

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

**California Independent System
Operator Corporation**

Docket No. ER11-4353

**ANSWER OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR
CORPORATION TO MOTIONS TO INTERVENE AND COMMENTS AND MOTION
TO FILE ANSWER**

I. Introduction

The California Independent System Operator Corporation (ISO) hereby files its answer to motions to intervene and comments submitted in response to the ISO's August 22, 2011 tariff amendment to establish tariff rules for regulation energy management for non-generator resources.¹ Several parties filed motions to intervene and substantive comments supporting the ISO's tariff amendment.² In its comments, CDWR asks for clarification of the ISO's proposal and raises concerns with exempting regulation energy management resources from charges and payments applicable to measured demand when the ISO dispatches the resource as regulation down, an issue CDWR did not raise in the ISO's stakeholder process.

This answer responds to CDWR's requests for clarification and CDWR's concerns.

¹ The ISO submits this answer pursuant to Rules 212 and 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §§ 385.212, 385.213 (2010). The ISO requests waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to permit it to answer the comments filed in this proceeding. Good cause for this waiver exists here because the answer will aid the Commission in understanding the issues in the proceeding, provide additional information to assist the Commission in the decision-making process, and help to ensure a complete and accurate record in this case. *See, e.g., Entergy Services, Inc.*, 116 FERC ¶ 61,286, at P 6 (2006); *Midwest Independent Transmission System Operator, Inc.*, 116 FERC ¶ 61,124, at P 11 (2006); *High Island Offshore System, L.L.C.*, 113 FERC ¶ 61,202, at P 8 (2005).

² The following entities filed motions to intervene: Acquion Energy; the California Energy Storage Alliance (CESA); the California Department of Water Resources (CDWR); the Electric Storage Association (ESA); Beacon Power Corporation; Modesto Irrigation District; the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California; the Northern California Power Agency; the City of Santa Clara, California and the M-S-R Public Power Agency; A123 Systems, Inc.; ENBALA Power Networks (USA), Inc. The following entities filed comments: Acquion, CESA, ESA, Beacon, A123 and CDWR.

In addition, in response to comments filed by CESA, this answer clarifies that the ISO still intends to examine a pay for performance compensation mechanism for regulation as part of a stakeholder process regarding renewable integration issues. The ISO requests that the Commission accept this answer and the ISO's tariff amendment as filed.

II. The ISO will use real-time energy dispatches when necessary to support the resources' self-provided regulation capacity or regulation award in the next dispatch interval.

As part of its proposal to facilitate the ability of non-generator resources to bid their capacity more effectively into the ISO's regulation markets, the ISO proposes to use offsetting dispatches of energy from the real time market under regulation energy management to manage a resource's operating point.³ This feature will allow resources using regulation energy management to bid or self-schedule capacity equal to four times the maximum energy the resource can generate or curtail for 15 minutes. The ISO will dispatch the resource while maintaining the resource's preferred operating point.⁴ The ISO will adjust its forecast of demand for the next real-time dispatch interval (7.5-minutes before real-time dispatch) to offset the energy generated or curtailed during the previous interval's regulation energy dispatch.

In its comments, CDWR asks that the ISO clarify when the ISO will use real-time energy dispatches to support self-provided regulation capacity or regulation awarded to a resource using regulation energy management and how the costs will be allocated.⁵ As stated in its August 22, 2011 transmittal letter, the ISO intends to use offsetting dispatches of energy from the real-time energy market, *if necessary*,

³ Section 7 of Regulation Energy Management Draft Final Proposal dated January 13, 2011. http://www.caiso.com/Documents/RevisedDraftFinalProposal-RegulationEnergyManagement-Jan13_2011.pdf

⁴ See, ISO August 22, 2011 transmittal letter, proposed tariff section 8.1.2.4.

