

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

**California Independent System
Operator Corporation**

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Docket No. ER15-861-004

**MOTION FOR LEAVE TO ANSWER AND ANSWER OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
TO POWEREX'S ANSWER**

The California Independent System Operator Corporation ("CAISO") moves for leave to answer and submits this answer to the answer filed by Powerex Corp. in this proceeding on October 19, 2015 ("October 19 Answer"). Powerex's answer is in response to the CAISO's September 25, 2015 answer ("September 25 Answer") to protests and comments filed by parties regarding the CAISO's August 28, 2015 filing in compliance with the Commission's July 21, 2015, order in this docket ("July 21 Order").¹ Powerex's answer raises no arguments that would justify revision or rejection of the CAISO's proposed compliance tariff revisions, and the Commission should therefore accept them.

¹ *Cal. Indep. Sys. Operator Corp.*, 152 FERC ¶ 61,063 (2015) ("July 21 Order"). 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. Rule 213(a)(2) prohibits answers to answers absent permission of the Commission and the CAISO hereby moves for leave to make the answer to the 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); *Cal. Indep. Sys. Operator Corp.*, 132 FERC ¶ 61,023, at P 16 (2010); *Xcel Energy Services, Inc.*, 124 FERC ¶ 61,011, at P 20 (2008).

I. BACKGROUND

This proceeding concerns the CAISO's tariff provisions governing the determination of the readiness of the systems and processes of a new entity seeking to join the CAISO's Energy Imbalance Market ("EIM"). The CAISO filed these provisions in compliance with the Commission's orders of March 16, 2015,² and July 21, 2015³. The CAISO has described the full background of this proceeding and the CAISO compliance filing in its September 25 Answer.

II. ANSWER

A. Powerex's Arguments Regarding the Resource Sufficiency Criteria are Flawed

Powerex contends that the CAISO has mischaracterized its objection to the CAISO's criteria for demonstrating the ability to pass the flexible ramping sufficiency test as an objection to the flexible ramping sufficiency test itself.⁴ The CAISO has already explained Powerex's repeated attempts to modify the underlying design of the EIM, which it does again in its October 19 answer. The CAISO will not reiterate those arguments here. However, it is necessary to clarify the record in light of Powerex's flawed argument of the relevance and meaning of the information the CAISO provided to the Commission in support of the CAISO's and NV Energy's certification of readiness.

The CAISO's proposed readiness criteria are tailored to meet the CAISO tariff requirements imposed on the EIM entity once the EIM entity is fully

² *Cal. Indep. Sys. Operator Corp.*, 150 FERC ¶ 61,191 (2015) ("March 16 Order").

³ *Cal. Indep. Sys. Operator Corp.*, 152 FERC ¶ 61,063 (2015) ("July 21 Order").

⁴ Powerex October 19 Answer at 1-2.

participating in the EIM.⁵ Specifically, because the EIM entity is required to meet three specific sufficiency tests in every hour of its operations in the EIM,⁶ it is necessary for the CAISO to ensure prior to financially binding operations that the EIM entity is capable of meeting those tests.⁷ Therefore, the CAISO created readiness metrics that require the entity meet the tests during 90 percent of the hours during five typical days, which adequately evaluate the EIM entity's ability to meet those requirements in actual EIM operations.⁸

These three metrics continue to be appropriate for purposes of demonstrating readiness to enter the EIM. As shown in the October 1 certification and the CAISO's September 30 report on parallel operations with NV Energy, NV Energy is more than meeting the metrics regarding the sufficiency requirements. The CAISO's September 30 report showed that NV Energy met those criteria in the vast majority of tested intervals: 96 percent of the hours for the power balance test, 99 percent of hours for the flexible ramping test, and all but one hour for the capacity test.⁹ The data below provide more granular

⁵ See CAISO August 28 Compliance Filing, Transmittal Letter at 17-20 (explaining how the criteria relating to the EIM resource sufficiency tests are designed to ensure that a prospective EIM entity can demonstrate the ability to meet these tests in actual operations).

