO proposes to group all these areas into one aggregated location to ensure confidentiality of the resource-specific information is preserved. Providing the information at this aggregation addresses concerns that the ISO may disclose confidential resource-specific cost data.

In footnote 54 of the *December 19 Order* the Commission provided the example of utilizing the local reliability area. The ISO does not have the ability to readily provide the data in this format and would be required to deconstruct the payments in order to achieve this result. In addition, providing the data by local reliability area increases the risk of disclosing generator specific data. The ISO's proposal provides equally relevant data and avoids the confidentiality concerns.

III. Communications

Correspondence and other communications regarding this filing should be directed to:

Nancy Saracino
General Counsel
Roger Collanton
Deputy General Counsel
Anna McKenna
Assistant General Counsel
California Independent System
Operator Corporation
250 Outcropping Way
Folsom, CA 95630
Tel: (916) 351-4400
Fax: (916) 608-7222
E-mail: amkenna@caiso.com

IV. Contents of this Filing

In addition to this transmittal letter, this filing includes the following attachments:

Attachment A	Clean ISO tariff sheets incorporating this tariff amendment
Attachment B	Red-lined document showing the revisions contained in this tariff amendment
Attachment C	Excerpt of Monthly Reports

V. Conclusion

For the reasons set forth in this filing, the ISO respectfully requests that the Commission accept this compliance filing as filed, effective April 1, 2014.

Respectfully submitted,

By: ***/s/ Anna McKenna***
Nancy Saracino
General Counsel
Roger Collanton
Deputy General Counsel
Anna A. McKenna
Assistant General Counsel
California Independent System
Operator Corporation
250 Outcropping Way
Folsom, CA 95630
Tel: (916) 351-4400
Fax: (916) 608-7222
amkenna@caiso.com

Counsel for the California Independent
System Operator Corporation

Attachment A – Clean Tariff

Compliance Filing for Tariff Amendment Lowering the Energy Bid Floor and Changing the Bid Cost Recovery Methodology with Additional Performance Based Refinements

California Independent System Operator

Fifth Replacement FERC Electric Tariff

January 22, 2014

* * *

11.8.2.5 Application of the Day-Ahead Metered Energy Adjustment Factor to IFM Bid Costs and Market Revenues

The CAISO will adjust for each Bid Cost Recovery Eligible Resource the IFM Energy Bid Cost and IFM Market Revenue calculations by multiplying the Day-Ahead Metered Energy Adjustment Factor with the amounts derived as specified in Sections 11.8.2.1.5 and 11.8.2.2, respectively. In addition, the CAISO will apply the Real-Time Performance Metric to the IFM Energy Bid Costs, IFM Minimum Load Costs IFM Pumping Costs and IFM Market Revenues, as described in 11.8.4.4. The CAISO will apply the Day-Ahead Metered Energy Adjustment Factor to the IFM Pumping Bid Costs in the same manner in which the CAISO applies the Day-ahead Metered Energy Adjustment Factor to the IFM Energy Bid Costs as specified in this Section 11.8.2.5 and its subsections.

* * *

11.8.4.4 Application of the Real-Time Performance Metric

The CAISO will adjust the RTM Energy Bid Cost, the RTM Market Revenues, and RTM Minimum Load Costs, the IFM Minimum Load Cost and IFM Energy Bid Cost calculations, and the IFM Market Revenues determined pursuant to Sections 11.8.4.1.5, 11.8.4.2, 11.8.4.1.2, 11.8.2.1.2, 11.8.2.1.5 and 11.8.2.2, respectively, by multiplying the Real-Time Performance Metric with those amounts for the applicable Settlement Interval, pursuant to the rules specified in this Section 11.8.4.4 and its subsections. The CAISO will apply the Real-time Performance Metric to the IFM Pumping Bid Costs and RTM Pumping Bid Costs in the same manner in which the CAISO applies the Real-time Performance Metric to the RTM Energy Bid Costs as specified in this Section 11.8.4.4, and its subsections.

