

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

California Independent System)	
Operator Corporation)	Docket No. ER15-402-000
)	

**ANSWER TO COMMENTS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

The California Independent System Operator Corporation (“CAISO”) respectfully submits this answer to comments submitted in the above-captioned proceeding in response to the CAISO’s filing of request for a temporary waiver of two provisions of the CAISO tariff regarding the pricing of energy when the CAISO market software relaxes a transmission constraint.

I. BACKGROUND

On November 13, 2014, the CAISO requested a 90-day waiver of the application of section 27.4.3.2 and the second sentence of section 27.4.3.4 of the CAISO tariff for constraints that are within balancing authority areas of PacifiCorp or affect Energy Imbalance Market (“EIM”) transfers between those balancing authority areas.¹ These tariff provisions establish the price for energy in circumstances where the CAISO’s market clearing software must resort to relieving modeled constraints, such as transmission or system balance constraints, in order to clear the market using effective economic bids. The requested waiver allows the CAISO to price energy in the EIM entity’s balancing authority areas using the economic pricing mechanism that normally governs under the CAISO tariff (sections 27.1.1, 34.20 and Appendix C) in such

¹ The CAISO submits this petition for waiver pursuant to Rule 207 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.207. Capitalized terms not otherwise defined herein have the meanings set forth in the CAISO tariff.

circumstances, *i.e.*, to clear the real-time market based on the marginal economic bid instead of the \$1000/MWh pricing parameter specified in Sections 27.4.3.2 and 27.4.3.4. The CAISO sought the waiver in order to it ameliorate the impact of unexpected price excursions observed since the Energy Imbalance Market commenced full market operations while the CAISO and PacifiCorp address the causes of the price excursions.

Ten parties have sought to intervene in this proceeding.² Seven parties submitted comments: Deseret Generation and Transmission Cooperative (“Deseret”), Iberdrola Renewables, Pacific Gas and Electric Company (PG&E), PacifiCorp, Southern California Edison Company (“So Cal Edison”), Utah Associated Municipal Power Systems (“UAPMS”), and Western Power Trading Forum (“WPTF”). The CAISO does not oppose any of the interventions.

II. ANSWER

No party objected to the CAISO’s request for a waiver. Indeed, all comments were supportive. Certain parties, however, requested that the Commission take action in addition to that requested by the CAISO. The CAISO does not object to requests that the waiver be retroactive to November 1, 2014. However, as discussed further below, the retroactive re-run from November 14, 2014 to November 1, 2014, would be done only to the extent the CAISO would not otherwise correct the prices. The CAISO also does not object to filing monthly reports of market performance and a report in twelve

² Bonneville Power Administration, Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California; Deseret Generation and Transmission Cooperative, Iberdrola Renewables, Modesto Irrigation District, Pacific Gas and Electric Company, PacifiCorp, Southern California Edison Company, Utah Associated Municipal Power Systems, and Western Power Trading Forum.

months on the status of third party resource participation in the Energy Imbalance Market. The CAISO opposes the other requests.

A. The CAISO does not Oppose Requests that the Waiver Be Effective November 1, 2014.

Deseret, UAMPS, and PacifiCorp³ note that the pricing excursions from the commencement of Energy Imbalance Market operations on November 1 have caused them significant financial harm. They ask that the Commission grant the waiver effective November 1, 2014. Deseret states that this is consistent with Commission precedent.⁴

As the CAISO explained in requesting an immediate effective date of the waiver, rerunning the market to replace the \$1000/MW pricing parameter with locational marginal prices is time-consuming and resource intensive. Nonetheless, because of the limited period involved, the CAISO believes that the benefits of rerunning the market from November 1, 2014, to November 13, 2014, outweigh the burdens of doing so. The CAISO therefore does not object to the request of intervening parties that that the Commission grant the requested November 1 effective date for the waiver. Should the Commission agree, the CAISO further requests that 1) the waiver continue to be in effect for 90 days from November 14, 2014, as requested by the CAISO in its petition filed on November 13, and not as of November 1, 2014; and 2) the Commission specify that the CAISO need not rerun those intervals for which the CAISO would otherwise issue corrected prices.

³ Deseret Answer at 13-14; PacifiCorp Comments at 7-11, Utah Municipals at 5-6.

⁴ Deseret cites *Southwest Power Pool*, 141 FERC ¶ 61,102 (2012).

