

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

OFFICE OF ENERGY MARKET REGULATION

In Reply Refer To:
California Independent System Operator Corp.
Docket No. ER10-500-000

March 31, 2010

Andrew Ulmer
Nancy Saracino
Sidney Davies
California Independent System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630

Dear Mr. Ulmer, Ms. Saracino, and Ms. Davies:

On December 24, 2009, pursuant to section 205 of the Federal Power Act (FPA),¹ the California Independent System Operator Corporation (CAISO) filed its proposed Scarcity Reserve Pricing Mechanism (Scarcity Pricing Mechanism)² to apply to the procurement of regulation up, regulation down, spinning reserve, and non-spinning reserve during periods of operating reserve shortages.³ Please be advised that the CAISO submittal is deficient.

The proposed Scarcity Pricing Mechanism is an administrative mechanism that, during periods of operating reserve shortages, applies pre-determined prices to energy and ancillary services to more accurately reflect their value in such an emergency. First,

¹ 16 U.S.C. § 824d (2006).

² CAISO December 24, 2009 Tariff Amendment to Implement Scarcity Reserve Pricing in Docket No. ER10-500-000 (CAISO Filing).

³ The Scarcity Pricing Mechanism covers both the System Region (the CAISO balancing authority area) and the Expanded System Region (the System Region and the intertie scheduling points with adjacent balancing authority areas). The CAISO considers its "System Region," or its footprint minus the interties, a sub-region for the purposes of this proposal.

the CAISO proposes lower scarcity prices for sub-regional shortages than Expanded System Region shortages. Second, the CAISO claims that its filing complies with the six criteria established in Order No. 719.⁴ Third, the CAISO does not propose a demand curve for regulation down services for sub-regional shortages. Finally, the CAISO proposes to include Table 1, Proposed Scarcity Reserve Demand Curves, in the applicable Business Practice Manual. In order to better evaluate these proposals, we require the following information to process your filing:

- (1) The CAISO proposes to apply lower scarcity prices to the sub-regions than the Expanded System Region. It justifies lower sub-regional scarcity prices based upon its interpretation of the applicable reliability standards.⁵ Please explain how these standards justify the application of lower scarcity prices to the sub-regions than the Expanded System Region.
- (2) In the proceeding on CAISO's Order No. 719 compliance filing, in Docket No. ER09-1048-000, the CAISO stated that it plans to file a standard authorization request with the Western Electric Coordinating Council (WECC), asking it to create a standards drafting team to rewrite WECC standards for regulation and spinning reserves in order to allow non-generation resources to provide these services.⁶ The CAISO has also stated that it plans to develop, independently, a set of standards that WECC may or may not adopt, but which the CAISO will ultimately file with the Commission as proposed revisions to its tariff.⁷ Please explain the status of these efforts.

⁴ *Wholesale Competition in Regions with Organized Electric Markets*, Order No. 719, FERC Stats. & Regs. ¶ 31,281 (2008) (Order No. 719), *order on reh'g*, Order No. 719-A, 74 Fed. Reg. 37776 (July 29, 2009), FERC Stats. & Regs. ¶ 31,292 (2009), *reh'g denied*, Order No. 719-B, 129 FERC ¶ 61,252 (2009). Order No. 719 established six criteria that it will consider in reviewing whether the factual record compiled by the regional transmission organization or independent system operator meets the shortage pricing requirements of the rule. *Id.* P 247.

⁵ CAISO Filing at 10.

⁶ *See* CAISO's April 28, 2009 filing in Docket No. ER09-1048 at 30-31.

⁷ *Id.* at 31.

- (3) In explaining in part how it meets the six criteria of Order No. 719's directive related to the pricing of energy and ancillary services during periods of operating reserve shortages,⁸ the CAISO states:

Price responsive demand bid into the [CA]ISO's markets can also respond by reducing the need to dispatch energy that the [CA]ISO may otherwise co-optimize as operating reserves in the next dispatch interval.⁹ . . .

* * *

. . . [D]emand can operate to reduce and eliminate the shortage either by participating in the [CA]ISO's ancillary services markets or as part of a load serving entities' program to reduce usage and thereby increase the availability of resources otherwise dispatched for energy to provide operating reserves.¹⁰

Please explain the basis for your statement that "demand can operate to reduce and eliminate the shortage either by participating in the [CA]ISO's ancillary services markets or as part of a load serving entities' program to reduce usage,"¹¹ given that demand resources are not currently eligible to participate in the CAISO spinning and regulation services markets. Where possible, support your response with data and evidence.

- (4) The CAISO explains why the scarcity prices contained in the Expanded System Region provide adequate price signals for customers to invest in generation and demand response technologies and for customers to participate in the CAISO's markets. Explain how the lower sub-regional scarcity prices provide adequate price signals for customers to invest in generation and demand response technologies and to participate in the markets.
- (5) Please justify the omission of a demand curve for sub-regional regulation down service. Explain why a shortage of regulation down on a sub-regional basis is not possible. If sub-regional shortage conditions are possible, explain why a sub-regional demand curve is not appropriate.

⁸ See Order No. 719 at P 247.

⁹ See CAISO Filing at 8.

¹⁰ See *id.* at 9.

¹¹ *Id.*

- (6) Explain why Table 1 does not constitute practices, rules and regulations that affect rates, such that it should be included in the tariff.

Please submit a response to the information requested within 30 days of the date of this letter. Submit six copies of your response to the following:

Federal Energy Regulatory Commission
Office of the Secretary
888 First Street, N.E.
Washington, DC 20426

Also, please send extra copies to Robert Petrocelli (202-502-8447). Response to this letter will constitute an amendment to your filing, and a notice will be issued upon receipt. Accordingly, along with your response, you should submit a form of notice pursuant to 18 C.F.R. § 35.8(b) that is suitable for publication in the Federal Register together with a copy of the same notice in electronic format.

Pending receipt of the above information, a filing date will not be assigned to your filing. Failure to respond to this deficiency letter within the time period specified may result in an order rejecting your filing.

This order is issued pursuant to the authority delegated to the Director, Division of Electric Power Regulation – West, under 18 C.F.R § 375.307(k)(2) and is interlocutory. This order is not subject to rehearing pursuant to 18 C.F.R § 385.713.

If you have any questions regarding this letter order, please contact Robert Petrocelli at (202) 502-8447.

Sincerely,

Steve P. Rodgers, Director
Division of Electric Power
Regulation – West

cc: All Parties