* * *

Attachment B – Marked Tariff

Compliance Filing for Tariff Amendment Lowering the Energy Bid Floor and Changing the Bid Cost Recovery Methodology with Additional Performance Based Refinements

California Independent System Operator

Fifth Replacement FERC Electric Tariff

January 22, 2014

* * *

11.8.2.5 Application of the Day-Ahead Metered Energy Adjustment Factor to IFM Bid Costs and Market Revenues

The CAISO will adjust for each Bid Cost Recovery Eligible Resource the IFM Energy Bid Cost and IFM Market Revenue calculations by multiplying the Day-Ahead Metered Energy Adjustment Factor with the amounts derived as specified in Sections 11.8.2.1.5 and 11.8.2.2, respectively. In addition, the CAISO will apply the Real-Time Performance Metric to the IFM Energy Bid Costs, IFM Minimum Load Costs IFM Pumping Costs and IFM Market Revenues, as described in 11.8.4.4. The CAISO will apply the Day-Ahead Metered Energy Adjustment Factor to the IFM Pumping Bid Costs in the same manner in which the CAISO applies the Day-ahead Metered Energy Adjustment Factor to the IFM Energy Bid Costs as specified in this Section 11.8.2.5 and its subsections.~~ In all cases, regardless of the rules specified below, the application of the Day-Ahead Metered Energy Adjustment Factor shall never increase a Bid Cost Recovery Eligible Resource's Unrecovered Bid Cost Uplift Payments. In the event that the CAISO discovers that there has been an increase in the Unrecovered Bid Cost Uplift Payment due to the application of the Day-Ahead Metered Energy Adjustment Factor, the CAISO will adjust the payment to recover the overpayment in a subsequent billing cycle as permissible under Section 11.29.~~

* * *

11.8.4.4 Application of the Real-Time Performance Metric

The CAISO will adjust the RTM Energy Bid Cost, the RTM Market Revenues, and RTM Minimum Load Costs, the IFM Minimum Load Cost and IFM Energy Bid Cost calculations, and the IFM Market Revenues determined pursuant to Sections 11.8.4.1.5, 11.8.4.2, 11.8.4.1.2, 11.8.2.1.2, 11.8.2.1.5 and 11.8.2.2, respectively, by multiplying the Real-Time Performance Metric with those amounts for the applicable Settlement Interval, pursuant to the rules specified in this Section 11.8.4.4 and its subsections. The CAISO will apply the Real-time Performance Metric to the IFM Pumping Bid Costs and RTM Pumping Bid Costs in the same manner in which the CAISO applies the Real-time Performance Metric to the RTM Energy Bid Costs as specified in this Section 11.8.4.4, and its subsections. ~~In all cases, regardless of the~~

~~rules specified below, the application of the Real-Time Performance Metric shall never increase a Bid Cost Recovery Eligible Resource's Unrecovered Bid Cost Uplift Payments. In the event that the CAISO discovers that there has been an increase in the Unrecovered Bid Cost Uplift Payment due to the application of the Real-time Performance Metric, the CAISO will adjust the payment to recover the overpayment, in a subsequent billing cycle as permissible under Section 11.29.~~