Price corrections and the requested waiver are independent actions taken by the CAISO and the CAISO did not request waiver of price corrections in light of the waiver requested herein. Therefore, corrected prices should stand regardless of a future rerun to determine the marginal price based on submitted economic bids in accordance with the waiver. Moreover, if the CAISO identifies a need to correct a price, the price is not likely to be set by the penalty prices specified in Sections 27.4.3.2 and 27.4.3.4 and applying the waiver to the corrected prices would be immaterial. On the other hand, the time it takes to rerun these intervals is material and may be unnecessarily disruptive to the CAISO's continued efforts towards improving the market performance, without any significant improvement to the market outcome.

Finally, the 90 day duration of the requested waiver was determined with November 14, in mind and not November 1. There is no reason to shorten that time period even if the waiver goes back to November 1 because that is the time the CAISO and PacifiCorp believe is needed to address the issues identified in the petition.

B. The CAISO believes that there is No Need for Active Commission Monitoring of the CAISO's Corrective Actions.

UAMPS believe that 90-days is an inadequate period for resolution of the issue that gave rise to the waiver request. They point to their prior arguments that limited transmission infrastructure between and within PacifiCorp's balancing authority areas, the lack of multiple competitive resources, and resultant market power issues would inhibit or prevent a properly functioning market without aggressive market monitoring and mitigation. UAMPS ask that the Commission direct the CAISO to file, within 90 days of a Commission order granting the waiver, a report with all appropriate supporting data demonstrating that the problems giving rise to the waiver and any other issues that

arise have been cured. Under this recommendation, the waiver would expire upon Commission acceptance of the report, after stakeholder comment.⁵

Deseret similarly reiterates its previously expressed concerns that there would be too few participants and too little EIM participating resource capacity in the initial PacifiCorp East balancing authority area to represent a competitive market. Deseret asks that that Commission require the CAISO to file a comprehensive work plan to identify action items and a timeline to complete each mitigation step and to regularly report on the work plan until its completion and that the Commission provide stakeholders an opportunity to provide comments during the waiver period. Deseret would keep the waiver in place until after several months of proper market operations. Deseret also request that the Commission call upon the CAISO's market monitor to investigate the degree to which behavior of EIM participating resources contributed to the pricing excursions.⁶

PG&E states that it and other participants have substantial interest in the progress CAISO makes during the waiver period toward addressing the pricing anomalies, and asks that the Commission require the CAISO to produce detailed monthly reports on the performance of the Energy Imbalance Market during the 90-day waiver period that provide insight into what problems are causing the market to resort to penalty pricing, how effectively these problems are being resolved, and the expected dates, where applicable, by which these problems will be fully resolved.

⁵ Utah Municipals Comments at 5.

⁶ Deseret Answer at 9-12

The scope of the issues identified by the CAISO and PacifiCorp does not match the dire predictions of Deseret and the UAMPS. As the CAISO explained in its waiver request, the Energy Imbalance Market has, for the most part, functioned as expected. The issues are limited and identifiable. The CAISO is confident that it and PacifiCorp can resolve these issues in 90 days, so there is no reason to provide for a longer waiver. Moreover, the CAISO has already commenced a stakeholder process for enhancements to the Energy Imbalance Market rules. To the extent additional measures are needed, the CAISO will file a tariff amendment to include the new rules. In the interim, the waiver will suffice to ensure market participants are not subject to adverse market outcomes.

Neither is there a reason for requiring the CAISO to file detailed reports on the actions it and PacifiCorp are taking to address the issues. The resources that participate in the Energy Imbalance Market is public information and, for purposes of convenience, the CAISO will publish a complete list of participating resources and update the list annually. Over time, the decreasing frequency with which the constraints would bind and prices set per the waiver will be transparent. This will, in and of itself, serve as the best indicator of the CAISO and PacifiCorp's success in addressing the identified issues.

Moreover, preparing detailed reports would derail staff from its efforts towards addressing the issues identified in the petition. Staff that would have the knowledge to prepare such detailed reports are the same staff that will be working to resolve the issues. The reports would distract them from their primary objective, waste resources, and prevent resolution of the matters that gave rise to the waiver request in the first

place. The CAISO would not object, however, to a Commission directive that it provide monthly reports specifically on Energy Imbalance Market performance, in addition to any other market reports, for the duration of the requested waiver. Such reports would be the best indicator of CAISO and PacifiCorp's progress and would provide the Commission, and market participants, full visibility on outcome of everyone's efforts to address the issues identified.