⁶ *Id.* at 17.

⁷ *Id.* (explaining that these criteria measure a prospective EIM entity's ability to demonstrate that it can meet the resource sufficiency tests, not whether the prospective EIM entity has sufficient resources to do so and that including criteria to measure capabilities beyond the scope of the resource sufficiency requirements would impose a requirement that an EIM entity is not held to in financially binding operations and therefore would be unjust and unreasonable).

⁸ The readiness criteria relating to resource sufficiency are reflected in the tariff in proposed Section 29.2(b)(7)(D). The specific 90 percent metrics that the CAISO applies to determine whether a prospective EIM entity has met these criteria are set forth in Appendix D to the CAISO's August 28 compliance filing, and are identified therein as readiness criteria 10-12.

⁹ CAISO Market Quality of Parallel Operations for NV Energy EIM (September 30, 2015) at 6-8 ("September 30 Report").

information on NV Energy’s performance regarding the resource sufficiency tests during parallel operations in September.

Criteria	September
% of interval passing the flexibility test	98.67%
Number of days NVE passed flexibility test 100 % of intervals	23 out of 30 days or 76.66% of days
The lowest daily % of passing flexibility test in month	90%
% of interval passing the Balancing test	96.30%
Number of days NVE passed balancing test 100 % of intervals	14 out of 30 days or 46.66% of days
The lowest daily % of passing balancing test in month	79.17%

Powerex does not address this data at all. Rather, Powerex argues that data regarding the frequency of under-generation infeasibilities in the 5-minute market during parallel operations with NV Energy demonstrate that the CAISO’s readiness criteria are not rigorous enough to prevent a recurrence of the issues experienced after the integration of PacifiCorp’s balancing authority areas.¹⁰ The readiness criteria are designed to address the issues experienced last year with the launch of the first EIM participant, PacifiCorp. The goal of the readiness criteria is to ensure that the EIM entity and the CAISO have tested and evaluated their systems and procedures to avoid the types of issues that materialized after the integration of PacifiCorp and that could have been prevented by better readiness activities.

It is inappropriate and unreasonable to increase the requirements and frequency with which the EIM entity must meet these tests during parallel

¹⁰ *Id.* at 4-5.

operations in order to eliminate the infeasibilities as suggested by Powerex for two reasons. First, as the CAISO has explained in numerous reports and pleadings filed in this docket and others, market infeasibilities can be caused by a number of issues other than supply insufficiency. Indeed, in the case of the infeasibilities encountered with PacifiCorp, the CAISO's investigation and analysis demonstrated that those infeasibilities were not caused by supply scarcity, but rather were due to transitional "learning curve" issues as well as the fact that EIM does not currently have a mechanism to automatically recognize in the market optimization process the availability and deployment of capacity retained by EIM entities to balance their system. The CAISO anticipates that for the first six months of go-live, an EIM entity will inevitably experience more frequent infeasibilities due to these types of issues. For that very reason, the CAISO proposed a six-month transition period to allow the EIM entity and the CAISO to work through the learning curve issues that could not be identified prior to go-live even with the benefit of enhanced readiness requirements.

Second, as the CAISO has explained in multiple filings, the pre-go live testing environments are inherently limited, and these factors must be taken into consideration when evaluating an entity's readiness prior to entering the full production environment.¹¹ Market infeasibilities encountered during parallel operations often reflect infeasibilities that would not have occurred during a full production environment. It is also necessary to bear in mind that during parallel

¹¹ See, e.g., CAISO August 28 Compliance Filing, Transmittal Letter at 18-19 (discussing the limitations of the market simulation and parallel operations environment with respect to the resource sufficiency evaluations).

operations the EIM entity and the CAISO are still identifying and resolving issues and learning how to participate in the new market environment, which involves testing and observing the effects of different factors and making adjustments accordingly.

