

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

**Frequency Regulation Compensation in the )  
Organized Wholesale Power Markets )**

**Docket Nos. RM11-7-000  
AD10-11-000**

**ANSWER OF  
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION  
TO MOTION OF SOUTHERN CALIFORNIA EDISON COMPANY FOR  
CLARIFICATION OR, IN THE ALTERNATIVE, REQUEST FOR REHEARING**

**I. Introduction**

The California Independent System Operator Corporation submits this answer<sup>1</sup> in response to the motion of Southern California Edison Company for clarification or, in the alternative, request for rehearing of Order 755,<sup>2</sup> which requires organized electric markets to establish a two part payment mechanism for resources providing regulation: (1) a capacity payment for all resources with cleared regulation bids and (2) a performance payment with an accuracy adjustment. In its motion for clarification, SCE raises two concerns with Order 755. First, SCE asks the Commission to clarify that Order 755 does not require a performance payment when a resource's own limitations or configurations cause an independent system operator or regional transmission operator to dispatch the resource in the direction opposite of general grid needs. Second, SCE requests that the Commission clarify that ISOs and RTOs may continue to calculate a uniform clearing price for regulation capacity within regional pricing zones as opposed to on a system basis. The CAISO provides

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<sup>1</sup> The CAISO 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. The ISO requests waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to permit it to make an answer to SCE's motion for clarification or, in the alternative, request for rehearing.

<sup>2</sup> *Frequency Regulation Compensation in the Organized Wholesale Power Markets*, 137 FERC ¶ 61,064 (October 2011) (Order 755).

this answer to clarify the reasons that it dispatches resources providing regulation and to explain how it intends to calculate uniform clearing prices under Order 755.

**II. The CAISO dispatches resources providing regulation in part to maximize the available ramping capability within awarded regulation capacity so that the ISO can respond to future variability and uncertainty.**

In its motion for clarification, SCE asks the Commission to clarify that Order 755 does not require a performance payment to resources when a resource's own limitations or configurations cause an ISO or RTO to dispatch the resource in a direction contrary to the need for Area Control Error correction. In the CAISO's market, regulation is a service provided by resources certified to respond automatically to control signals in an upward or downward direction in order to balance demand and resources in real-time. The CAISO market procures regulation for many reasons including frequency response and market imbalances that occur between dispatch intervals that result from forecast inaccuracies or supply deviations. Among other reasons, the CAISO sends regulation signals to resources in order to maximize the available ramping capability within awarded regulation capacity so that the CAISO can respond to future variability and uncertainty. The CAISO currently sends simultaneous regulation up and regulation down signals to different resources with awarded regulation capacity in order to maximize future available ramping capability. The objective of regulation signals is not to maintain Area Control Error constantly at zero or any other given point. Instead, the CAISO's Automatic Generation Control will maintain units at their dispatch operating target whenever Area Control Error is within an acceptable Megawatt range. SCE's request for clarification fails to account for the full scope of reasons that the CAISO may dispatch resources providing regulation capacity. As a result, the CAISO

believes that the Commission should deny SCE's motion for clarification or, in the alternative, request for rehearing on this issue.

**III. The CAISO intends to continue to calculate separate uniform ancillary service clearing prices within each ancillary service region for regulation up capacity and regulation down capacity.**

In its motion, SCE also seeks clarification that Order 755 allows an ISO or RTO to establish a uniform capacity payment for all cleared resources in the same pricing region as opposed to a uniform payment across an entire ISO or RTO system. Under its current tariff, the CAISO market pays resources with regulation awards an ancillary service marginal price for that ancillary service region.<sup>3</sup> The ISO tariff defines two ancillary service regions: the *system region* (*i.e.*, the ISO balancing authority area) and the *expanded system region* (*i.e.*, the system region and the intertie scheduling points with adjacent balancing authority areas), and eight sub-regions within them.<sup>4</sup> Within these regions, the CAISO may procure both regulation up and regulation down and set uniform clearing prices for that capacity. This design serves as the basis for the CAISO's scarcity pricing demand curves when there is an insufficient supply of ancillary service capacity.<sup>5</sup> The CAISO intends to continue to use established ancillary service regions within the CAISO's system for purposes of developing a mechanism to comply with Order 755.<sup>6</sup> To the extent the Commission directs the CAISO to set uniform prices for regulation up capacity and regulation down capacity across its entire system, this approach could delay implementation of

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<sup>3</sup> CAISO tariff section 27.1.2.

<sup>4</sup> CAISO tariff section 8.3.3. See also, CAISO Business Practice Manual for Market Operations at pp. 70-73.

<sup>5</sup> CAISO tariff at section 27.1.2.3.

<sup>6</sup> See Section 4.1 of the ISO's straw proposal to implement Order 755 at 5.  
<http://www.aiso.com/informed/Pages/StakeholderProcesses/PayforPerformanceRegulation.aspx>

Order 755 because the CAISO will need to assess the impact on its market design and business systems as well as conduct any necessary testing.

#### **IV. Conclusion**

In response to SCE's motion for clarification or, in the alternative, request for rehearing, the CAISO recommends the Commission deny SCE's request for clarification that a performance payment should not apply when the CAISO dispatches resources in a direction opposite of Area Control Error correction need. The CAISO also recommends that the Commission confirm that ISOs and RTOs may continue to set uniform clearing prices for regulation capacity within existing ancillary service regions.

Respectfully submitted,

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**CERTIFICATE OF SERVICE**

I hereby certify that I have served the foregoing document upon the parties listed on the official service lists in the above-referenced 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 6<sup>th</sup> day of December, 2011.

*/s/ Anna Pascuzzo*

Anna Pascuzzo