Finally, regarding the UAMPS discussion of market power, the CAISO notes that the UAMPS's previous comments were directed toward the CAISO's initial proposal regarding market power analysis and market mitigation in the EIM balancing authority areas. Subsequently, the CAISO agreed to apply the provisions of section 39, regarding market mitigation, to the Energy Imbalance Market. It is the CAISO market monitor's charter to "provide independent oversight and analysis of the CAISO Markets for the protection of consumers and Market Participants by the identification and reporting of market design flaws, potential market rule violations, and market power abuses."⁷ This includes the type of investigation that Deseret requests to the extent there is evidence to justify it. The waiver will not interfere with the application of market mitigation in the Energy Imbalance Market. The market monitor regularly reports (quarterly and annually) on the performance of all aspects of the CAISO markets, which will now include the Energy Imbalance Market. There is no need for a separate Commission directive that the market monitor do what it is already required to do.

⁷ CAISO Tariff, App. P, § 1.2.

C. There Is No Need to Extend the Waiver to Scheduling Points in California.

SoCal Edison notes that the Energy Imbalance Market has affected CAISO pricing nodes, specifically the trading node of Mona located in PacifiCorp's service area and borders the CAISO balancing authority. According to SoCal Edison, the prices of the PacifiCorp East load aggregation point is highly correlated with the resulting prices at Mona, and when prices reach the price cap of \$1000/MWh within the PacifiCorp East load aggregation point, the prices at Mona (which is not an Energy Imbalance Market trading point) are also \$1000/MWh. So Cal Edison requests that the Commission direct the CAISO to extend the price adjustment to those CAISO balancing authority area nodes that are adversely affect because of to the conditions identified in the CAISO's petition.⁸

After the CAISO commenced Energy Imbalance Market operations on November 1, the CAISO recognized that prices displayed on OASIS for scheduling points at which there are distinct constraints related to EIM-specific imbalance settlements at those locations and non-EIM transactions to/from the CAISO at those locations, are not satisfactory in terms of the detail they provide. Using the Mona scheduling point as an example, the prices at Mona on OASIS included both the congestion related to the CAISO transactions and EIM imbalance settlements in total, and did not present the prices at Mona separate for EIM imbalance separate from the CAISO intertie transactions. Because the constraints that are relevant to the EIM imbalances versus the CAISO transactions differ, the congestion will vary based on the constraints

⁸ So Cal Edison Comments at 3.

enforced for each separately.⁹ The actual transaction-specific price is provided to market participants in their individual scheduling coordinator market interface (“CMRI”). The CAISO also confirms that the CAISO is taking necessary action to ensure settlements are based on the correct transaction-specific price. Participants raised concern that while they can view the transaction-specific price in their CMRI, the single price presented on OASIS at the same locations is different and creates confusion for purposes of their validation processes. The scheduling point price presented on OASIS is not wrong because it represents the total cost of congestion for all the interties associated with that scheduling point. But it does not provide the price that applies by transaction.

The CAISO has already taken action to enhance the OASIS price display so that OASIS will display the transaction-specific price in the future and the CAISO will also provide a report that will display on OASIS the transaction-specific prices going back to November 1, 2014. The CAISO anticipates that the enhancement will be in place by the end of January 2015, and any displays missed by then will be included in the report displaying the prices back to November 1, 2014. This display enhancement does not consist of a price correction because the scheduling point prices previously displayed will not change. Therefore, this does not require that the Commission extend the waiver to it specifically as requested by SoCal Edison. However, the Commission should note in its order its acceptance of the CAISO’s explanation and intended actions to resolve SoCal Edison’s concerns.

⁹ The energy and losses component of the locational marginal price does not vary based on the intertie definition at those locations.

D. The CAISO Does Not Object to Reporting on Third Party Participation.

WPTF stresses the importance of third-party Energy Imbalance Market participation and observes that the benefits of such will not be recognized until PacifiCorp enables inertie participation and any remaining barriers to participation by internal third-party suppliers have been sufficiently minimized. Because it believes that this will likely not occur within the requested 90-day waiver period, it requests that the Commission require the CAISO to file within 12-months of the November 1, 2014 operations date an update of the status of third party participation. The CAISO notes that this information is publically available but it does not object to making the requested informational filing as noted above.

III. CONCLUSION

For the reasons discussed above, the CAISO asks that the Commission grant the CAISO's requested waiver consistent with the CAISO answer above.

Respectfully submitted,

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Dated: November 19, 2014

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each party listed on the official service list for this proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010 (2013)).

Dated at Folsom, CA, DC on this 19 day of November, 2014.

Anna Pascuzzo

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