

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

**California Independent System) Docket No. ER13-967-000
Operator Corporation)**

**ANSWER OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
TO COMMENTS OF WESTERN POWER TRADING FORUM**

The California Independent System Operator Corporation (“ISO”) files this answer to the comments submitted in this proceeding by the Western Power Trading Forum (“WPTF”) in response to the ISO’s February 21, 2013 tariff amendment to improve the accuracy and efficiency of the ISO’s real-time local market power mitigation process.¹ WPTF’s comments make clear that it supports most of the ISO’s proposed enhancements, including the real-time market power mitigation and the use of a dynamic competitive path assessment in the hour-ahead scheduling process and the real-time market.² Although it expressly acknowledges that the ISO’s proposed default competitive path assessment is an improvement over the current static competitive path assessment, WPTF nonetheless objects to one element of the ISO’s proposed

¹ The ISO files this answer pursuant to 18 C.F.R. § 385.213. Southern California Edison Company also filed comments requesting that the Commission accept the February 13 tariff amendment in its entirety. The following entities filed only motions to intervene and did not oppose the February 21 tariff amendment: the California Department of Water Resources State Water Project; Calpine Corporation; City of Santa Clara, California, d/b/a Silicon Valley Power, and M-S-R Public Power Agency; Dynegy Moss Landing, LLC, Dynegy Morro Bay, LLC, Dynegy Oakland, LLC, and Dynegy Marketing and Trade, LLC; Modesto Irrigation District; Northern California Power Agency; NRG Power Marketing LLC, GenOn Energy Management, LLC, Cabrillo Power I LLC, Cabrillo Power II LLC, El Segundo Power LLC, GenOn Delta, LLC, GenOn Marsh Landing, LLC, GenOn West, LP, High Plains Ranch II, LLC, Long Beach Generation LLC, NRG Solar Alpine LLC, NRG Solar Borrego I LLC, NRG Solar Blythe LLC, NRG Solar Roadrunner LLC, and Avenal Solar Holdings LLC; and Pacific Gas and Electric Company.

² WPTF at 1, 3, 4, 10.

default competitive path assessment methodology: the ISO’s proposal to treat as non-competitive those constraints that do not meet the threshold of having been tested and found to be congested at least ten hours in the prior sixty days in the in-market dynamic competitive path assessments.³ The ISO proposes to utilize this feature if there is an in-market failure of the dynamic competitive path assessment and to determine whether a constraint is non-competitive for purposes of settling exceptional dispatch energy. WPTF’s objections are based upon incorrect assumptions, and the unfounded belief that it is feasible for the ISO to perform an after-the-fact analysis of the competitiveness of such constraints.

The ISO’s proposed default competitive path assessment is a significant improvement from the current static approach, and therefore the Commission should accept the February 21 tariff amendment as filed.

I. Answer

A. The ISO’s Proposed Default Competitive Path Assessment Methodology Is Just and Reasonable

WPTF states that the ISO’s proposal to perform a default competitive path assessment when a transmission constraint is congested for more than ten hours in the prior sixty days “is an improvement over the threshold used in the previous

³ The default competitive path assessment will use sixty days of data produced by the in-market dynamic competitive path assessment, and the competitive path designations will be updated at least once every seven days. The ISO will determine the competitiveness of constraints for purposes of creating default competitive path assessments based on two criteria: (1) whether congestion occurred on the constraint in ten or more hours for which the constraint was tested for competitiveness; and (2) whether the constraint was deemed competitive in 75 percent or more of the instances in which the constraint was binding when tested. Transmittal letter for February 21 tariff amendment at 15-21; proposed ISO tariff section 39.7.3.

static CPAs [competitive path assessments] (applying the CPA only if the path was congested at least 500 hours in the prior twelve months).⁴ The Commission accepted the quarterly static competitive path assessment methodology as just and reasonable in its order approving the ISO's new market design.⁵ Thus, WPTF recognizes that the ISO's proposal improves upon an existing tariff provision that is just and reasonable. As a result, WPTF acknowledges that the ISO's proposal is itself just and reasonable.

