

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

**California Independent System) Docket No. ER18-2366-000
Operator Corporation)**

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

The California Independent System Operator Corporation (CAISO)¹ answers comments and protests filed in this proceeding² in response to the CAISO's August 31, 2018 tariff amendment (August 31 Tariff Amendment). The August 31 Tariff Amendment provides the terms under which the CAISO will offer reliability coordinator service to transmission operators within its balancing authority area and to other balancing authorities in the western interconnection, including transmission operators within those balancing authority areas.

¹ Capitalized terms not otherwise defined herein have the meanings set forth in appendix A to the CAISO tariff.

² The following entities filed motions to intervene in the proceeding: the American Wind Energy Association; Arizona Public Service Company (APS); Arlington Valley, LLC (Arlington Valley); Avangrid Renewables, LLC (Avangrid); Balancing Area of Northern California (BANC); Bonneville Power Administration (BPA); Calpine Corporation (Calpine); California Department of Water Resources State Water Project; Capital Power Corporation (Capital Power); Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California; City of Santa Clara, California; Gridforce Energy Management, LLC (Gridforce); Griffith Energy LLC (Griffith Energy); Idaho Power Company; Imperial Irrigation District; Los Angeles Department of Water and Power (LADWP); Modesto Irrigation District; NaturEner USA, LLC (NaturEner); Natural Resources Defense Council (NRDC); Northern California Power Agency; NRG Power Marketing LLC; NV Energy, Inc.; PacifiCorp; Powerex Corp.; Portland General Electric Company (PGE); Salt River Project Agricultural Improvement and Power District (SRP); Snohomish County Public Utility District No. 1; Southern California Edison Company; Western Area Power Administration; and Western Power Trading Forum. APS, BANC, BPA, LADWP; NRDC; PGE, and SRP submitted comments. Arlington Valley, Avangrid, Calpine, Capital Power, Gridforce, Griffith Energy, and NaturEner filed protests. Western Interconnection Regional Advisory Body (WIRAB) submitted comments offering its advice.

A number of commenters, including federal power marketing agencies, state water and power districts, joint powers authorities, and investor-owned utilities offer unconditional support for the CAISO's proposal.³ Other commenters support parts of the CAISO's proposal or offer conditional support.

The August 31 Tariff Amendment contains two sets of tariff provisions. The first set, with a requested effective date of November 15, 2018, includes provisions necessary to support customers' execution of the Reliability Coordinator Service Agreement and their participation in the onboarding process leading up to the CAISO becoming their reliability coordinator of record, as well as support for supplemental services the CAISO will make available to customers, such as hosted advance network applications, as provided in the Reliability Coordinator Service Agreement. No commenter opposes this first set of tariff provisions, although some commenters request clarification of certain of these provisions, which the CAISO provides below.⁴

The second set of tariff provisions in the August 31 Tariff Amendment, with a requested effective date of July 1, 2019, includes the rate and settlement provisions necessary for the CAISO to collect from customers the costs of providing reliability coordinator service. A number of generation-only balancing authorities oppose this second set of tariff provisions because they argue that the CAISO should retain a practice of Peak Reliability (Peak) under which

³ BANC at 3-4; BPA at 3; LADWP at 2; PGE at 3; SRP at 3-4.

⁴ This first set of tariff provisions, with a November 15, 2018, effective date, concerns a distinct set of issues involving onboarding and start-up of the CAISO as a reliability coordinator. This first set of tariff provisions is severable from the second set of tariff provisions, which addresses customer charges and the allocation of costs incurred by the CAISO in providing reliability coordinator services.

generation-only balancing authorities would pay only a *de minimis* annual charge for reliability coordinator services. As explained in the August 31 Tariff Amendment and further discussed in this answer, the CAISO believes that continuing this practice (which was never approved by the Commission) would be inconsistent with cost causation principles. The CAISO has determined that it is reasonable to use volumetric billing determinants to determine charges for all balancing authorities – specifically, net energy load for load-serving balancing authorities and net generation for generation-only balancing authorities. If a generation-only balancing authority area obtains reliability coordinator services from the CAISO, it should pay for those services on a basis comparable to the basis on which load-serving balancing authority areas pay for such services. Commenters fail to support the claim that the proposal is unduly discriminatory, offer hard data supporting the financial burdens allegedly associated with the proposal, or demonstrate that the proposal will result in any “double counting.” For the reasons set forth below, the Commission should accept the August 31 Tariff Amendment as filed without condition or modification.⁵

I. Motion for Leave to File Answer

Pursuant to Rules 212 and 213 of the Commission’s Rules of Practice and Procedure,⁶ the CAISO respectfully requests waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to permit it to answer the protests filed in the proceeding. Good

⁵ 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. For the reasons explained below, the CAISO respectfully requests waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to permit it to answer the protests filed in this proceeding. The CAISO also addresses requests for clarifications and other suggestions.

