

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

**California Independent System
Operator Corporation**

Docket No. ER11-4161

**ANSWER OF CALIFORNIA INDEPENDENT SYSTEM OPERATOR
CORPORATION TO COMMENTS**

The California Independent System Operator Corporation filed proposed tariff amendments on July 29, 2011 in this proceeding that would add extensive new provisions for dynamic transfers to the ISO's tariff. Only one intervenor, Powerex Corp., filed a single comment proposing any revision to the ISO's proposed amendments. Powerex's requested revision pertains to an existing provision of the ISO tariff to which the ISO is proposing no substantive change. Also, the ISO considered and addressed Powerex's concerns in the stakeholder process for the development of these tariff amendments. The ISO requests that the Commission reject Powerex's proposed revision and accept the ISO's tariff amendments as filed.¹

I. ANSWER

Although numerous other parties filed motions to intervene in this proceeding, only Powerex, Rice Solar Energy, LLC, and the California Department of Water Resources, State Water Project (SWP) submitted comments on the ISO's proposed dynamic transfers tariff amendments. Moreover, the comments of Rice Solar Energy and SWP do not propose any

¹ The ISO submits this answer pursuant to Rule 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213 (2010).

particular revisions to the ISO's proposed tariff amendments, and Rice Solar Energy merely supports the ISO's proposed creation of a *pro forma* agreement for a generator that desires to establish a pseudo-tie.²

SWP requests careful monitoring of reliability impacts and advance provision for allocation of costs arising from reliability problems to dynamic system resources that cause them. In support of this request, SWP asserts that the ISO's proposal encompasses variable resources external to the ISO as eligible for dynamic transfers, abandons an express tolerance band in favor of ISO discretion to suspend or terminate dynamic transfer eligibility, and excludes dynamic system resources from certain standard ISO metering requirements.³ The ISO's stakeholder process has carefully considered the issues of extending dynamic transfers to intermittent resources, as addressed in the ISO's proposed tariff amendments. The ISO has shown why the reliance on operating orders better matches the ISO's operational needs to maintain reliability than the previous tolerance band approach to compliance, and has identified cost allocation as an issue affecting ISO resources in general and thus to be addressed in the ISO's ongoing renewable integration market product review stakeholder process. Also, contrary to the implication of SWP's comments, the ISO is not reducing metering requirements for dynamic schedules or pseudo-ties from its existing standards. As requested by SWP, the ISO fully intends to undertake careful monitoring of reliability impacts and will give continuing

² Rice Solar Energy comments filed August 19, 2011, at 3-4.

³ SWP comments filed August 19, 2011, at 1-2.

consideration to allocation of costs based on cost causation. No further revisions to the ISO tariff are necessary to address these comments.

Even Powerex supports acceptance of the ISO's proposed tariff amendments, subject only to a single proposed revision. Powerex contends that the ISO should modify Section 1.5.4 of the dynamic scheduling protocol so as not to treat dynamically scheduled non-dispatchable energy as resource-contingent firm imports. Powerex claims that Section 1.5.4 results in either or both of (a) the cost of procuring sufficient ancillary services required to backstop such imports being charged to ISO load, which Powerex contends is inconsistent with cost causation principles; or (b) procurement of insufficient ancillary services, which Powerex contends adversely impacts the reliability of the ISO grid. Powerex contends that such imports should be treated as interruptible until such time as the ISO proposes a new market mechanism to better quantify and procure the balancing reserve requirements resulting from the importing of dynamic non-dispatchable resources.⁴

While Powerex raised this same concern in comments in the ISO's stakeholder process for the development of these tariff amendments, no other stakeholder has raised or supported this concern in the ISO's stakeholder process or in this proceeding. This is likely because the treatment about which Powerex complains is established in an existing provision of the ISO tariff that the Commission has previously accepted as just and reasonable and regarding which the ISO is not proposing any substantive change. The substance of the provision that Powerex proposes be changed, the treatment of dynamically

⁴ Powerex comments filed August 19, 2011, at 4-10.

scheduled energy as resource-contingent firm imports in Section 1.5.4 of the dynamic scheduling protocol in what the ISO proposes to make Appendix M of the ISO tariff, is currently contained in Section 6.4 of the dynamic scheduling protocol in what is now Appendix X of the ISO tariff. The Commission accepted this provision treating dynamically scheduled energy as resource-contingent firm imports in Docket No. ER04-793 addressing a prior ISO tariff amendment to implement dynamic scheduling. Powerex was a party to that prior proceeding and raised no issue with this provision. As the ISO does not propose in these tariff amendments to alter the substance of this provision, Powerex's comments should be rejected as a collateral attack on the Commission's prior finding that the substance of this provision is just and reasonable.

