

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

**California Independent System) Docket No. ER15-2565-000
Operator Corporation)**

**MOTION FOR LEAVE TO ANSWER AND ANSWER OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
TO COMMENTS AND PROTESTS**

The California Independent System Operator Corporation (“CAISO”)¹ submits this answer to the comments and protests² filed in response to the tariff amendment the CAISO filed in this proceeding on August 28, 2015. That tariff amendment provides a six-month transition period during which the pricing of energy in the balancing authority area of a new Energy Imbalance Market (“EIM”) entity will not be subject to the pricing parameters that normally apply under the CAISO tariff when the market optimization relaxes a transmission constraint or the power balance constraint in clearing the real-time market (“Transition Period Filing”).³ The comments and protests raise no issues that would justify revising

¹ Capitalized terms not otherwise defined herein have the meanings set forth in appendix A (Master Definitions Supplement) to the CAISO tariff. References to section numbers are references to sections of the CAISO tariff unless otherwise specified.

² The following parties filed comments: the Alliance for Retail Energy Markets; Bonneville Power Administration (“Bonneville”); Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California; Cities of Santa Clara, California and Redding, California and M-S-R Public Power Agency; Modesto Irrigation District; Northern California Power Agency; NRG Power Marketing LLC and GenOn Energy Management, LLC; Nevada Power Company and Sierra Pacific Power Company, d/b/a NV Energy (together, “NV Energy”); Pacific Gas and Electric Company (“PG&E”); PacifiCorp; Puget Sound Energy, Inc. (“Puget Sound”); Southern California Edison Company (“SCE”); Transmission Agency of Northern California; and Truckee Donner Public Utility District (“Truckee”). Powerex Corp. (“Powerex”) and Western Power Trading Forum (“WPTF”) filed protests.

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) to permit it to address the protests. Good cause for this waiver exists here because the answer will aid the Commission in understanding the issues in the proceeding, provide additional

or rejecting the proposed tariff revisions. The Commission should accept the tariff revisions as filed, subject to the sole clarification the CAISO provides in this answer.

I. Introduction and Summary

The Commission, in its order issued in Docket Nos. ER15-861-000 and EL15-53-000 on March 16, 2015, recognized that “even with more rigorous testing and parallel operation period, CAISO and the new EIM Entity may not be able to identify all operational issues prior to actual operation” and that the CAISO might find it appropriate to propose a transition period for such new participants.⁴ The Commission stated that if the CAISO made such a proposal, it would need to demonstrate that “such proposal is commensurate with the need to address a new entrant’s post-operation ‘learning curve.’”⁵ As demonstrated in the Transition Period Filing, the proposed tariff provisions are consistent with that requirement. All of the parties that submitted comments agree that the Commission should accept the tariff revisions.⁶

The two protesting parties, Powerex and WPTF, urge rejection of the Transition Period Filing. The protests lack merit. Powerex argues that the CAISO should require each EIM entity to ensure that it has sufficient resources in the EIM. However, Powerex fails to refute the CAISO’s explanation that such

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).

⁴ *Cal. Indep. Sys. Operator Corp.*, 150 FERC ¶ 61,191, at P 35 (2015) (“March 16 Order”).

⁵ *Id.*

⁶ See NV Energy at 6-10; PacifiCorp at 3-4; PG&E at 3; Puget Sound at 3-7; SCE at 2; Truckee at 1-4.

measures are not necessary in light of two important and crucial lessons learned during the first year of EIM operations. First, as demonstrated in numerous monthly reports filed by the CAISO and in its Transition Period Filing, the spurious price excursions experienced shortly after the start of the new EIM last fall were due to learning curve issues that led to artificial scarcity in the market runs. Second, the price excursions and infeasibilities declined significantly after the first six months of operations. These facts support the CAISO's conclusion that there is no need for a drastic market redesign of the EIM that includes the "must-offer" type of measures sought by Powerex. Rather, what is needed is the three-pronged solution proposed by the CAISO, which includes the Transition Period Filing, tariff amendments to implement the CAISO's available balancing capacity proposal, and the rigorous EIM entity readiness criteria developed by the CAISO. These three measures will ensure the EIM is robust in serving as a voluntary energy imbalance market for a balancing authority area that continues to operate its balancing area consistent with North American Electric Reliability Corporation ("NERC") requirements, separate from the CAISO's balancing authority area. These three measures will work in harmony to address the totality of issues identified during the first year of EIM operations and satisfy the Commission's directives.

