

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

California Independent System Operator Corporation)	Docket No. ER13-2063-000
)	Docket No. ER14-1004-000

**MOTION FOR LEAVE TO ANSWER AND ANSWER OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
TO THE NRG AND DYNEGY COMPANIES' MARCH 7 ANSWER**

The California Independent System Operator Corporation (ISO)¹ hereby files this answer² to the March 7, 2014, answer submitted by the NRG and the Dynegy Companies in the two above-referenced dockets.³ The ISO files this answer to clarify the relationship between mandatory multi-stage registration and natural gas cost recovery, which NRG and Dynegy incorrectly conflate in asserting that the Commission should dismiss the ISO's proposed changes in these dockets. In considering the issues in these two dockets, the Commission should also take note

¹ The ISO is also sometimes referred to as the CAISO. Capitalized terms not otherwise defined herein have the meanings set forth in Appendix A to the ISO tariff.

² 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. The ISO requests waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to permit it to answer the protest 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 its 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). In this answer the ISO clarifies the nature of the relationship between recent gas pricing events and related actions taken by the ISO in other proceedings, and the proposal in this proceeding in response to NRG's latest assertions, which will assist in completing the record for the Commission as it considers the matter before it in this proceeding.

³ NRG/Dynegy's March 7 filing was an answer to the ISO's February 20, 2014, answer to NRG/Dynegy's February 5, 2014, protest of the ISO's January 15, 2014, response to Commission staff's October 22, 2013, deficiency letter.

that the impact of recent gas-price volatility on the ISO markets is already before the Commission in other dockets.⁴

The ISO explained in its February 20 filing that natural gas cost concerns are unrelated to “whether multi-stage registration should be mandatory for certain resources that have true physical operational constraints and characteristics that require them to operate in differing modes so that the ISO can better model and dispatch these resources through its markets reliably.”⁵ In their March 7 filing, NRG and Dynegy argue that there is a link between gas costs and multi-stage generation because “mandatory MSG registration increases the number of points along a generator’s dispatch curve that would be considered ‘minimum load’ dispatches.” They assert that “[a]n increase in the number of dispatch points that would be considered minimum load dispatches has a direct impact on how often a generating unit receives the CAISO’s estimate of the generator’s gas procurement costs . . . versus the generator’s estimate of its natural gas procurement costs”⁶

Although multi-stage generators incur fuel related costs when transitioning from one configuration to another, and the ISO has experienced some natural gas price spikes this winter season, these facts do not have any relevance to the issue presented in these proceedings and in no way suggest a deficiency in the ISO’s current multi-stage proposal. The ISO’s current multi-stage modeling design takes into consideration the fuel costs of transitioning from one modeled configuration to another and allows for recovery of such costs. Also, as previously explained by the

⁴ FERC Docket Nos. ER14-1442, ER14-1440, & ER14-1428.

⁵ ISO February 20 filing, at 9.

⁶ NRG/Dynegy March 7 filing, at 2-3.

ISO, the multi-stage functionality is designed to capture the operational limitations that exist in a given resource accurately and not to create artificial constraints on the market optimization. Therefore, to the extent a resource defines its operational characteristics accurately and the cost of fuel is reflected appropriately, the ISO market systems can consider the cost of dispatching and committing such resources correctly. In contrast, to the extent the fuel costs are not sufficiently reflected in the ISO markets, there may be an issue with the dispatch and compensation. Under normal circumstances, the ISO's commitment cost methodology (*i.e.*, start-up and minimum load costs) sufficiently captures the costs of fuel and appropriately considers those costs in the market clearing process. However, when there are significant price spikes, which although infrequent did occur once this year, the current methodology used to incorporate the natural gas prices may not adequately reflect a price spike that occurs over the course of one day.

The question of whether the ISO allows for appropriate cost recovery for natural gas costs is, accordingly, much broader and different than the narrow question, presented in this proceeding, *i.e.*, whether the Commission should grant the ISO authority to broaden the requirement that multi-stage resources be modeled as such. Put another way, gas price issues affect nearly all units in the ISO fleet, whereas this proceeding addresses a wholly different issue that impacts a narrower range of units, namely the ISO's proposal to model multi-stage resources more accurately. To the extent there are concerns with natural gas cost recovery, the Commission has the opportunity to consider those concerns and take appropriate action. To the extent the Commission finds that there are problems and takes

action to resolve them, then the resolution of those problems would obviate NRG and Dynegy's argument against mandatory multi-stage participation.

The Commission is currently considering two waiver requests by the ISO to provide short-term relief to deal with gas price issues and their relationship to the ISO markets in FERC Docket Nos. ER14-1442 and ER14-1440. In addition, in FERC Docket No. ER14-1428, the Commission is currently faced with addressing a tariff waiver request submitted by NRG and a group of other suppliers that generally would expand payments to generators related to natural gas costs. The Commission should address the gas pricing issues in those dockets where they properly belong and not allow those requests to confuse the issues in this proceeding, where the ISO is seeking solely to ensure that its market systems model resource operating limitations accurately. In any event, any changes the Commission may order in the gas-price proceedings naturally will flow through to multi-stage generators. In short, the separate issues of mandatory multi-stage modeling and gas-price accounting are distinct and the two issues should be considered in their respective proceedings.

Moreover, the ISO has recently established a new stakeholder process to discuss with stakeholders other short-term and long-term market design changes that may be appropriate for purposes of incorporating fuel costs in the calculation of commitment costs used in the ISO markets. During the upcoming stakeholder process, the ISO will also consider whether any changes to the transition costs recovery methodology are appropriate and would thus present any proposed tariff changes to the Commission. Again, these matters covered by the new stakeholder

process stand apart from the ISO's interest in the current proceeding to model multi-stage generators accurately in its market systems.

The ISO respectfully requests that the Commission accept this answer and that the Commission provide the ISO authority to require that units with multiple operating ranges participate in the multi-stage functionality.

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 list in 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. § 385.2010).

Dated at Folsom, California this 13th day of March 2014.

/s/ Anna Pascuzzo
Anna Pascuzzo