

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

California Independent System) Docket No. ER15-2565-001
Operator Corporation)

**ANSWER OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR
CORPORATION TO COMMENTS OF POWEREX CORP.**

The California Independent System Operator Corporation (CAISO) submits this answer to the comments filed by Powerex Corp. (Powerex) on December 21, 2015 regarding the CAISO's November 31, 2015 compliance filing in this proceeding. Powerex contends that the CAISO's proposed tariff modifications fail to comply with the Commission's directives in its October 29 order accepting the CAISO's EIM transition period proposal.¹ Specifically, Powerex argues that the CAISO's proposed tariff language fails to effectuate the Commission's intent regarding relaxation of the Flexible Ramping Constraint during the six-month transition period for new EIM entities, and that an existing CAISO business practice manual provision will allow the CAISO to adjust the Flexible Ramping Constraint parameter more broadly than intended by the Commission.

Powerex's arguments are without merit. The CAISO's compliance filing proposes to modify its tariff to include the precise language directed by the Commission in its October 29 order, and Powerex's analogy to a previous

¹ *California Indep. Sys. Operator Corp.*, 153 FERC ¶ 61,104 (2015) ("October 29 Order").

Commission order regarding readiness criteria is inapt. Moreover, the business practice manual provision cited by Powerex is both beyond the scope of this proceeding and would not affect the treatment of the Flexible Ramping Constraint parameter during a new EIM entity's transition period. For these reasons, the Commission should reject Powerex's comments and approve the CAISO's compliance filing.

I. ANSWER

In its comments, Powerex alleges that the CAISO has failed to comply with the Commission's directive in the October 29 Order regarding the Flexible Ramping Constraint relaxation parameter. Powerex is wrong.

In the October 29 order, the Commission noted that in its answer to comments, the CAISO stated that additional specificity might be needed in its proposed tariff provisions regarding the circumstances under which the Flexible Ramping Constraint relaxation parameter may be set at a value between \$0 and \$0.01 during the transition period. In its answer the CAISO clarified that, under the proposal, the CAISO will set the Flexible Ramping Constraint relaxation parameter 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 relaxed, as is the case under the currently applicable waiver of tariff section 27.10. The Commission summarized the CAISO's explanation in paragraph 29 of the October 29 order. In paragraph 38, the Commission stated:

[w]e also accept, subject to condition, CAISO's proposed provisions allowing it to set the Flexible Ramping Constraint relaxation parameter at

an amount between \$0 and \$0.01 for the new EIM Entity's BAA, as this is necessary for CAISO's market software to determine the marginal energy bid price. Specifically, in order to establish pricing based on the last economic bid when constraints are relaxed in the scheduling run, CAISO must set the Flexible Ramping Constraint relaxation parameter to \$0, or a value close to zero, for the new EIM Entity BAA in the pricing run. Otherwise, the pricing run will establish prices based on the value of the Flexible Ramping Constraint relaxation parameter. Therefore, we find that this aspect of CAISO's proposal is necessary to effectuate the pricing mechanism proposed during the six-month period. *However, as CAISO acknowledges in its answer, proposed tariff section 29.7(b)(2) does not specify that the Flexible Ramping Constraint relaxation parameter will 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 relaxed. Based on the provisions that CAISO has proposed, transmission constraints and/or power balance constraints will still bind as system conditions warrant. However, during the proposed transition period, when those constraints bind, CAISO will not utilize the parameter pricing set out in its tariff, but rather utilize the last marginal bid to clear the market. To that end, the only intervals when the Flexible Ramping Constraint relaxation parameter would be set between \$0 and \$0.01 are those in which a transmission constraint and/or power balance constraint must be relaxed. Therefore, we accept CAISO's proposed tariff provision, subject to a further compliance filing within 30 days of the date of this order specifying in proposed tariff section 29.7(b)(2) that the Flexible Ramping Constraint relaxation parameter will be set between \$0 and \$0.01 only when the transmission and/or power balance constraints are relaxed during the transition period.*²

In its compliance filing, the CAISO did precisely what the Commission ordered. It added language to its tariff language specifying that it will set the Flexible Ramping Constraint relaxation parameter between \$0 and \$0.01 only when the transmission and/or power balance constraints are relaxed during the transition period.

² October 29 Order at P 29 (emphasis added).

Powerex refers to footnote 68 of the Commission's July 21, 2015 order in Docket No. ER15-861³ in support of its claim that the CAISO did not meet its compliance filing obligation because it failed to effectuate "the purpose and intent of the Commission's compliance directives."⁴ That order, however, is inapt and unrelated to the instant proceeding. In the July 21 order, the Commission found that the CAISO failed to comply with an earlier Commission order because the CAISO only repeated in its tariff the Commission's generic directive to develop measurable readiness criteria rather than including specific "measures or criteria" conditioning a potential EIM entity's entry into EIM.⁵ That situation is in stark contrast to the circumstances here where the CAISO stated explicitly in its answer to protests the conditions and language it would include in the tariff, the Commission directed the CAISO to include that specific language in the tariff, and the CAISO did so on compliance. The CAISO's compliance filing did not omit any language that the Commission directed it to include in its tariff. Therefore, Powerex's argument that the CAISO has failed to fully comply with the Commission's October 29 Order is invalid.