WPTF makes arguments similar to Powerex's and also argues that the CAISO should ensure workable and robust flexible ramping requirements for each EIM region. This issue is beyond the scope of the instant proceeding, except insofar as it concerns tariff revisions proposed in the Transition Period

Filing. The CAISO does not propose changes to the flexible ramping constraint rules as they apply to the CAISO and EIM areas. The only changes the CAISO proposes are with respect to the need to set the flexible ramping constraint parameter to a number close to zero when the power balance or transition constraints are relaxed during the transition period. The CAISO herein clarifies those tariff revisions and offers to make a corresponding tariff clarification on compliance. WPTFs vague request to change the flexible ramping constraint rules are beyond the scope of this proceeding.⁷

In response to a request from Puget Sound, the CAISO describes the features of the monthly transition period reports the CAISO has committed in this proceeding to file and the quarterly market reports the CAISO has committed to file in another proceeding. Further, to address concerns expressed by Bonneville, the CAISO explains why its proposal for ending or extending the six-month transition period for a new EIM entity is just and reasonable. Lastly, in response to another Bonneville comment, the CAISO will clarify in the available balancing capacity proceeding that minimum NERC/Western Electricity Coordinating Council-required contingency reserves cannot be available balancing capacity.

⁷ The CAISO notes that it is in the midst of a stakeholder process to address enhancements to the flexible ramping constraint. The Commission should let that process unfold and consider any such enhancements in the CAISO's tariff amendment related to the changes that come out of that process.
<http://www.caiso.com/informed/Pages/StakeholderProcesses/FlexibleRampingProduct.aspx>

II. Answer

A. Powerex's Unwarranted Alternative Proposals Provide No Basis for Rejecting or Modifying the Transition Period Filing.

Powerex opposes the Transition Period Filing because it does not include long-term measures to ensure robust participation and economically driven price signals in the EIM. Powerex argues that the experience of PacifiCorp, the first EIM entity, demonstrates that the CAISO should “ensure that . . . each EIM Entity bids sufficient resources into the EIM to meet the imbalance needs of its customers.” Powerex contends that if temporary protections for transmission customers are also warranted, each EIM entity should settle imbalance service using a pre-EIM regional pricing proxy under its Commission-approved open access transmission tariff for a defined transitional period.⁸

Powerex's arguments are meritless. Powerex fails to discuss, let alone attempt to refute, the explanation provided in the Transition Period Filing regarding the root causes of the price excursions experienced during the first several months of EIM operations in the PacifiCorp balancing authority areas. As explained in that filing, the CAISO and PacifiCorp conducted a rigorous investigation into the source of the issues causing the EIM price excursions and determined – contrary to Powerex's contentions – that those events *were not* the result of actual capacity insufficiencies in the balancing authority areas. Powerex provides no evidence to support its assertion that resource-insufficiency was the cause of the issues experienced in PacifiCorp's balancing authority areas and

⁸ Powerex at 9-16.

not the documented learning curve issues. The CAISO has shown that the price excursions resulted from two types of root causes: (1) “learning curve” challenges associated with integrating PacifiCorp operations with the EIM, which have sometimes caused the EIM to operate based on imperfect information regarding actual imbalance conditions; and (2) a structural limitation in the current design of the EIM, namely, the lack of visibility to the market of capacity that is available to PacifiCorp to meet load in its balancing authority area and that is not bid into the EIM.⁹ The CAISO has documented this explanation in the monthly informational reports on EIM performance that the CAISO has filed in Docket No. ER15-402.¹⁰

The tariff revisions proposed in the Transition Period Filing address the first type of root cause, the learning curve challenges that occur when a new EIM entity joins the EIM. As shown in the numerous monthly reports, in the early months of the new EIM, the market observed infeasibilities more frequently due to errors in processing data and software/systems issues that resulted in the market systems wrongfully observing insufficient supply bids to clear demand in the market. The CAISO understands that this apparent scarcity triggered the penalty prices. Powerex continues to focus on these events as evidence of the need to drastically revamp the EIM and impose must-offer requirements. However, Powerex provides no evidence – nor is there any – that actual scarcity triggered these events. Accordingly, Powerex fails to demonstrate a need for

⁹ Transmittal letter for Transition Period Filing at 9-12.

