

May 6, 2015

The Honorable Kimberly D. Bose  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, D.C. 20426

**Re: California Independent System Operator Corporation  
Compliance Filing  
Docket No. ER15-861-\_\_\_\_**

Dear Secretary Bose:

The California Independent System Operator Corporation (“CAISO”) submits this filing in compliance with the Commission’s March 16, 2015, order issued in this proceeding (“March 16 Order”), to be effective on the date of the Order.<sup>1</sup>

## **I. BACKGROUND**

On January 15, 2015, the CAISO proposed revisions to its tariff provisions governing the Energy Imbalance Market (“EIM”) that would apply to each new entity joining the EIM (“EIM entity”) during such EIM entity’s initial year of Energy Imbalance Market participation.<sup>2</sup> The CAISO contended that its amendment provided a necessary and prudent transition period for entities that begin participating in centralized energy markets for the first time. The CAISO explained that implementing, participating in, and integrating into a centralized market framework constitutes a significant paradigm shift for such entities and requires a period of time to properly allow these entities to gain important

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<sup>1</sup> *Cal. Indep. Sys. Operator Corp.*, 150 FERC ¶ 61,191 (2015).

<sup>2</sup> Specifically, the CAISO proposed that the CAISO would determine prices for intervals that experience transmission or system balance constraints within the new EIM entity’s balancing authority area by using the last economic bid to establish the market clearing price, rather than using the existing tariff’s \$1,000/MWh penalty price. Under the proposal, for a 12-month transition period after a new EIM Entity commences operations in the EIM, the CAISO would have set the flexible ramping constraint relaxation parameter between \$0 and \$0.01 (instead of \$60).

experience, make necessary system, operational, and functional changes, and mature their practices to ensure that they can manage market systems and processes efficiently and effectively.

In its March 16, 2015 order, the Commission rejected the proposed tariff amendments.<sup>3</sup> The Commission did, however, conclude that readiness safeguards are immediately necessary prior to full activation of any new EIM Entity in the Energy Imbalance Market. It therefore directed CAISO to submit a compliance filing, within 60 days of issuance of the March 16 Order, to revise the tariff to include requirements to ensure readiness prior to new EIM entities commencing Energy Imbalance Market operations. The Commission stated that the revisions should include (1) a robust market simulation and appropriate period of parallel operation to ensure that new entities joining the Energy Imbalance Market have adequate opportunity to identify and resolve operational issues prior to full activation; and (2) a requirement that CAISO and the new entrant each submit a market readiness certificate at least 30 days prior to full activation in the Energy Imbalance Market certifying the readiness of the new EIM entity's processes and systems. The Commission stated that the CAISO should develop measurable readiness criteria through a collaborative process with its stakeholders, upon which effectiveness of the new EIM Entity's entry into the EIM can be predicated.<sup>4</sup> The Commission further requires that others that are in the process of joining the Energy Imbalance Market must certify their market readiness by filing a sworn affidavit from an officer of the company 30 days prior to the company joining the EIM attesting that the new EIM member's system is ready, including all communication systems and transparency to the CAISO of unit status.<sup>5</sup>

## II. COMPLIANCE WITH THE MARCH 16 ORDER

The compliance filing adds two new paragraphs to subsection 29.2(b) of the CAISO tariff. The first paragraph, section 29.2(b)(4), sets forth readiness requirements for a balancing authority that wishes to participate in the Energy Imbalance Market—a potential EIM Entity—as discussed below. The second paragraph, section 29.2(b)(5), requires the CAISO and the potential EIM Entity to

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<sup>3</sup> The Commission instituted a proceeding under section 206 of the Federal Power Act, to investigate the justness and reasonableness of the EIM provisions in CAISO's existing tariff related to the imbalance energy price spikes in PacifiCorp's balancing authority area that the CAISO had described in its tariff filing and in previous filings seeking a temporary waiver of the pricing parameters in sections 27.4.3.2 and 27.4.3.4 of its tariff. March 16 Order at P 31. The Commission established a refund effective date 90 days from publication of notice in the Federal Register. *Id.* at P 33. The Commission also directed staff to hold a technical conference to explore the issues raised by the CAISO. *Id.* at P 31. The technical conference occurred on April 9, 2015. The Commission is in the process of receiving post-conference comments.

<sup>4</sup> *Id.* at P 34.