⁵ Comments of CDWR at 1-2.

so that the resource can satisfy its regulation capacity award.⁶ This criterion means that the ISO will allow a scheduling coordinator for a resource using regulation energy management to use real-time energy dispatches to support the resource's regulation award, if the resource cannot physically provide continuous energy to satisfy its self-provided or awarded regulation up or regulation down in the next dispatch interval. For purposes of settling dispatches from the real-time market, the scheduling coordinator for the resource using regulation energy management will procure this energy as imbalance energy.⁷

As part of its draft final proposal for the design of regulation energy management, the ISO developed an illustrative model to explain how a resource using regulation energy management might use the real-time energy dispatches to support its self-provision or award of regulation capacity and how the ISO would calculate the real-time energy the resource needs for the next dispatch interval based on the resource's regulation award and operating point.⁸ The ISO continues to address implementation of regulation energy management as part of its release planning process and encourages CDWR to participate in that process.⁹

III. The ISO will disqualify resources using regulation energy management on a pro-rata basis when insufficient real-time energy is available to support resources' self-provided regulation capacity or regulation award in the next dispatch interval

As part of its tariff amendment, the ISO proposes to disqualify non-generator resources using regulation energy management on a *pro-rata* basis from providing

⁶ ISO August 22, 2011 transmittal letter at 3.

⁷ ISO August 22, 2011 transmittal letter at 5.

⁸ Section 7.3 of Regulation Energy Management Draft Final Proposal dated January 13, 2011. http://www.caiso.com/Documents/RevisedDraftFinalProposal-RegulationEnergyManagement-Jan13_2011.pdf

⁹ <http://www.caiso.com/informed/Pages/ReleasePlanning/Default.aspx>

regulation capacity, if the ISO determines during the integrated forward market or real-time unit commitment that the ISO will not have sufficient energy available in the real-time market to support the resource's award or self-schedule.¹⁰ In its comments, CDWR asks that the ISO clarify when the ISO will exercise this authority.¹¹ As explained in the ISO's transmittal letter, the ISO expects that any such disqualification will only occur when the ISO believes that insufficient energy will be available to serve ISO demand in real-time.¹² This criterion, which is based on ISO forecasted demand and available supply resources, should make disqualification a rare occurrence.

CDWR also asks whether the ISO's regulation energy management proposal will affect the ISO's independence.¹³ Implementation of this proposed market enhancement will not affect the independence of the ISO. The ISO is not participating in the market it operates through regulation energy management. The purpose of this enhancement is simply to facilitate more effective market participation by resources with MWh constraints. Scheduling coordinators for resources using regulation energy management must submit self-schedules or bids for regulation up and regulation down and must procure imbalance energy as needed to support their self-provision or awards of regulation capacity. Moreover, as discussed in the comments of ESA and Beacon, the ISO's proposal is consistent with Commission-approved tariff provisions in other organized wholesale electric markets.¹⁴ Regulation energy management will not undermine the ISO's

¹⁰ ISO August 22, 2011 transmittal letter at 7; see also proposed tariff section 8.4.1.2.

¹¹ CDWR Comments at 2.

¹² ISO August 22, 2011 transmittal letter at 7

¹³ CDWR Comments at 2.

¹⁴ Comments of ESA at 8-9; comments of Beacon at 9-10.

independence but instead will facilitate participation by limited energy storage resources as well as dispatchable demand response to provide regulation in a manner comparable to conventional resources.

IV. The ISO's proposal to exempt resources using regulation energy management when dispatched for regulation from payments and charge applicable to measured demand does not unduly discriminate against participating load or pumped storage.

As part of the ISO's proposed tariff changes, the ISO proposes to exempt that portion of demand of non-generator resources using regulation energy management that it dispatches as regulation from any charges or payments applicable to measured demand under the ISO's tariff. As explained in its transmittal letter, the rationale for this proposal is that a non-generator resource using regulation energy management consumes energy during a settlement interval only to return it to the market as output at a later interval.¹⁵

In its comments, CDWR asserts that the ISO has not justified this exemption and has not made a similar exemption available to resources that also operate as demand, such as participating load.¹⁶ The ISO disagrees. A condition of using regulation energy management is that the resource must allow the ISO to control its operating point so that it can manage the need for dispatches from the real-time market to support regulation capacity either self-provided by or awarded to the resource. Scheduling coordinators for resources using regulation energy management may not submit energy bids¹⁷ and must procure energy at the applicable price when necessary to maintain the resource's preferred operating

¹⁵ ISO August 22, 2011 transmittal letter at 7.

¹⁶ CDWR Comments at 2-3.