⁶ 18 C.F.R. §§ 385.212, 385.213.

cause for the waiver exists because the answer will aid the Commission in understanding the issues in this 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.⁷

II. Answer

A. The CAISO's Proposal Properly Allocates Reliability Coordinator Costs Consistent with Cost Causation Principles

The CAISO's proposal to allocate costs for providing reliability coordinator services is just and reasonable, as it treats all balancing authorities on a comparable basis, with comparable billing determinants for load-serving balancing authority areas and generation-only balancing authority areas. Some commenters dispute this, claiming that the proposal results in generation-only balancing authorities subsidizing other balancing authorities, in violation of Commission cost-causation principles.⁸ The CAISO's own analyses suggest that the reverse is true: if generation-only balancing authorities were required to pay only a *de minimis* annual charge for reliability coordinator services, there is a significant risk that load-serving balancing authorities would be subsidizing the services provided to generation-only balancing authorities.

Any cost allocation metric for reliability coordinator services should treat all balancing authorities in an equitable manner. All balancing authorities – whether they include load or not – rely upon the bulk electric system overseen by a

⁷ 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 Servs., Inc.*, 124 FERC ¶ 61,011 at P 20 (2008).

⁸ See *Capital Power* at 3-4; *Arlington Valley* at 2; *Griffith Energy* at 2-3.

reliability coordinator to receive or deliver energy.⁹ Recognizing this fact, the CAISO's proposal would treat all balancing authorities similarly by establishing a comparable billing determinant that the CAISO can use in a formula rate; that is, net load for load-serving balancing authorities, and net generation for generation-only balancing authorities. Although the determinants are different, that difference does not cause the CAISO's proposal to be unduly discriminatory. On the other hand, using net load as the only determinant would be unduly discriminatory, benefitting generation-only balancing authorities that do not have load through a token, *de minimis* fixed charge that ignores the numerous and significant services the reliability coordinator provides to such balancing authorities and the benefits they derive from reliability coordinator service.

Some commenters claim that significant differences exist between the reliability coordinator services for a generation-only balancing authority and a balancing authority that has load. They contend that the reliability coordinator does not need to continuously monitor generation-only balancing authorities, provide them with load-related services, or manage system operating limits (SOL) exceedance conditions for generation-only balancing authorities.¹⁰

Gridforce suggests that most reliability coordinator interaction with generation-only balancing authorities is no different from a reliability coordinator's interaction with a generator located in a balancing authority that contains load.¹¹

⁹ Transmittal letter for August 31 Tariff Amendment at 18; Attachment D to August 31 Tariff Amendment, Declaration of April D. Gordon, at P 23 (Gordon Declaration).

¹⁰ Gridforce at 6-8; Capital Power at 4-5; Arlington Valley at 4; and Griffith Energy at 4.

¹¹ Gridforce at 6-7.

These arguments obscure an essential truth that informs the CAISO’s proposal: as defined by the North American Electric Reliability Corporation (NERC), generation-only balancing authorities require the CAISO to perform 11 of the 13 core reliability coordinator services, as illustrated in the following table developed during the reliability coordinator services stakeholder process and included in the CAISO’s reliability coordinator services final proposal:¹²

Core Services	Customer Type			
	BA	Generation-Only BA	TOP	TOP with Assets but No Load
Outage Coordination	X	X	X	X
Next Day Operations Planning Analysis	X	X	X	X
Real Time Situational Awareness	X	X	X	X
Data Exchange to support Operations Planning Analysis and Real-Time Assessments	X	X	X	X
System Operating Limit (SOL) Methodology	X		X	
System Restoration Coordination and Training (EOP-006)	X		X	X
Centralized Messaging for RC Area	X	X	X	X
Stakeholder/ Working Group Processes	X	X	X	X
Secured Document Exchange (Plans, Procedures, Studies, Reports)	X	X	X	X
Data Exchange Services	X	X	X	X
Plan Reviews/ Approvals (EOP-005, 010 and 011)	X	EOP-011	X	X
Power System Network Modeling	X	X	X	X
Unscheduled Flow Mitigation Process	X	X	X	X

¹² See Attachment F to August 31 Tariff Amendment, Reliability Coordinator Rate Design, Terms and Conditions – Draft Final Proposal, at 5 (June 20, 2018) (Draft Final Proposal). The Draft Final Proposal is also available at <http://www.aiso.com/Documents/DraftFinalProposal-ReliabilityCoordinatorRateDesign-Terms-Conditions.pdf>.

The CAISO acknowledges that there are certain differences between generation-only balancing authorities and balancing authorities with load, but it is inaccurate to suggest that the services a reliability coordinator must perform to support generation-only balancing authorities are minimal. As shown above, a reliability coordinator must provide such balancing authorities services in the following areas: Outage Coordination; Next Day Operations Planning Analysis; Real-Time Situational Awareness; Data Exchange to Support Operations Planning Analysis and Real-Time Assessments; Centralized Messaging for the Reliability Coordinator Area; Stakeholder/Working Group Processes; Secured Document Exchange, Data Exchange Services' Plan Reviews/Approvals; Power System Network Modeling; and the Unscheduled Flow Mitigation Process.