* * *

Attachment C

Market Performance Report
November 2013
Figures 16, 17, 18, & 19

Figure 16: Bid Cost Recovery Allocation

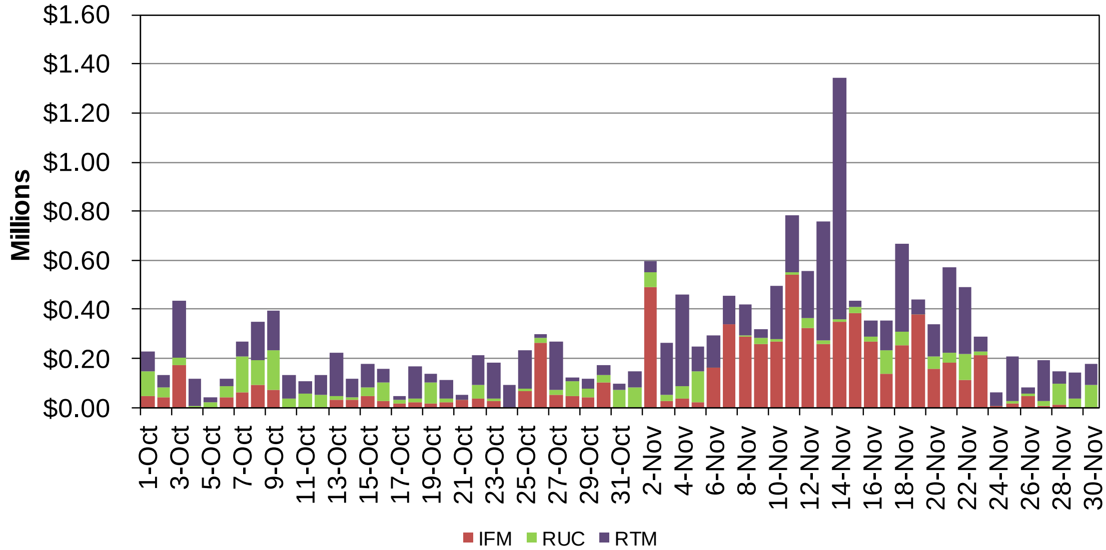


Figure 17 shows the bid cost recovery allocation in RUC. The RUC cost in November was driven mainly by minimum load cost (MLC). The monthly average BCR allocation in RUC for November was approximately $49,928.

Figure 17: Bid Cost Recovery Allocation in RUC

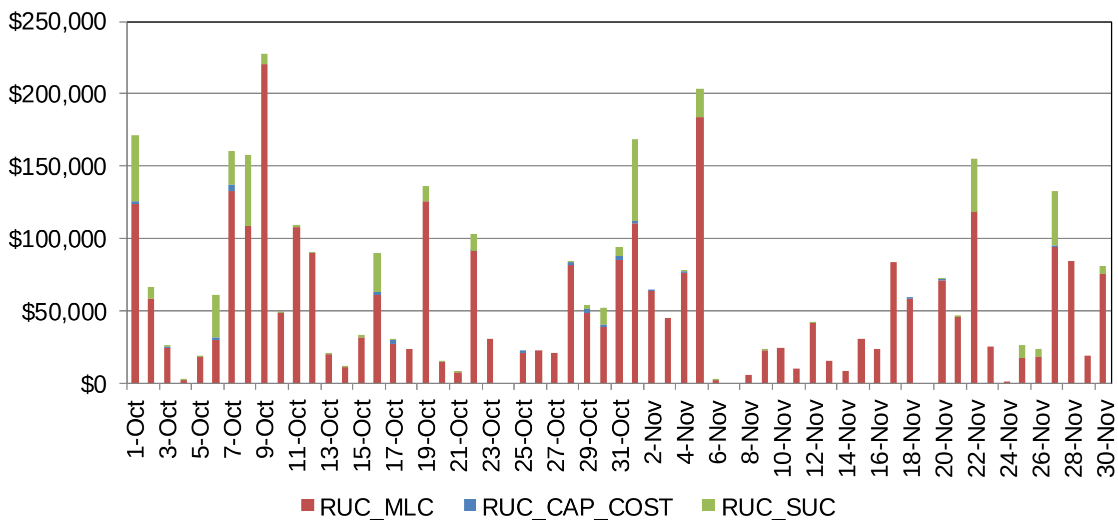


Figure 18 shows the bid cost recovery allocation in RTD. The minimum load cost (MLC) and energy cost contributed largely to the BCR in November. The monthly average BCR allocation in RTD for November was approximately $185,665.