Nevertheless, WPTF also argues that the ISO's proposal "does not go far enough when un-tested transmission paths will still nonetheless be deemed uncompetitive."⁶ That argument provides no basis for the Commission either to reject the ISO's proposal or to accept WPTF's alternative proposal to test all constraints for competitiveness. Despite WPTF's claim that its proposal is superior, the proper legal standard is whether the ISO's proposal is just and reasonable under Section 205 of the Federal Power Act ("FPA").⁷ As the Commission has explained, "the courts and this Commission have recognized that there is not a single just and reasonable rate. Instead, we evaluate [proposals under Section 205] to determine whether they fall into a zone of

⁴ WPTF at 5.

⁵ *California Independent System Operator Corp.*, 116 FERC ¶ 61,274, at PP 1030-31 (2006).

⁶ WPTF at 5.

⁷ 16 U.S.C. § 824d. Under ISO tariff section 15, the ISO is the entity authorized to submit filings for Commission approval pursuant to Section 205.

reasonableness. So long as the end result is just and reasonable, the [proposal] will satisfy the statutory standard.”⁸

The ISO’s proposal falls well within the zone of reasonableness. The ISO’s proposed methodology for making default competitive path designations will use sixty days of data produced by the in-market dynamic competitive path assessment, and the default competitive path designations will be updated at least once every seven days. Thus, the methodology for determining default competitive path assessments derives from data resulting from the dynamic competitive path assessments, which tests all modeled constraints to determine whether they are competitive, and the default competitive path designations will be updated on a weekly basis. As a result, WPTF’s repeated mischaracterization of the ISO’s proposed methodology as a new “static” proposal is misleading.⁹

Further, as WPTF acknowledges, the ten-hour and sixty-day thresholds under the ISO’s proposal are significantly less conservative than the thresholds under the quarterly static competitive path assessment that the ISO currently employs, which require that a constraint be congested or managed for congestion in more than 500 hours over 12 months.¹⁰ Therefore, even with the assumption of non-competitiveness for constraints that do not meet the

⁸ *Calpine Corp. v. California Independent System Operator Corp.*, 128 FERC ¶ 61,271, at P 41 (2009) (citations omitted). See also *New England Power Co.*, 52 FERC ¶ 61,090, at 61,336 n.35 (1990), citing *Cities of Bethany, et al. v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984) (utility needs to establish that its proposed rate design is reasonable, not that it is superior to all alternatives).

⁹ See, e.g., WPTF at 1, 3-4, 5.

¹⁰ See ISO tariff section 39.7.2.3, which the ISO proposes to delete in the February 21 tariff amendment.

threshold, more constraints will be evaluated and found to be competitive under the new default competitive path assessment process. This will result in more accurate mitigation and fewer instances of mitigation as a result of not meeting the threshold.

The ISO anticipates that the default competitive path assessment will not have a large effect on the total amount of mitigation. A constraint that is deemed non-competitive in the default set because it is untested will trigger mitigation in only two circumstances: if there is an in-market failure of the dynamic competitive path assessment or a resource is exceptionally dispatched specifically to manage the constraint. The default competitive path assessment will not otherwise impact in-market mitigation, where the vast majority of mitigation is performed.

B. The Assumption of Non-Competitiveness for Constraints that Do Not Meet the Threshold is Just and Reasonable

WPTF argues that the results of the ISO's competitive path assessments performed in 2012 show that when constraints are tested, they overwhelmingly test as competitive and, therefore, that it is justifiable to assume that constraints that do not meet the threshold would, if tested, be competitive.¹¹ This is not a justifiable assumption.

Under the existing static competitive path assessment, the presumption of non-competitiveness applies to modeled constraints that do not meet the

¹¹ WPTF at 5-6.

threshold requirements and to non-modeled constraints.¹² The ISO proposes to maintain this same principle with the new default competitive path assessment but to relax the threshold requirements.¹³ As discussed above, this will allow for more modeled constraints to meet the new threshold for tested rather than simply be deemed non-competitive compared to the current threshold. As discussed below, this assumption continues to be just and reasonable for non-modeled constraints as well.

Non-modeled transmission constraints fall into two categories: small constraints (typically 69 kV and 115 kV) for which the ISO lacks sufficient information to include in the full network model, and complex constraints that may not be fully modeled. With respect to small constraints, there is no reason to assume that these constraints would be competitive if tested as it is unlikely that there would be competitive supply to resolve congestion.

The second category of untested constraints consists of complex constraints that are difficult to model completely or at all in the full network. The Commission has recognized that the ISO “continues to explore options for adding functionality to its software to remove operational limitations and improve its modeling capabilities.”¹⁴ These efforts are ongoing and include a recently

¹² ISO tariff section 39.7.2.2. The ISO is maintaining the existing approach of treating only those constraints that are both tested deemed competitive as competitive, except that this treatment is limited to the default competitive path assessment. As discussed, the ISO is also proposing less conservative thresholds.