¹⁰ *Id.*

such measures. Rather, the data clearly shows that after a transition period, the PacifiCorp areas are experiencing far fewer pricing excursions than they were at the start of the EIM – absent the measures Powerex asserts are absolutely necessary for the EIM to function just and reasonably.¹¹ Just because the software is unable to solve the market run without relaxing the power balance constraint, thereby triggering the penalty prices, does not mean that the sole cause is the lack of bids. Through its many monthly reports, the CAISO has demonstrated that the existence of learning curve errors such as, among other similar type of issues, errors transferring information about manual dispatches and outages caused the market software to conclude there was not enough supply to meet demand. If the other errors were not present, then there may have been more evidence to suggest that there was a chronic insufficiency of bids to meet PacifiCorp’s load. But that was not the case. Powerex does not refute the CAISO’s findings and analysis. To the contrary, the performance of the EIM after first six months clearly refutes Powerex’s unsupported arguments.

The CAISO is addressing the second type of root cause, the structural limitation in the current EIM market design, through separately filed tariff revisions to implement the CAISO’s available balancing capacity proposal (“Available Balancing Capacity Filing”).¹² The available balancing capacity will provide the EIM entity with an additional tool to ensure it can use capacity it has available to address infeasibilities in its own balancing area, without the risk that

¹¹ *Id.*

¹² *Id.* at 9-11. The CAISO submitted the Available Balancing Capacity Filing in Docket No. ER15-861-003 on August 19, 2015.

capacity it may need to operate its system reliably will transfer to another balancing authority area.

Finally, as directed in the March 16 Order and a subsequent order issued on July 21, 2015, the CAISO has separately filed a tariff amendment to implement EIM readiness criteria that must be satisfied before a new EIM entity can “go live” with participating in the EIM (“Readiness Criteria Filing”).¹³ The readiness criteria will go a long way toward addressing some of the issues the CAISO observed with PacifiCorp. Subsequent to filing its readiness criteria, the CAISO filed certificates and information in support the future EIM entities’ readiness to join the EIM. As the CAISO discussed in its Transition Period Tariff Filing, however, there is strong possibility that after an EIM entity commences actual operations the EIM entity and the CAISO may experience issues not identified during the readiness activities because of the limitations of the simulation and parallel operations environment. It is just and reasonable to provide the EIM entity a modest period to transition into the EIM, without exposing ratepayers to spurious pricing excursions.

These three proposals will work in harmony to address the totality of the issues identified during the first year of EIM operations and to satisfy the Commission’s directives.

¹³ Transmittal letter for Transition Period Filing at 10. The CAISO submitted the Readiness Criteria Filing in Docket No. ER15-861-004 on August 28, 2015. The tariff revisions proposed in the Readiness Criteria Filing also address WPTF’s comment that a new EIM entity’s go-live date should be “predicated on success metrics.” See WPTF at 4.

Powerex devotes much of its protest to criticizing the CAISO's available balancing capacity and readiness criteria proposals, which are not at issue in this proceeding.¹⁴ They are the subject of separate tariff filings that Powerex has protested and thus beyond the scope of this proceeding. The Commission should disregard Powerex's arguments in the instant proceeding to the extent they do not concern the matter at hand – the CAISO's transition period proposal.

A utility's filing of a tariff revision under section 205 of the Federal Power Act is not a vehicle by which another party can propose an unrelated amendment to the utility's tariff. Even if it were, however, there would be no reason for the Commission to grant Powerex's proposal. The price excursions experienced in the early months of PacifiCorp's EIM implementation had nothing to do with actual resource insufficiency, and the CAISO's available balancing capacity proposal will address the identified structural limitation in the EIM design.¹⁵

Powerex also ignores the several tests in the current CAISO tariff to ensure the sufficiency of available EIM resources to meet certain minimum requirements in a given hour and the associated consequences if those requirements are not met. As part of the operation of the EIM, (1) the EIM entity must provide a balanced EIM resource plan, (2) the EIM resource plan must have sufficient bids to meet the difference between balanced demand and the

¹⁴ See Powerex at 10-11 (criticizing available balancing capacity proposal), 11-12 (criticizing readiness criteria proposal).