One commenter opines that generation-only balancing authorities should be charged less because their systems and models are static in nature and require fewer services and attention.¹³ This ignores that modeling is only one of the core 13 services the CAISO will provide as a reliability coordinator. It is first an initial onboarding task, and as updates are required the CAISO must manage them through its energy management system network model update procedures, which generation-only balancing authorities will utilize (and should contribute financially to). The scope of these required services supports charging generation-only balancing authorities more than a *de minimis* charge.

The CAISO conducted a cost of service study to determine the total costs relating to providing reliability coordinator services, and selected billing

¹³ See, e.g., Avangrid at 10-11.

determinants for load-serving balancing authorities and generation-only balancing authorities as a reasonable proxy for their reliability coordinator services' needs. The formula rate reasonably allocates those costs to all balancing authorities benefitting from those services. Some commenters suggest that, without a more detailed cost study or comparative analysis between generation-only balancing authorities and load-serving balancing authorities, the CAISO should be required to continue the token, *de minimis* charge approach used by Peak.¹⁴ However, as the CAISO has explained, that amount had no cost basis whatsoever and was unsupported by any cost of service study.¹⁵

This argument also ignores that the CAISO did undertake an analysis of the reliability coordinator services that will be used by all customers. The CAISO compared the levels of support necessary for generation-only balancing authorities and those balancing authorities containing load, and considered the differences in the proposal. The CAISO's well-supported approach contrasts with that of commenters, who failed to provide data backing up for their claims. After reviewing the core functions of its proposed reliability coordinator services, the CAISO identified only two out of 13 services required for load-serving balancing authorities that it would not perform for a generation-only balancing authority. That a generation-only balancing authority may require a slightly smaller percentage of services than a load-serving balancing authority does not support a generation-only balancing authority paying the same token *de minimis*

¹⁴ Calpine at 4-5; NaturEner at 5-6.

¹⁵ Transmittal letter for August 31 Tariff Amendment at 17; Gordon Declaration at P 31.

charge paid by a customer with no load or generation.¹⁶

Suggestions by commenters that the CAISO must undertake a detailed granular study of the costs needed to provide reliability coordinator service to each balancing authority are without merit. Under section 205 of the Federal Power Act (FPA),¹⁷ the CAISO must only demonstrate that its filed proposal is just and reasonable. Nothing in the FPA requires a public utility like the CAISO to engage in an overly complex and imperfect exercise to custom craft a tailored service charge for each and every individual customer. There are significant differences even within each balancing authority classification. Generation-only balancing authorities and balancing authorities that have load are not uniform; they vary in size and complexity. Some generation-only balancing authorities comprise traditional resource facilities that are geographically close to each other, others consist of variable energy resource facilities across large geographic areas, and some combine the two for balancing purposes. Likewise, some load-serving balancing authorities will have more remedial action schemes, qualified paths, and even seams with another reliability coordinator that other load-serving balancing authorities may not have. The suggestion that providing reliability coordinator service to generation-only balancing authorities is a simple

¹⁶ The CAISO has proposed a fixed fee for a balancing authority or transmission operator with no net load or no net generation or with net load or net generation that would result in a charge less than the fixed fee proposed by the CAISO. It was necessary to include such a minimum fixed charge so that such entities would be charged some reasonable amount for the services they receive. However, the CAISO is not aware of any balancing authority that would be charged the minimum fixed fee, and is aware of only one transmission operator with no load or generation that operates a single transmission line within the CAISO balancing authority area and that would be charged the minimum fixed fee.

¹⁷ 16 U.S.C. § 824d.

matter, comparable to dealing with generation in a load-serving balancing authority, is not correct in many circumstances and misses the point. It would be unreasonable to require the CAISO to conduct individual studies, which presumably would need to be updated with some frequency, to charge each balancing authority a different rate based on its unique characteristics. This could lead to frequent changes in the CAISO's billing costs and was a point of concern voiced by stakeholders.

The CAISO is justified in using net load and net generation to estimate balancing authorities' impact on the transmission system, and the corresponding level of support the CAISO should provide. These billing determinants are a reasonable, fair, and efficient measure of the reliability coordinator services that the CAISO will provide to each balancing authority. In ratemaking, a proposal must reasonably allocate the costs the CAISO incurs to provide services,¹⁸ and the CAISO has met its burden to show that its proposed formula rate is just and reasonable. As noted in the August 31 Tariff Amendment, "[r]ate design does not require such exactitude in order to comply with cost causation principles."¹⁹ The CAISO's proposed formula rate uses determinants that will reasonably allocate total costs among all balancing authorities.