¹³ It is important to emphasize that the presumption of non-competitiveness only applies to the default competitive path assessment. The in-market dynamic competitive path assessment assumes that constraints that are not tested are deemed competitive. This is another significant example of the ISO’s evolution toward less conservative local market power mitigation.

¹⁴ *California Independent System Operator Corp.*, 141 FERC ¶ 61,069, at P 43 (2012).

launched contingency modeling stakeholder initiative.¹⁵ Until the constraints are modeled and thus can be tested for competitiveness, it remains reasonable to treat them as uncompetitive for the limited purpose of creating default competitive path assessments. If the ISO were to deem non-modeled constraints to be competitive, the costs to ISO market participants and ratepayers could be significant as it would allow unmitigated bids in uncompetitive circumstances to be considered in the ISO markets.

WPTF also relies on data regarding the ISO's use of exceptional dispatch from 2009 to 2012, attempting to argue that it shows an increase in reliance on exceptional dispatch and that this somehow bears upon the February 21 tariff amendment.¹⁶ This information is not relevant to the Commission's evaluation of the ISO's proposed default competitive path assessment and the rest of the tariff amendment. The tariff amendment does not create any new type of exceptional dispatch, change how the ISO mitigates exceptional dispatches to address non-modeled constraints, or result in any increase in the amount of exceptional dispatch the ISO will perform pursuant to its existing tariff authority. Therefore,

¹⁵ Documents related to this stakeholder initiative are available on the ISO website at <http://www.caiso.com/informed/Pages/StakeholderProcesses/ContingencyModelingEnhancements.aspx>.

¹⁶ WPTF at 7. WPTF erroneously uses this data as support for a blanket statement that the volume of exceptional dispatches reached record highs in six months of 2012. This statement overlooks the fact that in the other six months of 2012, the volume of exceptional dispatches was lower than in a previous year. In addition, the record highs in the volume of exceptional dispatches that WPTF notes for August 2012 and October 2012 were largely due to the bidding strategy described above and addressed in the ISO's August 2012 filing.

the frequency of the ISO's use of exceptional dispatch, and WPTF's associated data, are beyond the scope of this proceeding.¹⁷

C. WPTF's Proposal that the ISO Perform Off-Line, After-the-Fact Studies of Real-Time Exceptional Dispatches Is Not Practical

WPTF argues that the ISO should use the real-time dynamic competitive path assessment to conduct an off-line, after-the-fact study of whether a constraint for which energy bids were exceptionally dispatched in real-time was competitive.¹⁸ WPTF's proposal is not practical.

As argued above, the ISO's proposed default competitive path assessment is just and reasonable and there is no basis for the Commission to impose a different approach. An after-the-fact approach would require a unique analysis for each exceptional dispatch. Although theoretically possible, it would be impractical given the volume of exceptional dispatches, the need to replicate the market conditions perceived by the operator at the time the operator decided to issue the exceptional dispatch instruction, and the delay that would be caused as a result of an after-the-fact process. The benefit of using the default competitive path assessment that is derived from the in-market dynamic competitive path assessment is that it provides a clear basis for identifying a constraint as competitive or non-competitive for both intended purposes: failure of the in-market dynamic competitive path assessment as well as for determining

¹⁷ In Docket No. ER12-2539, the Commission directed the ISO to file an informational report by October 2013 that describes the steps the ISO has taken to reduce its reliance on exceptional dispatch. *California Independent System Operator Corp.*, 141 FERC ¶ 61,069, at PP 43-45. The ISO will explain the steps it has taken to reduce exceptional dispatch in the informational report it files in that proceeding.

¹⁸ WPTF at 9-10.

whether a constraint is non-competitive for purposes of exceptional dispatch energy settlements.

Accordingly, the Commission should accept the ISO's proposal to determine exceptional dispatch mitigation using the default competitive path assessment methodology, which WPTF acknowledges is an improvement of the current static competitive path assessment.¹⁹

II. Conclusion

For the reasons explained above, the Commission should accept the February 21 tariff amendment as filed in this proceeding.

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¹⁹ WPTF at 4-5.

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, 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 Washington, D.C. this 26th day of March, 2013.

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