¹⁵ As discussed in the Readiness Criteria Filing, the EIM already contains three crucial tests to evaluate the EIM entities sufficiency of resources to meet its demand in given intervals. The CAISO has also tested that the new EIM entity will be able to meet those tests over a period of five days. While those results do not mean that the EIM entity can meet the tests all the time, they demonstrate their systems and processes readiness to be able to meet the tests.

load forecast, and (3) the EIM resource plan must meet ramping requirements.¹⁶ The CAISO performs these tests to ensure that the EIM entity balancing authority area has available resources to meet its load with sufficient bid ranges to address the expected imbalances it will need to satisfy in the EIM.

Powerex acknowledges that “even with rigorous readiness measures and extended simulation and parallel operation, there may be issues and difficulties that do not arise until an EIM Entity fully integrates into the EIM.”¹⁷ The CAISO agrees, and this is precisely why the CAISO proposes to implement a modest transition period.¹⁸ Powerex then goes on to assert erroneously that implementing the CAISO’s transition period could mean “‘going live’ prematurely” and “mask[ing] the consequences” for prices after a new EIM entity joins the EIM.¹⁹ The CAISO has never suggested that any new EIM entity should go live before it is ready to participate in the EIM and does not believe that should ever occur. The readiness criteria the CAISO has proposed in a separate tariff filing will provide the best assurance possible that the new EIM entity is ready to take part in the EIM. No new EIM entity will be allowed to take part in the EIM unless and until it has satisfied the readiness criteria.

Further, the proposed pricing mechanism that will apply during the transition period will not mask any pricing issues. Data compiled by the CAISO’s Department of Market Monitoring demonstrate that (1) the pricing mechanism,

¹⁶ See tariff sections 29.34(e), -(l), -(m), -(n).

¹⁷ Powerex at 12.

¹⁸ See transmittal letter for Transition Period Filing at 12-15.

¹⁹ See Powerex at 12-13. WPTF (at 5) makes a similar argument.

which has been in effect under the Commission's existing EIM waivers, has effectively mitigated price spikes that would otherwise have occurred in the PacifiCorp balancing authority areas due in part to learning curve issues and (2) the resulting prices closely track overall electricity prices in the West. The data also indicate that the majority of learning curve issues can be identified and addressed within the first six months after a new EIM entity's implementation of the EIM.²⁰ Therefore, the CAISO proposes to limit the transition-period pricing to only six months unless (i) the CAISO determines that an extension of the six-month period is necessary, (ii) the CAISO communicates that determination (and any updates to the determination based on subsequent events) to market participants at least sixty days prior to the end of the six months, and (iii) the Commission accepts a new CAISO tariff amendment requesting an extension.

The CAISO will also carefully monitor the integration of new EIM entities. If the CAISO identifies a market design issue, it will take the steps necessary to address that issue as soon as possible, rather than requesting an extension of the transition-period pricing. In addition, the CAISO will prepare and file monthly informational reports similar to the monthly reports currently being filed in Docket No. ER15-402 that will allow the Commission and market participants to see the causes of any infeasibilities and the degree to which an EIM entity has sufficient available balancing capacity to address any infeasibilities. All of these measures

²⁰ See Docket No. ER15-402 (monthly report for July 2015).

will ensure that the transitional pricing mechanism does not mask any pricing issues and that any market design issues that arise are promptly addressed.²¹

Because the CAISO's transition period proposal is just and reasonable, the Commission should not adopt Powerex's suggested alternative transition period.²² Moreover, there is no need for the Commission to turn back the clock by requiring EIM entities to settle imbalance service using a pre-EIM regional pricing proxy under their open access transmission tariffs for a transition period, as Powerex suggests. The three EIM tariff amendments the CAISO has recently filed will address readiness issues prior to a new EIM entity's go-live date and will resolve any learning curve and structural limitation issues that may occur after go-live. Therefore, EIM transactions occurring during the transition period should be settled at the locational marginal price for the EIM, not at the pre-EIM regional pricing proxy as Powerex suggests.²³

B. WPTF Provides No Basis for Rejecting the CAISO's Proposal.

WPTF's protest merely repeats arguments it made regarding the CAISO's original transition period proposal. WPTF first argues that "[g]o-live should be

²¹ See transmittal letter for Transition Period Filing at 16-20, 23. These measures will also address Truckee's comment that the CAISO should quickly investigate the cause of, and propose appropriate changes to mitigate, any persistent unreasonable prices that may occur after NV Energy joins the EIM. See Truckee at 3-4.