¹⁸ See *Ill. Commerce Comm'n v. FERC*, 576 F.3d 470, 477 (7th Cir. 2009) (citing *KN Energy*, 968 F.2d 1295, 1300 (D.C. Cir. 2000); *Transmission Access Policy Study Group v. FERC*, 225 F.3d 667, 708 (D.C. Cir. 2000), *aff'd sub nom. N.Y. v. FERC*, 535 U.S. 1 (2002); *Pac. Gas & Elec. Co. v. FERC*, 373 F.3d 1315, 1320-21 (D.C. Cir. 2004); at *Midwest ISO Transmission Owners v. FERC*, 373 F.3d 1361, 1368 (D.C. Cir. 2004); *Alcoa Inc. v. FERC*, 564 F.3d 1342, 1346-47 (D.C. Cir. 2009); *Sithe/Independence Power Partners, L.P. v. FERC*, 285 F.3d 1, 4-5 (D.C. Cir. 2002).

¹⁹ Transmittal letter for August 31 Tariff Amendment at 18; see also, e.g., *Ill. Commerce Comm'n v. FERC*, 576 F.3d 470, 470 (7th Cir. 2009) (the Commission need not calculate the benefits of transmission facilities "to the last million or ten million or perhaps hundred million dollars.").

There is no justification for requiring the CAISO to adopt Peak's past practice of charging generation-only balancing authorities a *de minimis* charge that lacks a cost basis. The CAISO is aware of no study or analysis that supports this past practice, which was not presented for Commission review under section 205 of the FPA.²⁰ The CAISO's analysis suggests that the *de minimis* charge approach is more likely to represent a subsidy paid by other balancing authorities to support services provided to generation-only balancing authorities.

The CAISO also believes that any concerns about the potential for relatively modest cost increases to generation-only balancing authorities under the CAISO's proposal should be considered in the broader context of the economics regarding the formation of such balancing authorities. Presumably, cost savings in avoiding charges to an existing balancing authority with load likely have been the primary driver for creating some of these generation-only balancing authorities. Although it may have been an entirely reasonable business decision to form a generation-only balancing authority, it was not reasonable for any entity making such a decision to assume that it would forever pay only a *de minimis* charge with no cost basis for reliability coordinator services.²¹ The potential for any increase in reliability coordinator service costs to generation-only balancing authorities under the CAISO's proposal are likely to

²⁰ To the best of the CAISO's knowledge, other reliability coordinator charges in the western interconnection also have not been approved by the Commission.

²¹ The CAISO understands that some commenters may want to serve load so that they would be charged based on net energy for load. The CAISO's proposal does not limit or restrict such a change in status.

be proportionally small compared with the balancing authority costs the entity may have avoided by forming its own balancing authority. Under such circumstances, it would be inappropriate to require load-serving balancing authorities to subsidize the reliability coordinator service costs to be paid by generation-only balancing authority areas.

B. Net Generation Is an Appropriate Billing Determinant for Generation-Only Balancing Authorities, and the CAISO's Proposal Will Not Result in "Double Counting"

Some commenters contend that the CAISO should apply the net energy for load calculation to all balancing authorities, or suggest that the CAISO is not treating all balancing authorities similarly because only traditional balancing authorities are assessed costs based on net energy for load.²² They argue that the CAISO's allocation proposal will result in double charging load end users, in contravention of Commission Order No. 672,²³ that are served by the generation that a generation-only balancing authority produces because those end users will pay for reliability coordinator services from their host balancing authority through the net energy for load charge and again through power purchase costs from the generation-only balancing authority based on net generation.²⁴

These arguments are without merit. First, the Commission has not suggested that net energy for load is the only permissible means to allocate

²² Gridforce at 10-11; Avangrid at 7; NaturEner at 9.

²³ *Rules Concerning Certification of the Electric Reliability Organization; and Procedures for the Establishment, Approval, and Enforcement of Electric Reliability Standards*, FERC Stats. & Regs. ¶ 31,204, 18 C.F.R. Part 39 (2006) (Order No. 672).

²⁴ Gridforce at 12-13; Avangrid at 9, NaturEner at 8; Capital Power at 5; Arlington Valley at 4-5; Griffith Energy at 4-5; Calpine at 5-6.

reliability coordinator costs. In Order No. 672, the Commission adopted a proposal to allocate NERC administrative costs based exclusively on net energy for load. That was consistent with specific statutory requirements of section 215 of the FPA stating that the costs of the Energy Reliability Organization be allocated “equitably . . . among end users.”²⁵ Commenters cite Order No. 672 as support for their contention that net energy for load should apply for allocating the costs of reliability coordinator services to generation-only balancing authorities.²⁶ However, Order No. 672 did not address the specific issue of allocating reliability coordinator costs and did not preclude entities from proposing a different cost allocation methodology for reliability coordinator services. NERC funding costs are not reliability coordinator costs, and NERC does not perform a reliability coordinator function. In Order No. 672 the Commission was considering a proposal that included net energy for load as the exclusive billing determinant and was responding to comments that additional factors should be included. Here the CAISO has proposed alternative determinants depending upon the classification of the balancing authority as generation-only or load-serving and commenters seek to impose some precedential limitation. In Order No. 672, moreover, the Commission was careful to note that, even in the context of allocating NERC charges, alternative proposals potentially could be just and reasonable.²⁷ Thus, Order No. 672 does not serve as controlling, or even

²⁵ Order No. 672 at P 213, *order on reh’g*, Order No. 672-A, FERC Stats. & Regs. ¶ 31,212 (2006).