<sup>5</sup> *Id.* at P 34 n.86.

certify the expected readiness to the Commission at least 30 days prior to the date on which the potential EIM entity is to begin participation in the Energy Imbalance Market—the EIM entity implementation date. The Commission required this certification, and the timing, in the March 16 Order.<sup>6</sup>

Section 29.2(b)(4) sets forth the readiness requirements in three subparagraphs. Section 29.2(b)(4)(A) provides that the CAISO, at least 30 days prior to the EIM implementation date, and in collaboration with the potential EIM Entity, will determine whether the potential EIM entity's systems and processes are ready for the potential EIM entity's participation in the Energy Imbalance Market. The second subparagraph, section 29.2(b)(4)(B), provides that the CAISO will develop criteria to determine the readiness of the systems and processes through a CAISO stakeholder process. This is consistent with the Commission's directive that the "CAISO should develop measurable readiness criteria through a collaborative process with its stakeholders, upon which effectiveness of the new EIM Entity's entry into the EIM can be predicated."<sup>7</sup>

Section 29.2(b)(4)(C) identifies the activities in which the CAISO and the potential EIM entity must engage in order to determine readiness. First, they must engage in such activities as are necessary to satisfy the criteria developed through the stakeholder process. Second, they must engage in a market simulation that accounts for the EIM entity's implementation circumstances. Finally, they must operate in a parallel production mode representing the Energy Imbalance Market to demonstrate how the EIM Entity's processes and systems will function in the financially binding production environment as of the EIM entity implementation date. The Commission specifically identified these activities as necessary in the March 16 Order.<sup>8</sup> These latter two activities are consistent with the CAISO's preparation for the participation of the next two EIM entities, NV Energy and Puget Sound Energy, consistent with their respective implementation agreements filed with the Commission.<sup>9</sup>

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<sup>6</sup> *Id.*

<sup>7</sup> *Id.* The CAISO intends to publish readiness criteria for stakeholder comment shortly after the submission of this compliance filing. The CAISO will host a call to discuss the criteria and stakeholders will have approximately two weeks to review and comment on the proposed criteria. It is expected that this stakeholder process should be completed by June 15, 2015, the target date for commencement of market simulation with respect to the NV Energy implementation. This will allow the CAISO and NV Energy to know what the applicable readiness criteria will be prior to entering this phase of the implementation.

<sup>8</sup> *Id.*

<sup>9</sup> See *Cal. Indep. Sys. Operator Corp.*, 147 FERC ¶ 61,200 (2014) (accepting the NV Energy implementation agreement with a milestone for market simulation); compare Docket No. ER15-1347-000 (considering the Puget Sound Energy implementation agreement with a milestone for market simulation and parallel operation as necessary). The NV Energy implementation effort was updated to include a period of parallel operation based on the PacifiCorp experience. The Puget Sound Energy implementation agreement expressly

### III. MATERIALS PROVIDED IN THIS COMPLIANCE FILING

In addition to this transmittal letter, this compliance filing includes Attachments A and B. Attachment A contains clean CAISO tariff sheets reflecting the tariff revisions described above. Attachment B shows these revisions in black-line format.

### IV. CONCLUSION

The CAISO respectfully requests that the Commission accept the attached tariff revisions as in compliance with the March 16 Order, effective on the date of the Order.

Respectfully submitted,

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John Anders

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Counsel for the California Independent System Operator Corporation

**Attachment A – Clean Tariff Records**

**Compliance Filing – Transition Period Pricing For Energy Imbalance Market**

**California Independent System Operator Corporation**

## 29.2 EIM Access To The Real-Time Market.

- (a) **In general.** The CAISO shall-
  - (1) provide open and non-discriminatory access to the Real-Time Market, including the Energy Imbalance Market, in accordance with the provisions of the CAISO Tariff; and
  - (2) make available for use in the Real-Time Market the transmission capacity that is available in Real-Time-
    - (A) on the CAISO Controlled Grid; and
    - (B) for which an EIM Entity provides EIM Transmission Service Information pursuant to Section 29.17.
- (b) **Implementation of Access as an EIM Entity.**
  - (1) **EIM Implementation Agreement.** A Balancing Authority that wishes to become an EIM Entity must first execute an EIM Implementation Agreement with the CAISO that establishes-
    - (A) the activities the parties must undertake to enable the Balancing Authority to participate in the Real-Time Market;
    - (B) the EIM Entity Implementation Date;
    - (C) the implementation fee the Balancing Authority must pay to the CAISO for the start-up costs the CAISO incurs to accommodate the participation of the Balancing Authority in the Real-Time Market as provided in the agreement; and
    - (D) the obligation of the Balancing Authority to enter into an EIM Entity Agreement governing its participation in the Real-Time Market.
  - (2) **FERC Approval.** The EIM Entity Implementation Date must be not less than six months and not more than twenty-four months after the date that the EIM Implementation Agreement between the CAISO and the Balancing Authority is accepted by FERC.