¹⁷ ISO August 22, 2011 transmittal letter, proposed tariff section 8.1.4.2.

point. A resource using regulation energy management cannot manage its exposure to charges applicable to measured demand through the use of economic bids.

In contrast, conventional resources can control their own operation through the submission of self-schedules or bids. Scheduling coordinators for conventional resource such pumped storage may submit a day-ahead energy schedule with ancillary service bids and, in fact, must have a day-ahead energy schedule to provide regulation down.¹⁸ This approach allows conventional resources to receive the day-ahead price for its energy schedule and pay the real-time price when providing regulation down. Conventional resources do not incur charges allocated to measured demand when providing regulation down.

The Commission should reject CDWR's argument that the ISO's proposal unduly discriminates against other market participants. First, in order to prevail in any such argument, CDWR must show that two classes of customers are similarly situated for purposes of the rate. "*Complex*" *Consol. Edison Co. of New York, Inc. v. FERC*, 165 F.3d 992, 1012 (D.C. Cir. 1999). Second, CDWR must show that there are no factual considerations that would justify such differential rate treatment. *Id.* at 1012-13. CDWR cannot do so in this case. Resources such as pumped storage can control their own operation through the use of self schedules and bids. Moreover, when conventional resources receive dispatches for regulation down, these resources do not pay charges applicable to measured demand. The ISO's regulation energy management proposal, therefore, treats resources using regulation energy management in a manner comparable to generators, including pumped storage.

¹⁸ ISO tariff section 30.5.2.6. A conventional resource with a regulation down self-schedule or award must be operating in order for the ISO to dispatch the resource as a regulation down.

CDWR's comments fail to recognize that the ISO's regulation energy management proposal and associated non-generator model provide a platform for participating load to self-provide or submit bids for regulation. Based on the ISO's proposal, participating load will be able to provide regulation through regulation energy management as long as it can meet the operating and technical requirements to provide regulation. When participating load is providing regulation service through the use of regulation energy management, charges applicable to measured demand will also not apply to the load dispatched as regulation energy.

V. The ISO intends to examine a pay for performance mechanism for regulation as part of its renewable integration market and product review stakeholder initiative.

As part of its August 22, 2011 transmittal letter, the ISO explained that it intends to examine proposals to compensate resources providing regulation based upon their movement from their preferred operating point as part of phase 2 of its renewable integration market and product review stakeholder initiative.¹⁹ In its comments, CESA raises a concern that the ISO's latest proposal in this stakeholder initiative does not reference a pay for performance mechanism as a market initiative.²⁰ As part of a stakeholder meeting on September 12, 2011, the ISO clarified that it fully intends to examine pay for performance mechanisms for regulation as part of phase 2 of its renewable integration market and product review stakeholder initiative.²¹ The ISO reiterates its intent to do so here. As explained in its comments submitted in the Commission's rulemaking regarding frequency

¹⁹ August 22, 2011 transmittal letter at 14.

²⁰ CESA comments at 5.

²¹ See, ISO stakeholder presentation Renewable Integration Phase 2 – Market Vision and Roadmap at slides 12, 21, and 33. http://www.caiso.com/Documents/Presentation-RenewablesIntegrationMarket-ProductReviewPhase2StakeholderMeeting_Sep_12_2011.pdf

compensation in organized wholesale power markets, the ISO urges the Commission to provide the ISO with the flexibility to design a pay for performance mechanism that meets the needs of the ISO's system and market participants.²²

VI. Conclusion

Several parties filed supportive comments to the ISO's proposed tariff amendment and no party filed a protest. The ISO requests that the Commission accept this answer to allow the ISO to respond to CDWR's comments and clarify, in response to comments submitted by CESA, that the ISO will examine a pay for performance mechanism for resources providing regulation as part of phase 2 of its renewable integration market and product review stakeholder initiative. For the reasons set forth above, the ISO request that the Commission accept the ISO's tariff amendment as filed.

Respectfully submitted,

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²² See, Comments of ISO dated May 2, 2011 to Notice of Proposed Rulemaking regarding *Frequency Compensation in the Organized Wholesale Power Markets* (RM1-7-00; AD10-11-000) http://www.caiso.com/Documents/May22011ISOCCommentsnoticeproposedrulemakingdocketnosRM1-7-000_AD10-11-000.pdf

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 27th day of September, 2011.

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