²² See *Cal. Indep. Sys. Operator Corp.*, 141 FERC ¶ 61,135, at P 44 (2012) ("Upon finding that CAISO's proposal is just and reasonable, we need not consider the merits of alternative proposals.").

²³ WPTF appears to agree with the CAISO that a regional pricing proxy should not be used when it states that "[t]he use of a region-wide forward index price is not appropriate to measure the 'right' price for a particular EIM geographic area's real-time price." See WPTF at 4. However, WPTF also appears to mistakenly assert that Figure 1 in the transmittal letter for the Transition Period Filing suggests that the CAISO favors a region-wide forward index price. See *id.* In fact, the CAISO has always favored settling EIM transactions at the locational marginal price.

predicated on success metrics, not an artificial calendar date, even if such an approach delays go live by six months or even a year.”²⁴ That, however, is exactly how the CAISO determines a prospective EIM entity’s readiness under tariff section 29.2(b)(4). The CAISO readiness tariff revisions, pending before the Commission, would include these metrics in the tariff. As the CAISO explained above, the transition period addresses a different issue – the learning curve.

WPTF next states, “[t]he use of a region-wide forward index price is not appropriate to measure the ‘right’ price for a particular EIM geographic area’s real-time price, as the ISO has again tried to suggest in its August 15 Price Relaxation filing, Figure 1.”²⁵ Figure 1 in the Transition Period Filing,²⁶ however, is merely illustrative of the manner in which the existing waiver has avoided price spikes and kept prices in line with the bilateral market. It does not establish the bilateral market as a standard.

WPTF then argues that the CAISO should ensure that workable and robust flexible ramping requirements are established for each EIM region, and EIM entities must open their borders up to EIM participation at the EIM boundaries.²⁷ As with Powerex’s arguments regarding the sufficiency of

²⁴ *Id.*

²⁵ *Id.*

²⁶ WPTF’s reference to an “August 15 Price Relaxation filing” is more than a bit unclear. The CAISO made no August 15 filing. WPTF has denominated the Transition Period Filing as the “Transition Proposal” and the original transition period filing of January 15, 2015, as the “12-month Price Relaxation Filing.” See *id.* at 1 n.2, 2 n.3. Because WPTF uses the term “again” and its comment matches Figure 1 in the Transition Period Filing, the CAISO assumes that to be the intended reference.

²⁷ *Id.* at 4-5.

capacity, the recommendation is beyond the scope of this section 205 proceeding, which is limited to the justness and reasonableness of the CAISO's Transition Period Proposal.

Finally, WPTF contends that the CAISO proposal compromises the integrity of its markets.²⁸ The Commission should disregard such alarmism. The proposal is a very limited measure applicable to a small portion of the CAISO's markets. The Commission has frequently approved transitional periods without worry that the relevant market would be compromised.²⁹ It should not hesitate to do the same here.

C. To the Extent Necessary, the CAISO Clarifies When the Revised Flexible Ramping Constraint Relaxation Parameter Will Apply.

Although WPTF's comments regarding the CAISO's flexible ramping requirements are beyond the scope of this proceeding, they caused the CAISO to review its tariff language and conclude that it should clarify when it is appropriate to set the flexible ramping constraint relaxation parameter specified in tariff section 27.10 for the new EIM entity balancing authority area between \$0 and \$0.01. The CAISO clarifies that, under the proposal, the flexible ramping constraint relaxation parameter would be set between \$0 and \$0.01 only when the transmission constraint set forth in tariff section 27.4.3.2 or the power balance constraint set forth in the second sentence of tariff section 27.4.3.4 is

²⁸ *Id.* at 5.

²⁹ See, e.g., *Midwest Indep. Transmission Sys. Operator, Inc.*, 139 FERC ¶ 61,056, at PP 67-81 (2012); *PJM Interconnection, L.L.C.*, 119 FERC ¶ 61,318, at PP 73-87 (2007); *Midwest Indep. Transmission Sys. Operator, Inc.*, 109 FERC ¶ 61,157, at PP 75-80 (2004).

relaxed, as is the case under the currently applicable waiver of tariff section 27.10.³⁰ If the Commission finds that the tariff should include this clarification, the CAISO proposes to make such a tariff change on compliance.