²⁶ See, e.g., Avangrid at 2, *citing* Order No. 672 at P 213.

²⁷ Order No. 672 at P 213 (“[W]e will not codify any particular formula in our regulations because some adjustment in the formula may be needed in the future without the need to alter

relevant, precedent regarding how reliability coordinator costs should be allocated.

Reliability coordinator services provided by an Independent System Operator or Regional Transmission Organization are different from NERC services and reasonably can be charged through a different allocation method that focuses on specific customers rather than on all end users. A reliability coordinator is responsible for continuous monitoring of the balancing authorities and transmission operators within its area, and must be prepared at all times to issue operating instructions to address identified reliability issues. On the other hand, NERC maintains the functional model and promulgates and enforces reliability standards that *all* functional entities must follow, among other administrative functions. This distinction supports the CAISO cost allocation specifically to the balancing authorities and transmission operators it serves as the customers of this service. The fact that NERC allocated its costs across all end users based on net load does not make the CAISO's proposal unjust or unreasonable.

The “double counting” argument is a red-herring. The CAISO is seeking to allocate a “pot” of reliability coordinator costs to entities that specifically cause them to be incurred and benefit from the service. Unlike the allocation of NERC administrative costs, allocating reliability coordinator costs to “end users” is neither statutorily required, nor a relevant inquiry. The CAISO is not providing

the rule. Therefore, we do not rule out any other apportionment method that can be shown to be fair and reasonable.”).

reliability coordinator services to end users; it is providing them to balancing authorities and transmission operators. The CAISO uses net generation as a reasonable proxy for net load to determine the impact on the electric system in the absence of net load, and to allocate a share of the total costs to generation-only balancing authorities. The fact that the CAISO includes a transaction as an export from a generation-only balancing authority and an import into a load-serving balancing authority does not result in an impermissible or unjustified double charge. The CAISO's proposal simply accounts for the services the CAISO provides to each separate entity, *i.e.*, the generation-only balancing authority and the load-serving balancing authority. For example, it is not "double counting" if a generator pays a wheel out charge to deliver its energy from one balancing authority to another, and the load-serving entity (or end user) in the other balancing authority incurs a transmission charge for the delivery of such energy within the second balancing authority. It simply reflects that two separate services were provided for the same megawatt-hour (MWh) quantity of energy. That is the case here. The CAISO is providing separate services to the generation-only balancing authority and to the load-serving balancing authority. Using net generation as the billing determinant for a generation-only balancing authority is reasonable under these circumstances.

It is important to recognize that generation-only balancing authorities are receiving reliability coordinator services separate and apart from the services provided to load-serving balancing authority areas. Were the CAISO to charge based only on net energy for load, costs would inappropriately shift from

generation-only balancing authorities sharing the costs to load-serving balancing authorities bearing the brunt of reliability coordinator services costs. This would lead to an unjust and unreasonable allocation of costs and ignore that the CAISO is providing significant services to the generation-only balancing authority, and that the generation-only balancing area is benefiting both from the specific services provided to it and from the maintenance of reliability on the interconnected system as a whole – a system to which it exports its energy. Because the customers in this case are all balancing authorities or transmission operators within those balancing authorities, and not load, generation-only balancing authorities would unreasonably benefit if the CAISO were to only charge based exclusively on net energy for load. Double counting will not occur under the current proposal; instead, the CAISO is more fairly allocating total costs to all balancing authority customers receiving the reliability coordinator service – both generation and load.

If the type of double counting discussed in Order No. 672 were truly a concern here, then generation-only balancing authorities should pay no charge for reliability coordinator services. That is not the case today under the Peak methodology, and no commenter argues that generation-only balancing authorities should be exempt from paying anything for reliability coordinator services.

Avangrid references the *Alcoa Inc. v. FERC* decision²⁸ in an attempt to support the use of net energy for load across all balancing authorities that opt

²⁸ *Alcoa v. FERC*, 564 F.3d 1342 (D.C. Cir. 2009) (*Alcoa*).

into the CAISO's reliability coordinator service. Avangrid correctly points out that in *Alcoa* the D.C. Circuit Court of Appeals upheld the Commission's determination that net energy for load was a "fair and reasonable" way to allocate costs among end users.²⁹ That decision does not, however, suggest the CAISO's proposal is unjust and unreasonable. First, the decision is factually not on point because it applied to the allocation of NERC's administrative costs under section 215 of the FPA and Order No. 672, not the allocation of reliability coordinator costs.³⁰ Second, even for purposes of allocating NERC administrative costs, net energy for load was merely **one** fair way to allocate NERC's costs – not the sole just and reasonable methodology. *Alcoa* does not apply to the individual circumstances of this case, where the customers receiving reliability coordinator services include generation-only balancing authorities.

