

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

California Independent System)
Operator Corporation)

Docket No. ER23-2686-000

**MOTION FOR LEAVE TO FILE ANSWER AND ANSWER OF
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR
CORPORATION TO ANSWER OF WESTERN POWER TRADING FORUM**

The California Independent System Operator Corporation (CAISO) submits this answer to the answer filed by the Western Power Trading Forum (WPTF) on October 26, 2023.

I. Motion for Leave to File Answer

The CAISO submits this Motion for Leave to Answer and Answer under Rules 212 and 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §§ 385.212, 385.213. The CAISO recognizes that Rule 213(a)(2) prohibits answers to answers unless otherwise ordered by the Commission. WPTF's October 26 answer reflects a misunderstanding of the CAISO's proposal in this docket. Therefore, there is good cause to permit this answer because it will ensure the Commission bases its decision on a complete and accurate record.

II. Answer

A. The \$55/MWh Imbalance Reserves Caps Will Promote Effective and Efficient Procurement

WPTF's October 26 answer repeats allegations that the imbalance reserves proposal will distort market outcomes. These arguments reflect an incorrect understanding of the actual proposal before the Commission.

1. The CAISO Did Not Admit Its Proposal Will Distort Prices

WPTF's September 21 protest claimed the imbalance reserves proposal "will distort prices for both Imbalance Reserves and the DAM energy prices" ¹ The CAISO's October 11 answer explained that by pricing imbalance reserves as proposed, the CAISO will correct existing distortions that arise from manual interventions in RUC. ² Contrary to WPTF's statements, this is not an admission that imbalance reserves will distort market outcomes. ³

2. The Avoidance Cost and Price Cap Are Distinct Concepts

WPTF argues the imbalance reserves proposal is flawed because the \$55/MWh bid cap on imbalance reserves does not match a \$247/MWh avoidance cost. From this, WPTF states "[b]y definition, price distortions occur if the bid and price caps do not allow offers and prices to reflect the cost of avoidance." ⁴ This statement conflates distinct concepts. The avoidance cost represents an evaluation of the costs the CAISO market likely would incur if uncertainty materializes. As the CAISO explained in its October 11 answer, imbalance reserves represent a form of insurance to protect against uncertainty materializing. ⁵ Here, the \$55/MWh cap represents the maximum cost the CAISO market would be willing to incur to purchase that insurance. Contrary to WPTF's

¹ WPTF September 21 protest, at 16.

² CAISO October 21 answer, at 26.

³ WPTF October 26 answer, at 2 ("The CAISO Admits That the \$55/MWh Bid Cap Will Distort Prices").

⁴ WPTF October 26 answer, at 3.

⁵ CAISO October 21 answer, at 29-30.

suggestion, it is not natural that a party always should be willing to pay for an insurance policy up to the cost of the risk being insured. For example, a person who owns a car worth \$20,000 should not automatically be willing to pay up to \$20,000 to insure the car. Based on individual risk tolerance, a risk-averse party might choose to do that. But it is not the only reasonable approach. There is a range of justifiable ways to manage risks and mitigate against them. In the case of the imbalance reserves price cap, the CAISO, through its stakeholder process, determined foregoing procurement of this new form of insurance at prices above \$55/MWh was a prudent decision based on the likelihood of uncertainty materializing and the costs incurred if it were to materialize. Nothing about WPTF's protest or October 26 answer explains why that decision was an imprudent approach to managing the risks of imbalances.

3. Deliverability Tests Are Not About Accounting for a Particular Uncertainty Prediction

WPTF also claims the imbalance reserves proposal “relies on the premise that the CAISO accurately predicts the impact of real-time uncertainty on congestion in the day-ahead timeframe.”⁶ It does not.

The CAISO's proposal relies on identifying the extreme upper and extreme lower bounds of potential day-ahead uncertainty and sets a procurement target for the market to meet either possibility. If uncertainty exceeds the 95th percentile level, there remain other market and out-of-market mechanisms to maintain reliability in real-time. The element of the imbalance reserves proposal

⁶ WPTF October 26 answer, at 7.

that relies on predicting those outer bounds of real-time uncertainty is setting the imbalance reserves procurement target. There is nothing about setting this procurement target that would drive day-ahead market congestion.