The CAISO appreciates that the Commission might be concerned if the readiness process showed a continuing high percentage of production issue-related infeasibilities throughout the period of parallel operations. However, the data for NV Energy show the opposite; namely, a substantial decline in the number of infeasibilities in the second half of September for both the fifteen-minute and five-minute markets.¹² The data also illustrates that a number of the infeasibilities that have occurred during parallel operations with NV Energy have been driven by software defects or data input errors, which either would not occur in actual operations or would be subject to price correction. Once these issues were identified, the CAISO removed them from the infeasibility data, because they would not result in the application of penalty prices in actual operations.¹³

Parallel operations are also inherently limited in that inter-balancing authority area transfers are limited during this process,¹⁴ which artificially constrains the EIM solution even further. Once the EIM entity enters actual operations, EIM transfers will be available and the CAISO anticipates a

¹² September 30 Report at 8-9.

¹³ The CAISO also identified and resolved a number of process, modeling, and data submission issues as part of parallel operations, *i.e.* learning curve type issues. *Id.* at 16-20.

¹⁴ CAISO September 25 Answer at 12, n. 26.

significant improvement in the frequency and magnitude of infeasibilities. Moreover, the integration of NV Energy will benefit, relative to PacifiCorp's experience, from the increased transfer capability across the EIM footprint, thereby further reducing the likelihood of infeasibilities in any particular balancing authority area. This is due in part to the inherent diversity benefit of adding more balancing authority areas to the EIM footprint. Also, BPA recently increased the dynamic transfer capability limit on the California-Oregon Intertie, which has increased the ability to move energy between the EIM balancing authority areas. As an example of the benefits of increased transfer capacity, during October the CAISO observed that even a moderate increase of transfer capability has had a notable impact on frequency of infeasibilities. In the period of October 8-11, the 5-minute dynamic transfer capability from PAC West to CAISO increased from about 18MW to 100MW on peak. During this same time EIM transfers from PAC East to PAC East were not available due to scheduled maintenance work. After the transition to increased dynamic transfer capability between PAC West and the CAISO there was a notable reduction in frequency of infeasibilities in 5-minute intervals in PAC West.

Therefore, due to the nature of parallel operations, requiring a prospective EIM entity to meet a criterion of no infeasibilities, or even a specific percentage of infeasibilities, during testing will practically eliminate the ability for any new EIM to satisfy the readiness criteria in any reasonable timeframe, placing the pending EIM entity in readiness limbo ad infinitum. This outcome is unreasonable, as it

would frustrate the ultimate purpose of the readiness criteria to enable the prospective EIM entity to successfully integrate into the EIM.

B. The Proposed Criteria Are Sufficient To Ensure the Ability To Process Energy Imbalance Market Settlements in a Timely Manner.

In the October 19 Answer, Powerex clarifies that it intends that the prospective EIM entity should be required to issue draft settlement statements for two full months during parallel operations. It contends that the ability of an EIM entity to prepare and issue settlement statements for two days provides no information regarding the ability of the EIM entity to issue accurate settlements on an ongoing basis.¹⁵

Given Powerex's clarification, the Commission should reject the proposal as inconsistent with the July 21 Order. Review of two months of settlement statements would require that parallel operations continue for 60 days *prior to certification* if the prospective EIM entity settles monthly, which, including the 30-day notice requirement, would have parallel operations continue for at least 90 days. The July 21 Order did not require this and to consider doing so here would be unreasonable. The Commission should also disregard Powerex's assertion that the ability of an EIM entity to prepare and issue settlement statements for two full days provides "no information regarding the ability of the EIM entity to issue accurate settlement statements on an ongoing basis." The CAISO explained in its answer to comments and protests that this metric is reasonable

¹⁵ Powerex October 19 Answer at 8-9.

because at the point in parallel operations during which it conducts settlement testing, the charge codes have been configured and are generally all triggered on any given trade day.¹⁶

III. CONCLUSION

For the foregoing reasons, the CAISO requests that the Commission accept the CAISO's answer.

Respectfully submitted,

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¹⁶ CAISO September 25 Answer at 13-14.

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service lists for the above-referenced proceedings, under the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Washington, D.C. this 26th day of October, 2015.

/s/ Daniel Klein

Daniel Klein