C. Protestors Fail to Support Their Arguments

Some protestors provide calculations they claim estimate the assessments generation-only balancing authority areas would pay per year under the CAISO's proposal, basing their calculations on capacity factors between 70 and 80 percent.³¹ First, these examples appear to be unrealistic with respect to generation-only balancing authorities that consist primarily of variable energy resources with significantly lower capacity factors. Of note, although NaturEner made an argument regarding costs with an 80 percent capacity factor,

²⁹ Avangrid at 8 (citing *Alcoa* at 1349).

³⁰ In the August 31 Tariff Amendment, the CAISO cited *Alcoa* in support of the general cost allocation principle for which it stands, not the factual specific circumstances giving rise to the decision. See transmittal letter for August 31 Tariff Amendment at 18-19 & n.48.

³¹ See Gridforce at 10; NaturEner at 7; Calpine at 7.

it subsequently argued that charging generation-only balancing authorities that fail to submit required billing data is especially harmful to generation-only balancing authorities comprised of renewable resources with capacity factors ranging only from 35-50 percent. Using significantly different capacity factor numbers while toggling between arguments undercuts NaturEner's positions.³² Based on a capacity factor of 40 percent, which is within the range of its actual capacity factor, NaturEner's costs would be approximately half of the costs suggested by the unrealistic hypothetical example it provides.³³ Other protestors appear to have used a per-MWh rate higher than what the CAISO utilized in the examples it provided in the stakeholder materials.³⁴ These examples overestimate expected costs.³⁵

More importantly, no generation-only balancing authority performed a detailed analysis or provided an example of what their rate could be under the CAISO's proposal using actual data. Generation-only balancing authorities had all the information necessary to calculate such costs, as the CAISO has provided all the rate details required, with the exception of balancing authority-specific net

³² In the August 31 Tariff Amendment, the CAISO proposes in Section 19.6 of the CAISO tariff that if a generation-only balancing authority did not provide its data as required by the Reliability Coordinator Service Agreement and the CAISO tariff, the CAISO would calculate a default total annual net generation in MWh based on a 90 percent capacity factor. In other words, following numerous missed opportunities for the generation-only balancing authority to provide its data, the CAISO would incentivize the entity by calculating a high default value.

³³ NaturEner at 7.

³⁴ Compare Calpine at 7 n.17 (using a \$.05-per-MWh rate) with Draft Final Proposal at 27-28 (using a \$.038-per-MWh rate to estimate costs if a significant portion of the western interconnection were to take reliability coordinator service from the CAISO).

³⁵ Even assuming the highest cost estimates put forth by commenters, the total annual reliability coordinator service charges for these entities would be counted in mere thousands of dollars.

generation information that the CAISO does not have. Generation-only balancing authorities possess their own net generation information and could have submitted cost analyses to the Commission subject to confidentiality protection for any sensitive information. It is not clear why these commenters did not undertake this simple step given that they are asking the Commission to take the significant step of finding the CAISO's proposal to be unjust and unreasonable.

Calpine claims that, if the Commission approves the CAISO's proposal, "more cost categories could follow, yielding more and more unfair and unjustified cost allocations."³⁶ This is pure speculation that should have no bearing on the outcome of the instant proceeding. Even if the CAISO were in the future to modify other charge types in its tariff separate from reliability coordinator service charges, such changes would need to be presented and justified to the Commission in a subsequent filing under section 205 of the FPA. The Commission rules on the proposals before it. The potential for hypothetical future changes to other charges under the CAISO tariff has no bearing on the justness and reasonableness of the proposal before the Commission in the instant proceeding.

D. Charging Generation-Only Balancing Authorities Based on Their Generation Exports Is Not Unduly Discriminatory

Some commenters argue that the CAISO's proposal is unduly discriminatory because it charges a generation-only balancing authority based on

³⁶ Calpine at 7.

its generation exports but does not include exports in the reliability coordinator charge for a “traditional” balancing authority that has both generation and load.³⁷ This difference is not unduly discriminatory because it is based upon a substantive distinction between the two types of balancing authorities: generation-only balancing authorities, unlike traditional balancing authorities, are in business solely to engage in the export of generation. If they are not charged based on the amount of their net generation, then they will be able to obtain reliability coordinator service for a price that bears no relationship to the activities they undertake, the costs they impose, the services they receive, or the benefits they accrue. The net generation figure establishes a reasonable means for estimating the intensity of their use of the reliability coordinator function as well as the extent of their benefit from the service. A traditional balancing authority, by contrast, has both generation and load. Measuring the net amount of energy used by the balancing authority to serve its load provides a reasonable means for estimating the intensity of a traditional balancing authority’s use of the reliability coordinator function and the benefit it accrues. Because such balancing authorities both import generation and export generation, it is reasonable to net these two amounts out of the equation and instead focus only on the net amount of energy used to serve their load.