D. The CAISO's Monthly and Quarterly Informational Reports Will Serve Different But Overlapping Functions.

Puget Sound asks the CAISO to describe the scope of, and any distinction between, the monthly transition period reports the CAISO has committed to provide in the instant proceeding and the quarterly market reports the CAISO has committed to provide in the available balancing capacity proceeding.³¹

The CAISO will prepare and file the monthly and quarterly reports as follows. The monthly reports will pertain to the new EIM entity for the full term that the transition period is in effect. The CAISO plans to provide information in these monthly transition period reports similar to the information contained in the reports it currently files in Docket. ER15-402.³² Specifically, the monthly transition period reports will include:

- The frequency and magnitude of all power balance constraint and transmission constraint infeasibilities;

³⁰ See *Cal. Indep. Sys. Operator Corp.*, 152 FERC ¶ 61,127, at PP 16-19 (2015).

³¹ Puget Sound at 6-7.

³² In the Available Balancing Capacity Filing, the CAISO has proposed that, after the available balancing capacity tariff provisions go into effect, it will no longer be necessary for the CAISO to continue to submit the monthly informational reports in Docket No. ER15-402. Transmittal letter for Available Balancing Capacity Filing at 48. This will be the case regardless of whether the Commission accepts the Transition Period Filing. If the Commission accepts the Transition Period Filing, the Docket No. ER15-402 reports will no longer be necessary because they will be superseded by the monthly transition period reports the CAISO will provide for each new EIM entity. If the Commission does not accept the Transition Period Filing, terminating the obligation to file the Docket No. ER15-402 reports is appropriate because, if the Commission does not accept the CAISO's transition period proposal, there will be nothing to report regarding new EIM entities.

- An explanation of the root causes, organized by types of issues, causing each infeasibility;
- A classification of the infeasibility based on its root causes;
- Measures taken by the CAISO and the EIM entity to resolve the identified issues; and
- A comparison between what the prices would have been without the transition period pricing and what they are with the transition period pricing (under which prices will be based on the last economic bid cleared).

The quarterly reports the CAISO has committed to provide in the available balancing capacity proceeding will provide information on the performance of the available balancing capacity proposal for the first year after it goes into effect.

Specifically, the quarterly reports will include:

- For each EIM entity, the megawatts of available balancing capacity that were used to clear the market and the market intervals in which the clearing occurred;
- The price at which the market cleared with the available balancing capacity; and
- Whether the available balancing capacity was from a participating resource or a non-participating resource.

Because the tariff provisions implementing the available balancing capacity proposal will apply to all the EIM entities, the quarterly reports will cover all such entities and not just the new EIM entities subject to a Commission-approved transition period. The CAISO recognizes that there may be overlap between the monthly and quarterly reports with regard to the available balancing capacity, but the purposes of the two reports are different. The monthly reports will provide information on the root causes of infeasibilities and a basis for judging whether a longer transition period is needed. The quarterly reports will

focus more squarely on matters regarding the actual use of available balancing capacity during the quarter.

E. The CAISO's Proposal for Ending or Extending the Six-Month Transition Period Is Just and Reasonable.

Bonneville states that it has previously proposed that EIM entities not be allowed to pass through the \$1,000/MWh penalty price associated with infeasibilities to transmission customers. Bonneville asserts that, in the interest of establishing a viable EIM if transmission customers continue to be subject to such penalty pricing, new EIM entities should be required to meet specific metrics before they move from the transition period to full implementation of the normal EIM pricing parameters.³³

The Commission should not direct the CAISO to establish such metrics. The CAISO has separately submitted the Readiness Criteria Filing and will not allow a new EIM entity to participate in the EIM until it satisfies such readiness criteria. The transition period proposed in the instant proceeding is not intended to address readiness issues, which by definition can only arise prior to EIM participation. The transition period will address issues that are detectable only after the EIM entity begins its participation in the EIM. Based on its experience with the first EIM entity, the CAISO believes that six months of actual EIM production should be sufficient to provide the EIM entity and the CAISO with have enough time to work through such issues, if any arise, and transition to normal pricing rules. If a particular new EIM entity requires more than six months

³³ Bonneville at 3-5.

of transition time, the CAISO can, under the proposal, seek Commission permission to extend the transition period for that EIM entity.³⁴ However, without knowing the specific learning curve issues that may arise for each individual EIM entity, it is difficult for the CAISO to envision what metrics it could adopt to determine whether the transition-based pricing should be discontinued.

