UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	))	**Docket No. ER15-50-000**

ANSWER OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION TO COMMENTS AND LIMITED PROTEST

The California Independent System Operator Corporation (CAISO)[1] files this answer to the comments and limited protest submitted in the captioned proceeding[2] in response to the CAISO's October 6, 2014, tariff amendment to set the flexible ramping constraint parameter at $60 and include the parameter value in the CAISO tariff (October 6 tariff filing).[3]

The Commission should accept the October 6 tariff filing without modification. The CAISO has demonstrated that the proposed $60 parameter value is just and reasonable. WPTF is wrong in claiming that it is not reasonable

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[1] Capitalized terms not otherwise defined herein have the meanings set forth in appendix A to the CAISO tariff. Except where otherwise specified, references to section numbers are references to sections of the CAISO tariff.

[2] The following entities filed motions to intervene in the proceeding: the California Department of Water Resources State Water Project; Calpine Corporation; Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, Six Cities); City of Santa Clara, California; Modesto Irrigation District; Northern California Power Agency; NRG Power Marketing LLC and GenOn Energy Management, LLC; Pacific Gas and Electric Company (PG&E); Powerex Corp.; Southern California Edison Company; and Western Power Trading Forum (WPTF). In addition, PG&E and Six Cities filed comments and WPTF filed a limited protest.

[3] The CAISO files 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 CAISO requests waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to permit it to make an answer to WPTF's limited protest. 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 the case. *See, e.g.*, *Equitrans, L.P.*, 134 FERC ¶ 61,250, at P 6 (2011); *California Independent System Operator Corp.*, 132 FERC ¶ 61,023, at P 16 (2010); *Xcel Energy Services, Inc.*, 124 FERC ¶ 61,011, at P 20 (2008).

to reduce the price of the flexible ramping capacity procured through the CAISO markets. WPTF concedes that setting the flexible ramping constraint parameter at $60 will result in an appropriate reduction in the capacity procured. WPTF fails to acknowledge that, since the flexible ramping requirement is reduced, the marginal cost of the flexible ramping constraints will also be lower. It is therefore appropriate to reduce the compensation to suppliers for this capacity. The analysis in the October 6 tariff filing shows that a flexible ramping constraint parameter higher than $60 would require the CAISO (and ultimately the CAISO's customers) to pay for capacity that the CAISO and the market do not need. Customers should not be required to pay a higher price for capacity that does not provide value. In contrast, WPTF's alternative proposal is not just and reasonable because it would require the CAISO and its customers to pay a higher price for the capacity needed to address system needs.

In addition, WTPF's request that the Commission provide guidance as to whether other market optimization parameters (not addressed by the October 6 tariff filing) should be included in the ISO tariff is beyond the scope of this proceeding. Lastly, the ISO does not object to Six Cities' request that the Commission accept the October 6 tariff filing effective December 5, 2014, instead of accepting it effective January 15, 2015, as the CAISO proposed.

I. Background

In the October 6 tariff filing, the CAISO proposed to adjust the parameter setting associated with the constraint it enforces in the real-time market for procuring flexible ramping capacity from the current level of $247 to $60. The CAISO analyzed the performance of the constraint using actual 2013 market data and determined that, by setting the flexible ramping constraint parameter at $60, the CAISO can limit the amount of capacity procured but ultimately not needed or used in the five-minute dispatch, and can avoid unnecessarily constraining the fifteen-minute market. Although the parameter does not directly set the price the CAISO pays for the flexible ramping capacity, under the CAISO's recently implemented fifteen-minute market, it now may collaterally impact the price for energy in such market. In recognition of this fact and stakeholder input, the CAISO proposed to include the $60 flexible ramping constraint parameter in the ISO tariff even though the parameter had not previously been included in the tariff. The CAISO proposed that the change be made effective January 15, 2015.

In response to the October 6 tariff filing, PG&E submitted comments fully supporting the CAISO's filing, and Six Cities submitted the comments and WPTF submitted the limited protest addressed below.

II. Answer

A. The CAISO Should Not Be Required to Pay Suppliers for Capacity That Is Not Needed to Address System Needs

WPTF states that it "supports the efficient procurement of ramping and ancillary services," and that "WPTF has no objection to the CAISO using the penalty price [*i.e.*, the flexible ramping constraint parameter] to limit its procurement under conditions when incremental purchases are likely to not produce benefits to the CAISO's market."[4] Nevertheless, WPTF argues that, while it may well be appropriate to reduce the quantity of flexible ramping capacity procured under certain conditions, the CAISO has not demonstrated it is reasonable to reduce the price of the flexible ramping capacity it procures.[5]

WPTF's argument inappropriately attempts to sever the link between the level of capacity that needs to be procured and the price that is paid for that capacity. The October 6 tariff filing included an analysis showing that, based on actual market data for 2013, a flexible ramping constraint parameter above $60 was less effective than a flexible ramping constraint parameter set at a lower level in procuring needed flexible capacity. When the constraint's shadow price was high, the constraint relied on more out-of-merit-order re-dispatches rather than actual unit commitments.[6] Further, in cases where the shadow price was above $60, the out-of-merit-order re-dispatches inflated the real-time unit commitment shadow price without being helpful in providing more ramping

4 WPTF at 4.

5 *Id.* at 4-6.