These commenters also suggest this outcome is unfair because a generation-only balancing authority that adds a single megawatt of load could then switch over to a reliability coordinator charge that is based on a smaller

³⁷ Gridforce at 10-11; NaturEner at 7; Calpine at 6-7.

amount of net energy for load.³⁸ This claim is highly speculative and unlikely to occur because shouldering load-serving obligations is a major undertaking that would not realistically be undertaken simply as a means to achieve a lower reliability coordinator service rate. To become a balancing authority that serves load, the generation-only balancing authority presumably would need both to identify and contract with customer load and be able to provide or procure all of the necessary services to deliver generation to the customer, including among others transmission operator (TOP), transmission service provider (TSP), and distribution provider (DP) services.³⁹ It is highly unlikely that a relatively small difference in reliability coordinator service charges would drive generation-only balancing authorities to change their models in this fundamental way. Indeed, none of these commenters suggest that this would actually occur. Because this argument has no factual or logical support, it does not provide a basis for rejecting the CAISO's proposal.

E. Other Arguments that the Cost Allocation Proposal Is Unduly Discriminatory Are Without Merit

Some commenters take issue with the CAISO's rationale that the proposal is just and reasonable because generation-only balancing authorities rely on the bulk electric system, just as load-serving balancing authorities do. They contend it logically follows that it would be acceptable for individual households to pay charges for reliability coordinator services because the households rely on the

³⁸ *Id.*

³⁹ In addition, the functions of a resource planner may apply.

bulk electric system for energy.⁴⁰ This argument strains credulity. Balancing authorities are required to obtain reliability coordinator services in accordance with the NERC reliability standards; individual households have no comparable obligation. Further, individual households have no direct relationship with a reliability coordinator.

Commenters wrongly claim that exports should be disregarded in determining charges for reliability coordinator services. Generation-only balancing authorities are able to “balance” only because they export energy to serve load in other balancing authorities. All of their output must ultimately be overseen by the reliability coordinator because their output is managed on a balancing-authority-to-balancing-authority transfer basis. This contrasts with balancing authorities that have load, which rely on both generation internal to their systems and imports to balance load and exports. It would be inequitable and unduly discriminatory to ignore generation-only balancing authority exports in this context and suggest that reliability coordinator services should be paid by the load in the balancing authority that it serves.

Avangrid claims that the CAISO’s proposal is unduly discriminatory because it gives Avangrid and other balancing authorities no choice but to purchase reliability coordinator services from the CAISO.⁴¹ The CAISO’s proposal creates no restriction on a balancing authority’s freedom to choose who

⁴⁰ Gridforce at 13-14; NaturEner at 9.

⁴¹ Avangrid at 11.

will provide it reliability coordinator services.⁴² A generation-only balancing authority closely enmeshed with another balancing authority may, for practical reasons, not want to use a different reliability coordinator from the surrounding balancing authority. The CAISO is not privy to any understandings or commitments made by individual generation-only balancing authorities concerning their reliability coordinator service. In any event, Avangrid's comments actually illustrate why the CAISO's proposal is reasonable. An entity should not be able to avoid costs of being located in a load-serving balancing authority by forming a generation-only balancing authority and then argue that it should be exempt from its share of reliability coordinator services.

Arlington Valley and Griffith Energy claim that the CAISO inappropriately rejected comments from generation-only balancing authorities during the stakeholder process because it wished to allocate more reliability coordinator costs to those balancing authorities.⁴³ This mischaracterizes the CAISO's actions. The CAISO received comments from generation-only balancing authorities during the stakeholder process that opposed the proposal, but it did not choose its course of action based on a predetermined desire to allocate more costs to generation-only balancing authorities. Instead, the CAISO developed a proposal that follows cost causation principles for the reasons explained above and has demonstrated that analysis in the August 31 Tariff Amendment.

Although this proposal could increase the costs allocated to generation-only

⁴² Transmission operators must take reliability coordinator service from the same provider as the balancing authority in which their transmission systems are located.

⁴³ Arlington Valley at 3; Griffith Energy at 3.

balancing authorities compared with the non-cost-based, *de minimis* charge imposed by Peak, the CAISO is not obligated to accept stakeholder proposals that it concludes are not justified.

All of the generation owners objecting to the CAISO's reliability coordinator service charge have voluntarily decided either to establish their own generation-only balancing authorities or to locate their generation assets within such balancing authority areas. One could reasonably assume that this decision enables them to avoid certain costs they would otherwise incur if embedded in a load-serving balancing authority area. By their own argument, they would not have to pay a reliability coordinator charge if their generation assets were located in a load-serving balancing authority area; yet they continue to seek a token and *de minimis* charge for reliability coordinator service from the CAISO – the a service the CAISO provides to balancing authorities.⁴⁴ It is just and reasonable that entities choosing to be their own balancing authorities therefore bear the just and reasonable costs of the services they require and from which they benefit.

F. Clarifications and Responses to Commenter Suggestions

APS submitted comments in support of the filing, and seeks minor clarifications. First, APS seeks clarification of how the CAISO will determine the default MWh amount in situations where the reliability coordinator customer has failed to submit its required billing volumes to the CAISO.⁴⁵

⁴⁴ The generation-only balancing authorities have not presented any reasonable alternative billing determinant or reliability coordinator service charge methodology in this proceeding or in the CAISO stakeholder process other than paying the *de minimis*, non-cost-based charge they have paid to Peak.