The proposal to model deliverability of imbalance reserves needed to meet that procurement target would impact day-ahead congestion prices. But the purpose of modeling deliverability in the day-ahead market is not to predict the impact of real-time uncertainty on day ahead congestion prices. Instead, it is to assess whether the imbalance reserves would still be deliverable under a constrained transmission system so that the market does not award imbalance reserves behind transmission constraints modeled as binding in the day-ahead market. By adding a new product that competes with energy for scarce modeled transmission capacity in the day-ahead market, it is not only natural but appropriate that imbalance reserves would affect congestion prices in the day-ahead market. The day-ahead market exists to produce physically feasible schedules and efficient prices consistent with conditions that exist when the day-ahead market is run a day before real time. Because imbalance reserves are procured through the day-ahead market, it is reasonable to procure them on that same rationale.

B. WPTF has not Presented Evidence to Demonstrate Imbalance Reserves Costs Exceed the \$55/MWh Cap

The question of what legitimate and verifiable costs a resource would incur from providing imbalance reserves was an important question discussed at length from the beginning to the end of the stakeholder process. That point notwithstanding, the key question is whether the proposed \$55/MWh price cap

reflects a just and reasonable proposal. The CAISO has presented ample justification in this docket to conclude this value falls within a range of what is just and reasonable.⁷ WPTF has presented no evidence in the record to support a claim that the cost of providing imbalance reserves exceeds \$55/MWh.

C. The CAISO Accurately Characterized WPTF's Concerns About the Imbalance Reserves Proposal Before the Commission

In its limited protest, WPTF argued that if the Commission did not approve the deployment factor, which the CAISO identified as severable, then the resulting full deliverability of imbalance reserves in the day-ahead market would harm reliability. WPTF asserts that without the deployment factor the CAISO's market would prioritize imbalance reserves over ancillary services, which are procured zonally, and reduce the likelihood ancillary services would be deliverable in the event of a contingency.

The CAISO's answer explained WPTF's argument "reflects an internal tension" in WPTF's protest.⁸ Throughout its protest, WPTF alleges the deliverability tests for imbalance reserves will be ineffective. Yet WPTF's position that imbalance reserves will harm reliability is based on the concern that the deliverability tests will make them too deliverable relative to ancillary services. Nothing about WPTF's October 26 answer resolves that tension. Thus, WPTF's argument that full deliverability would harm reliability remains flawed and WPTF's October 26 answer does not address those flaws. The

⁷ Transmittal letter for August 22 filing at 57, 70; August 22 filing, Attachment C – DAME Final Proposal, at 35-36; CAISO October 21 answer, at 16-28, 30-31.

⁸ CAISO October 21 answer, at 46.

Commission accordingly should disregard those arguments in considering the imbalance reserves proposal.

D. The CAISO Has Offered Consistent Positions About the Need for Market Power Mitigation

WPTF alleges the CAISO contradicts itself on the need to apply market power mitigation to imbalance reserves and that supposed contradiction demonstrates the proposal is not just and reasonable.⁹ This allegation is without merit and should have no bearing on the Commission's decision in this docket because WPTF does not explain how the CAISO contradicts itself. Instead WPTF merely repeats its arguments against applying market power mitigation. The CAISO has presented sufficient justification in the record for the Commission to approve the CAISO's mitigation provisions for imbalance reserves.¹⁰ The Commission should reach its decision based on that record and reject WPTF's assertion that the CAISO somehow has offered contradictory arguments in this proceeding.

⁹ WPTF October 26 answer, at 9-10 ("The CAISO's explanation on this issue has been contradictory, demonstrating that they are not just and reasonable").

¹⁰ Transmittal letter for August 22 filing, at 65-68; CAISO October 21 answer, at 47-48.

III. Conclusion

The CAISO respectfully requests the Commission grant waiver to permit this answer to ensure the Commission has an accurate record in this proceeding.

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Dated: November 2, 2023

CERTIFICATE OF SERVICE

I certify that I have served the foregoing document upon the parties listed on the official service list in the captioned 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 2nd day of November, 2023.

/s/ Ariana Rebancos

Ariana Rebancos
An employee of the California ISO