6 Transmittal letter for October 6 tariff filing at 16-17.

capacity to the real-time dispatch. Therefore, a parameter above $60 may cause the CAISO to procure more flexible ramping capacity, but such capacity is in the form of out-of-merit-order re-dispatches, which do not provide the CAISO's real-time dispatch market with usable ramping capacity.[7]

In short, the CAISO's analysis shows that, above the $60 parameter level, the additional capacity the CAISO must procure does not provide value to the market. The relaxation parameter will make lower awards to resources by restricting additional procurement when the flexible ramping constraint marginal cost exceeds $60. Since the flexible ramping requirement is reduced, the marginal cost of the flexible ramping constraints will also be lower. While lowering the relaxation parameter will result in lower payments to suppliers, it is not appropriate to maintain the current parameter level that will drive inefficient higher prices in the fifteen-minute market.

Reducing the parameter to $60, as the CAISO proposes, will result in the constraint being relaxed only in cases where the cost of re-dispatch exceeds the $60 parameter. In any given market interval, when the constraint is relaxed, the shadow price of the constraint will be set at the $60 parameter level. This will reduce the out-of-merit-order re-dispatches driven by the constraint, while still maintaining the beneficial unit commitments required to meet the CAISO's flexible ramping needs.[8]

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[7] *Id.* at 17.

[8] *Id.* at 17-18.

It is important to note that the $60 flexible ramping constraint parameter is not the actual price that will be paid for capacity procured by the CAISO. Instead, it is an input to determine the flexible ramping constraint-derived price using the formula set forth in tariff section 11.25.1.[9]

As an alternative to the $60 parameter, WPTF proposes an alternative design under which the CAISO would use a threshold of $60/MW in the scheduling run to determine when to stop procuring flexible ramping capacity but use $247/MW as the shadow price in the pricing run.[10] The CAISO believes that WPTF's alternative proposal is not just and reasonable, because it would require customers to pay a higher price (based on a $247 parameter) for the capacity the CAISO procures, regardless of the amount the CAISO must procure. WPTF fails to show why the customers should be required to pay a higher price for procured capacity that does not reflect the parameter that WPTF concedes should be used in procuring that capacity.

Moreover, the issue is not whether WPTF's alternative is reasonable. The only question is whether the CAISO's own proposal is just and reasonable. Having demonstrated that its proposal satisfied this standard, the Commission must accept the CAISO's proposal without regard to alternatives proposed by any party.[11]

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[9] *Id.* at 5-6.

[10] WPTF at 6-7.

[11] *See, e.g.*, *Cities of Bethany, et al. v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir.), *cert. denied*, 469 U.S. 917 (1984) (utility must establish that its proposed rate design is reasonable, not that it is superior to all alternatives); *California Independent System Operator Corp.*, 128 FERC ¶ 61,282, at P 31 (2009) ("[U]nder the Federal Power Act, the issue before the Commission is

B. Requests for Guidance on Other Market Optimization Parameters Are Beyond the Scope of this Proceeding

WTPF requests that the Commission provide guidance as to unspecified other market optimization parameters that are included in the CAISO business practice manuals but that WPTF believes should instead be in the CAISO tariff.[12] This request must be rejected. WTPF fails to provide any support for the request and in any event it is beyond the scope of this proceeding.[13] The only matter at issue in this proceeding is the CAISO's proposal to include the $60 flexible ramping constraint parameter in the tariff. The CAISO's filing in this proceeding does not involve any of the other (unspecified) market optimization parameters referred to by WPTF.

C. The CAISO does Not Object to an Effective earlier than January 15, 2015

Six Cities request that the Commission accept the October 6 tariff filing effective December 5, 2014, instead of accepting it effective January 15, 2015.[14] The CAISO does not object to earlier implementation and it can implement the parameter at any time with three days' notice.

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whether the CAISO's proposal is just and reasonable and not whether the proposal is more or less reasonable than other alternatives.").

12 WPTF at 3-4.

13 *See, e.g.*, *California Independent System Operator Corp.*, 142 FERC ¶ 61,072, at P 42 (2013) ("WTPF and Powerex's objections to CAISO's handling of multiple scheduling coordinator circular schedules fall outside the scope of this proceeding. . . . Since CAISO does not propose new tariff revisions for multiple scheduling coordinator circular schedules, the issue is not before the Commission."); *California Independent System Operator Corp.*, 134 FERC ¶ 61,211, at P 155 (2011) ("In the instant proceeding we are not addressing whether reserve requirements should be modified . . . Therefore, we find that WPTF's request that CAISO be required to define and quantify its operational reliability requirements is beyond the scope of this proceeding.").

14 Six Cities at 3.

III. Conclusion

For the foregoing reasons, the Commission should accept the October 6 tariff filing as submitted in the captioned proceeding without condition or modification. The CAISO does not object to an earlier effective date as requested by Six Cities.

Respectfully submitted,

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Dated: November 12, 2014

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. § 385.2010).

Dated at Folsom, California this 12th day of November, 2014.

/s/ Anna Pascuzzo

Anna Pascuzzo