⁴⁵ APS at 3-4.

Section 5.2 of and Schedule 1 to the Reliability Coordinator Service Agreement require the reliability coordinator customer to provide an “initial default MWh” amount when that agreement is executed. For load-serving customers, this value will equal the customer’s total MWh for the prior calendar year. For generation-only customers, this value will equal the customer’s total installed generation capacity for the prior calendar year. The CAISO will use this default amount to calculate the initial net energy for load or net generation totals during the reliability coordinator customer’s first year of reliability coordinator services.

After this initial year, the CAISO will use the process set forth in Section 19.6(c) of the proposed revisions to the CAISO tariff to determine the required billing data if the reliability coordinator customer ultimately fails to submit its billing data to the CAISO. This includes using the load-serving customer’s reported NERC/Western Electricity Coordinating Council (WECC) volumes for the past full calendar year, multiplied by 1.25, to determine annual billing volume. For generation-only customers, the CAISO will use the stated installed generation capacity amount set forth in Schedule 1 of the Reliability Coordinator Service Agreement, multiplied by a 90 percent capacity factor, and again multiplied by 8,760 hours per year, to determine the customer’s annual billing volume. The CAISO does not believe that any additional tariff changes beyond what it has proposed are necessary, and plans to coordinate with APS and other interested reliability coordinator customers to ensure they understand how these provisions will be administered.

APS also suggests that there may be a potential for confusion as to whether Section 19.16 of the proposed tariff revisions, entitled “Miscellaneous Provisions,” applies all provisions within Section 22 of the current tariff to reliability coordinator customers.⁴⁶ APS suggests that this could result in existing Section 22.13 of the tariff, which concerns compliance with federal and California law related to hydroelectric generation, being applied to reliability coordinator customers. APS suggests that this could lead to reliability coordinator customers outside of the CAISO’s balancing authority area or California being required to comply with California state environmental regulations.⁴⁷

The CAISO respectfully submits that Section 19.16 could not be so misinterpreted. Proposed Section 19.16 does not require reliability coordinator customers to comply with California state regulations. The CAISO (in its function as a reliability coordinator) will not have the authority to issue dispatch instructions to any market participant or reliability coordinator customer. The reliability coordinator could issue operating instructions to balancing authorities, which in turn may need to issue dispatch instructions, but the reliability coordinator will not directly issue dispatch instructions. Therefore, this provision is not applicable to reliability coordinator customers. Nevertheless, the CAISO will consider adding language making this non-applicability explicit in a future clean-up tariff filing.⁴⁸

⁴⁶ APS at 4-5.

⁴⁷ APS at 5-6.

⁴⁸ See, e.g., Tariff Clarifications Amendment and Request for Waiver of Notice Requirement, Docket No. ER18-1787-000, at 1 (June 14, 2018) (“The CAISO improves its tariff . . . with clarifying changes from time-to-time.”).

G. The CAISO Supports Ongoing Regional Efforts to Facilitate a Smooth Transition to New Reliability Coordinators

Some commenters request that the Commission consider addressing regional oversight and governance issues. For example, NRDC recommends that the Commission use its authority under section 215(j) of the FPA⁴⁹ to direct WIRAB to provide ongoing review and advice on all western interconnection reliability coordinator providers and that the Commission direct the CAISO to take additional steps “to fulfill the necessary functions of the [reliability coordinator].”⁵⁰ WIRAB offers certain recommendations relating to transparency and independence of decision making by the reliability coordinator, along with suggesting that WIRAB be given the role of advising the CAISO reliability coordinator management and oversight committee on reliability matters.⁵¹ The CAISO believes the perspectives of the state policy makers and regulators are of importance to the western interconnection and should be considered when making general strategic decisions associated with the provision of reliability coordinator services.

The CAISO appreciates these comments and supports the interest of entities across the region to ensure a reliable transition from Peak to other reliability coordinators in the western interconnection. The CAISO plans to continue to work collaboratively with all interested entities because the CAISO believes that cooperation will lead to a smooth transition from Peak to the

⁴⁹ 16 U.S.C. § 824(j).

⁵⁰ NRDC at 3-4.

⁵¹ WIRAB at 3-5.

multiple reliability coordinators that will exist across the west. While the CAISO welcomes these views, the CAISO believes they fall beyond the scope of this proceeding, and the CAISO respectfully requests that the Commission not address these suggestions at this time. As the transition process continues, the CAISO encourages all interested entities to provide their points of view and commits to continued collaboration in this process.

III. Conclusion

For the foregoing reasons, the Commission should accept the tariff revisions contained in the August 31 Tariff Amendment without condition or modification.

Respectfully submitted,

/s/ John C. Anders

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Dated: October 9, 2018

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 Folsom, California, on this 9th day of October, 2018.

/s/ Grace Clark
Grace Clark