In response to Powerex's comments in the ISO's stakeholder process, the ISO incorporated a discussion of this issue in footnote 5 of its May 2, 2011 final proposal on the policy aspects of these tariff amendments, which the ISO filed with its proposed tariff amendments as Attachment D. Regarding the merits of Powerex's concern, the ISO pointed out that under the current provisions of Section 6.4 of Appendix X of the ISO tariff, the ISO treats firm dynamically scheduled energy as a resource contingent import, and procures (or allows for self-provision of) operating reserves. ISO tariff Section 8.2.3 provides that the ISO must maintain regulation service and operating reserves as required by reliability standards of the North American Electric Reliability Corporation (NERC) and the Western Electricity Coordinating Council (WECC). ISO tariff Section 11.10.4.2 states the unit-contingent imports' obligation for operating reserves.

Powerex does not assert that the ISO's existing treatment of dynamic transfers as resource contingent violates any standard, and Powerex recognizes in asserting that dynamic transfers of intermittent resources should be treated as interruptible that an interruptible energy schedule is one that "may be cut for any reason, or for no reason at all."⁵ This characterization as interruptible would be contrary to the ISO's treatment of intermittent resources within the ISO's balancing authority area. For example, a significant issue in the ISO's ongoing renewable integration market product review stakeholder process is the ISO's desire to create incentives for intermittent resources to comply with ISO needs to reduce their output when required for congestion management or over-generation, since intermittent resources now have incentives to generate energy regardless of market prices that result from the ISO's current market design. Powerex's suggestion to create a different operating reserve requirement associated with intermittent dynamic resources as opposed to internal intermittent resources would be unduly discriminatory.

The ISO is aware that discussions in WECC committees are considering changes in reserve requirements, and is monitoring and participating in those discussions. One of these recent WECC efforts has been the Energy Product Code Work Group, which presented its conclusions to WECC's Market Interface Committee in July 2011.⁶ Along with its conclusion that no new product code

⁵ Id. at 7-8.

⁶ See White Paper Energy Product Codes for Scheduling Variable Resources, dated May 26, 2011, of the WECC Energy Product Code Work Group posted at the following internet address:
<http://www.wecc.biz/committees/StandingCommittees/MIC/MIC%20Meeting071311/Lists/Minutes/1/Energy%20Product%20Codes%20for%20Scheduling%20Variable%20Resources.pdf>.

needs to be established for variable generation, the Energy Product Code Work Group identified a number of issues concerning the use of energy product codes and reserve obligations that require clarification for all types of schedules (not just intermittent resources). The Market Interface Committee and other WECC organizations are following up on these findings, and it would be premature to specify any outcomes before the processes that are already underway at WECC can complete the work that is in progress. If NERC and WECC requirements change in the future to require different amounts of regulation service or operating reserves for conventional and/or intermittent resources, the ISO will procure the required services and may make corresponding changes in market participants' allocations of these costs.

In summary, the ISO procures regulation service and operating reserves in conformance with NERC and WECC standards. There is no requirement in NERC or WECC standards that intermittent resources are to be considered interruptible, and no consensus in WECC discussions that such a requirement should be adopted. The ISO tariff already provides that dynamic schedules are considered unit-contingent, and defines market participants' operating reserve obligations on that basis. If NERC and WECC standards on these issues change, the ISO will comply with then-current standards. However, until such time the ISO contends that its tariff provisions regarding this matter are just and reasonable, as already determined by the Commission, and urges the Commission to reject the revision that Powerex proposes to the already-accepted substance of the provisions of Section 1.5.4 of Appendix M of its tariff.

II. CONCLUSION

ISO requests that the Commission reject the revision proposed by Powerex to its dynamic transfers tariff amendments and accept the amendments as filed.

Respectfully submitted,

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Dated: September 6, 2011

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. § 385.2011).

Dated at Folsom, California this 6th day of September, 2011.

Is/ Anna Pascuzzo

Anna Pascuzzo