- (3) **Implementation Period.** The CAISO shall in its discretion determine the EIM Entity Implementation Date based on the complexity and compatibility of the Balancing Authority's transmission and technology systems with the CAISO systems and the planned timing of the CAISO's implementation of software enhancements.
- (4) **Readiness Requirements.**
- (A) **Determination.** No later than 30 days prior to the EIM Entity Implementation Date, the CAISO will determine, in consultation with the Balancing Authority that has executed an EIM Implementation Agreement, whether the systems and processes of the Balancing Authority that has executed an EIM Implementation Agreement are ready for the Balancing Authority's participating in the Energy Imbalance Market based on criteria established under this section 29.2(b)(4).
- (B) **Criteria.** The CAISO shall develop criteria through a stakeholder process for determining whether the systems and processes of the Balancing Authority that has executed an EIM Implementation Agreement are ready to commence participation in the Energy Imbalance Market consistent with the EIM Implementation Agreement.
- (C) **Activities.** The CAISO and the Balancing Authority that has executed an EIM Implementation Agreement shall—
- (i) engage in activities to satisfy the criteria developed through the stakeholder process consistent with the EIM Implementation Agreement;
  - (ii) engage in a market simulation that accounts for the EIM Entity's implementation circumstances consistent with the EIM Implementation Agreement; and
  - (iii) operate in a parallel production model representing the Energy Imbalance Market to demonstrate how the EIM Entity's

processes and systems will function in the financially binding production environment as of the EIM Entity Implementation Date consistent with the EIM Implementation Agreement.

- (5) **Readiness Certification.** The CAISO and the EIM Entity shall each file a certificate with FERC at least 30 days prior to the EIM Entity Implementation Date attesting to the expected readiness of the processes and systems of the Balancing Authority that has executed an EIM Implementation Agreement on the EIM Implementation Date.

**Attachment B – Marked Tariff Records**

**Compliance Filing – Transition Period Pricing For Energy Imbalance Market**

**California Independent System Operator Corporation**

## 29.2 EIM Access To The Real-Time Market.

- (a) **In general.** The CAISO shall-
  - (1) provide open and non-discriminatory access to the Real-Time Market, including the Energy Imbalance Market, in accordance with the provisions of the CAISO Tariff; and
  - (2) make available for use in the Real-Time Market the transmission capacity that is available in Real-Time-
    - (A) on the CAISO Controlled Grid; and
    - (B) for which an EIM Entity provides EIM Transmission Service Information pursuant to Section 29.17.
- (b) **Implementation of Access as an EIM Entity.**
  - (1) **EIM Implementation Agreement.** A Balancing Authority that wishes to become an EIM Entity must first execute an EIM Implementation Agreement with the CAISO that establishes-
    - (A) the activities the parties must undertake to enable the Balancing Authority to participate in the Real-Time Market;
    - (B) the EIM Entity Implementation Date;
    - (C) the implementation fee the Balancing Authority must pay to the CAISO for the start-up costs the CAISO incurs to accommodate the participation of the Balancing Authority in the Real-Time Market as provided in the agreement; and
    - (D) the obligation of the Balancing Authority to enter into an EIM Entity Agreement governing its participation in the Real-Time Market.
  - (2) **FERC Approval.** The EIM Entity Implementation Date must be not less than six months and not more than twenty-four months after the date that the EIM Implementation Agreement between the CAISO and the Balancing Authority is accepted by FERC.

(3) **Implementation Period.** The CAISO shall in its discretion determine the EIM Entity Implementation Date based on the complexity and compatibility of the Balancing Authority's transmission and technology systems with the CAISO systems and the planned timing of the CAISO's implementation of software enhancements.

(4) **Readiness Requirements.**

(A) **Determination.** No later than 30 days prior to the EIM Entity Implementation Date, the CAISO will determine, in consultation with the Balancing Authority that has executed an EIM Implementation Agreement, whether the systems and processes of the Balancing Authority that has executed an EIM Implementation Agreement are ready for the Balancing Authority's participating in the Energy Imbalance Market based on criteria established under this section 29.2(b)(4).

(B) **Criteria.** The CAISO shall develop criteria through a stakeholder process for determining whether the systems and processes of the Balancing Authority that has executed an EIM Implementation Agreement are ready to commence participation in the Energy Imbalance Market consistent with the EIM Implementation Agreement.

(C) **Activities.** The CAISO and the Balancing Authority that has executed an EIM Implementation Agreement shall—

(i) engage in activities to satisfy the criteria developed through the stakeholder process consistent with the EIM Implementation Agreement;

(ii) engage in a market simulation that accounts for the EIM Entity's implementation circumstances consistent with the EIM Implementation Agreement; and

(iii) operate in a parallel production model representing the Energy Imbalance Market to demonstrate how the EIM Entity's

processes and systems will function in the financially binding  
production environment as of the EIM Entity Implementation  
Date consistent with the EIM Implementation Agreement.

- (5) **Readiness Certification.** The CAISO and the EIM Entity shall each file a  
certificate with FERC at least 30 days prior to the EIM Entity Implementation  
Date attesting to the expected readiness of the processes and systems of the  
Balancing Authority that has executed an EIM Implementation Agreement on the  
EIM Implementation Date.

## CERTIFICATE OF SERVICE

I hereby 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 Washington, DC, this 6<sup>th</sup> day of May, 2015.

/s/ Daniel Klein  
Daniel Klein