Figure 18: Bid Cost Recovery Allocation in RTD

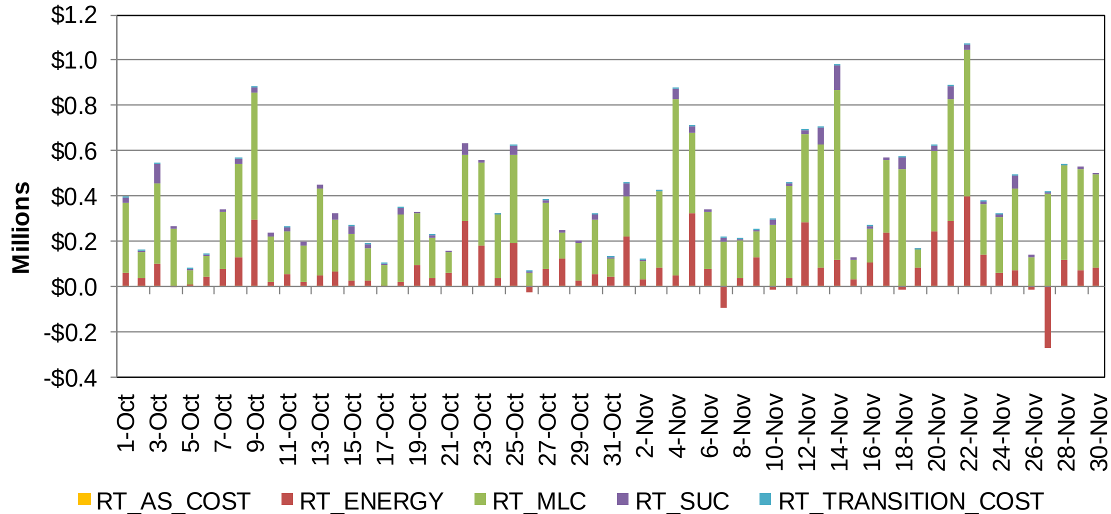
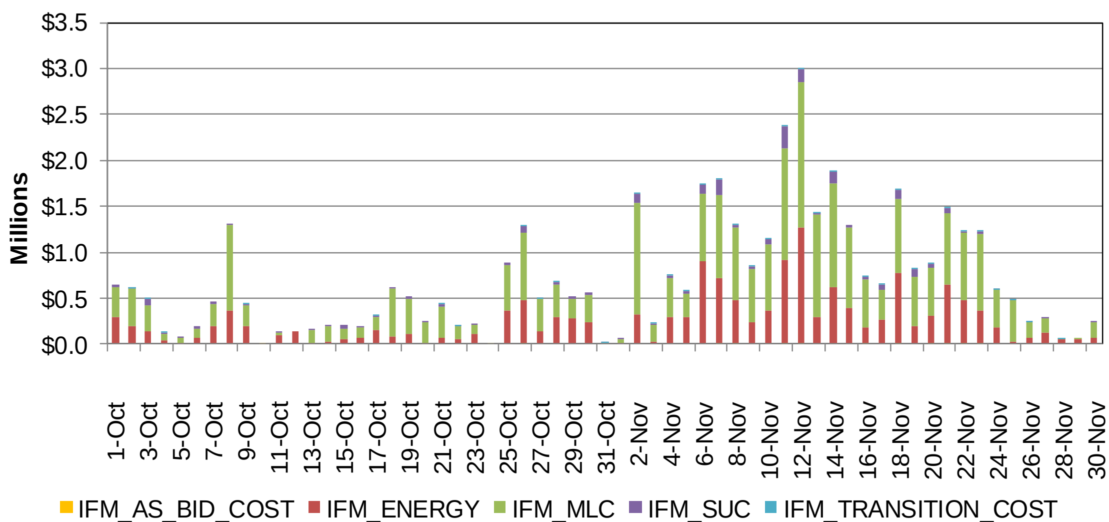


Figure 19 shows the bid cost recovery allocation in IFM. The monthly average BCR allocation in IFM for November was approximately $149,351. The Minimum Load Cost (MLC) and energy cost contributed largely to the BCR in IFM in November.

Figure 19: Bid Cost Recovery Allocation in IFM



CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each party listed on the official service list for this proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010 (2013)).

Dated at Washington, DC on this 22nd day of January, 2014.

/s/ Daniel Klein
Daniel Klein