Bonneville expresses concern that the CAISO's proposed mechanism for ending or extending the six-month transition period is too subjective.³⁵

Bonneville's fears are unfounded. The CAISO will be submitting monthly reports as described above. Therefore, concerned parties will have full visibility regarding the extent of any pricing infeasibilities and their root causes. The CAISO also proposes that, sixty days prior to the expiration of each transition period, the CAISO will (1) post on its website an assessment of whether an extension of the transition period is needed and (2) update such assessment on its website prior to the expiration of the transition period if there are any changes.³⁶ If entities raise legitimate reasons why a transition period should be extended, the CAISO will consider those and take appropriate actions. Entities will also have an opportunity to submit comments after the CAISO files any tariff amendment to extend the transition period. Further, market participants can file a complaint pursuant to section 206 of the Federal Power Act if they disagree with the CAISO's assessment.³⁷ It is the CAISO's hope, however, that none of

³⁴ Transmittal letter for Transition Period Filing at 16-17.

³⁵ Bonneville at 4.

³⁶ Proposed tariff section 29.27(b)(3).

³⁷ See tariff section 15.

this will be necessary after six months of a new EIM entity's actual operations under the EIM and that each transition period can terminate at that time.

F. The CAISO Will Clarify in the Available Balancing Capacity Proceeding that Contingency Reserves Cannot Be Available Balancing Capacity.

Recognizing that it is not specifically an issue in this proceeding, Bonneville expresses concern with the CAISO's statement that "it is reasonable for the EIM entity to refrain from designating contingency reserves as available balancing capacity because that is the type of capacity that the EIM entity must retain to ensure it can recover within [North American Electric Reliability Corporation] requirements if deployed." Bonneville requests that the CAISO state clearly in its tariff that contingency reserves cannot be included in available balancing capacity.³⁸

As the CAISO will also explain in its response to the deficiency letter in the available balancing capacity proceeding, the CAISO agrees that contingency reserves should not be designated as available balancing capacity. The CAISO stated in the Available Balancing Capacity Filing that capacity designated as contingency reserves (*i.e.*, spinning and non-spinning reserves) would not be considered as available balancing capacity.³⁹ The CAISO also explained that it has no direct oversight over how an EIM entity manages and designates its reserves, as that process is a function of the EIM entity's role as a balancing authority. Nevertheless, the CAISO agrees to provide the clarification requested

³⁸ Bonneville at 3.

³⁹ See transmittal letter for Available Balancing Capacity Filing at 17; *id.* at attachment C (Testimony of Donald Tretheway), page 16.

Bonneville and will further provide that clarification in Docket No. ER15-861-004, which is the docket in which the Commission is addressing proposed language in support of the CAISO's proposal of Available Balancing Capacity. The CAISO will further clarify that capacity identified as spinning or non-spinning reserves in an EIM entity scheduling coordinator's resource plan will not be treated as EIM entity available balancing capacity.

III. Conclusion

For the foregoing reasons, the CAISO requests that the Commission accept the tariff revisions contained in the Transition Period Filing as submitted, subject to the clarification regarding the flexible ramping constraint relaxation parameter that the CAISO provides in this answer.

Respectfully submitted,

s/ Anna McKenna
Anna McKenna

Michael E. Ward
Bradley R. Miliauskas
Alston & Bird LLP
The Atlantic Building
950 F Street, NW
Washington, DC 20004
Tel: (202) 239-3300
Fax: (202) 239-3333
E-mail:
michael.ward@alston.com
bradley.miliauskas@alston.com

Roger E. Collanton
General Counsel
Anthony Ivancovich
Deputy General Counsel
Anna McKenna
Assistant General Counsel
John C. Anders
Lead Counsel
California Independent System
Operator Corporation
250 Outcropping Way
Folsom, CA 95630
Tel: (916) 351-4400
Fax: (916) 608-7222
E-mail:
amckenna@caiso.com
janders@caiso.com

Counsel for the California Independent System Operator Corporation

Dated: October 5, 2015

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, pursuant to 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 5th day of October, 2015.

/s/ Bradley R. Miliauskas
Bradley R. Miliauskas