Powerex's argument that the CAISO's proposed language will not achieve the express limitation the Commission directed is also factually wrong. The CAISO has configured its systems so that effective December 1, 2015, with the integration of NV Energy, the flexible ramping constraint parameter will be set between \$0 or near \$0.01 only when the power balance or transmission

³ *California Indep. Sys. Operator Corp.*, 152 FERC ¶ 61,063 (2015).

⁴ Powerex Comments at 4.

⁵ 152 FERC at P 29.

constraint is relaxed. This corresponds exactly with the language the CAISO included in the tariff in compliance with the Commission's order.

Powerex's comments regarding Section 11.3.2.1 of the EIM Business Practice Manual (BPM) are outside the scope of this proceeding. This proceeding pertains to the application of the six-month transition period to new EIM entities after they start participating in the EIM. During the six-month transition period when the power balance or transmission constraints are relaxed in the new EIM entity's balancing authority area, the clearing price for imbalance energy will be based on the last marginal price, as specified in Section 29.27, as opposed to employing the parameters in Section 27.4.3. The tariff language accepted by the Commission and included by the CAISO in its compliance filing pertains to the setting of the flexible ramping constraint parameter in those specific cases. The procedure specified in Section 11.3.2.1 of the BPM pertains to different circumstances. As specified in that section, when the EIM entity fails the flexible ramping test, which is conducted each hour prior to the start of the applicable trading hour, the CAISO restricts additional EIM transfer imports into that EIM entity balancing authority area during the applicable trading hour.⁶ During that time, the CAISO also would set the market clearing price in the affected EIM Entity balancing authority area to the last economic bid cleared in

⁶ As explained in its answer to Powerex's supplemental filings in Docket ER15-861 filed on February 21, 2015, the CAISO modified its BPM in this manner to implement the requirements of tariff sections 29.34(m) and 29.34(n). Section 29.34(m) requires the CAISO to establish a minimum flexible capacity requirement amount, and Section 29.34(n) requires the CAISO, in operating the EIM, to prevent that EIM entity balancing authority area from obtaining flexibility from other balancing authority areas if the EIM entity fails the flexible ramping test. This is accomplished by limiting the amount of transfers to those in effect prior to the EIM entity failing the test.

the applicable 15-minute or five minute interval in the EIM entity's balancing authority area. That procedure is not related to the transition pricing or the setting of the flexible ramping constraint during the transition pricing.

Moreover, this BPM procedure does not prevent the ISO from complying with the requirements specified in the compliance filing. During the transition period the transition period pricing will apply whenever the power balance or transmission constraint is relaxed and not just when the EIM entity fails the flexible ramping test, which is when the BPM procedure applies.

The CAISO explained in its February 20, 2015, answer to comments that it used the BPM procedure in Section 11.3.2.1 only minimally during the first two weeks after PacifiCorp's joined the EIM because once the Commission-approved waiver of the CAISO's pricing parameters went into effect, the use of the last marginal bid per that waiver made it unnecessary to also apply the BPM procedure. The Commission subsequently granted the CAISO an additional waiver for the first two weeks of EIM operations, which means that the CAISO effectively never utilized the procedure during the term of the waiver. The BPM procedure would only be necessary when the EIM entity fails the flexible ramping sufficiency test, the power balance constraint or transmission constraint is relaxed, and the resulting penalty prices are applied. This never occurred during the term of the waiver because under the waiver, whenever the power balance or transmission constraints are relaxed, the CAISO sets the price at the next marginal price rather than the penalty price. As such, the BPM procedure became irrelevant. For these same reasons, during the transition period, any

time the power balance or transmission constraint is relaxed in a new EIM entity's balancing authority area, the price will be set at the marginal price, rather than the penalty price, and therefore there would be no need for the BPM procedure.

Moreover, The CAISO is also planning to eliminate the procedure in an upcoming BPM change so it will not be in effect when the available balancing capacity procedure is implemented. As such, Powerex's comments that the CAISO should make additional filings to implement the BPM procedure are moot. In October of 2014, when the CAISO determined it was necessary to adopt the BPM procedure, the CAISO did not yet have the available balancing capacity mechanism in effect. At that time, the CAISO did not have full and accurate visibility as to how the EIM entity would utilize available balancing capacity when it failed the sufficiency tests and was isolated. Therefore, the EIM could have settled based on false scarcities when in fact the EIM entity was not short of available balancing capacity. However, with the adoption of the available balancing capacity proposal, the CAISO market systems now can optimize the system by taking into consideration available balancing capacity the EIM entity might employ when isolated. This enables the CAISO markets to limit incremental EIM capacity when the EIM entity fails the flexible ramping test and isolate the EIM entity to avoid leaning on the CAISO system but at the same time reflect the use of the EIM entity's available balancing capacity. The requirement that the EIM entity identify such capacity ensures that EIM entity prices do not reflect false scarcity. Therefore, EIM pricing with the available balancing capacity

mechanism should reflect the actual supply state of the EIM consistent with the requirements in 29.34(n) of the CAISO tariff.

II. CONCLUSION

For the foregoing reasons, the CAISO requests that the Commission accept the CAISO's November 31 compliance filing and reject Powerex's comments.

Respectfully submitted,

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Dated: January 4, 2016

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 this 4th day of January, 2016.

/s/ Martha Sedgley
Martha Sedgley