

STATE OF CALIFORNIA
ELECTRICITY OVERSIGHT BOARD



Arnold Schwarzenegger, Governor

September 29, 2004

VIA E-MAIL FOR ELECTRONIC FILING

Honorable Magalie R. Salas, Secretary
Federal Energy Regulatory Commission
Dockets Room, Room 1A, East
888 First Street, N.E.
Washington, D.C. 20426

**RE: Complaint of California Electricity Oversight Board v. California
Independent System Operator, Docket No. EL04- -000**

Dear Ms. Salas:

The California Electricity Oversight Board hereby e-files the attached Complaint against the California Independent System Operator.

Thank you for your attention to this matter.

Sincerely,

/s/ *Erin R. Koch-Goodman*

Erin R. Koch-Goodman
Staff Counsel
California Electricity Oversight Board

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Electricity Oversight Board)	
)	
Complainant,)	
)	
v.)	Docket No. EL04- -000
)	
California Independent System)	
Operator Corporation)	
)	
Respondent.)	
)	
)	

COMPLAINT OF THE CALIFORNIA ELECTRICITY OVERSIGHT BOARD

Pursuant to Rule 206 of the Federal Power Act (FPA) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.206 (2004), the California Electricity Oversight Board (CEOB) files this Complaint against the California Independent System Operator Corporation (CAISO) seeking revisions of the CAISO Tariff and Operating Procedures to compel the use of Automatic Mitigation Procedures (AMP) in all hours where the Ex Post Price exceeds \$91.87/MWh.

I. Introduction

The CAISO in its Market Design 2002 (MD02) proposed an AMP that detects and automatically mitigates a resource's energy bid that violates an explicit bid threshold and has a material impact on market prices. In its June 17, 2002 Order on the California Comprehensive Market Redesign Proposal, FERC approved the CAISO's AMP subject to certain modifications. The Commission ordered the ISO to use AMP to mitigate local market power by including the following provisions: 1) directing that any bid below

\$91.87/MWh is not subject to any mitigation; 2) deeming that any bid above \$91.87/MWh that must be taken out of economic merit order to meet local reliability has failed the conduct test; and 3) deeming that any bid failing the conduct test and is either more than 200 percent greater than or \$50 higher than the market clearing price would be mitigated and the generator paid the higher of its reference price or the market clearing price. Moreover, the Commission ordered that mitigated bids are not eligible to set the market clearing price.

II. Correspondence and Communication

The principle office of the Board is located at 770 L Street, Suite 1250, Sacramento, California, 95814. All pleadings, orders, correspondence and communications regarding this Complaint should be directed to the following persons:

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770 L Street, Suite 1250
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¹ The CPUC hereby gives notice of intervention pursuant to Rule 214(a)(2).

III. Background

AMP evaluates potential changes to the projected real-time (RT) Ex Post Price based on the amount of Imbalance Energy the ISO expects to Dispatch. The CAISO runs AMP before Imbalance Energy is Dispatched. The CAISO uses Hourly Ex Post Prices to predict the RT Market Clearing Price (MCP) because the CAISO's current software systems does not allow the CAISO to mitigate a bid in one BEEP Interval within an hour but not another (i.e., bids are mitigated for a full hour). Under the current market power mitigation measures ordered by the Commission, AMP is not to be implemented unless the price is **predicted** to be greater than \$91.87/MWh. In other words, bids will be subject to the AMP Conduct and Impact Tests only in the case that the real-time market-clearing price is expected to exceed \$91.87/MWh in any zone in any interval during the hour of operation. Due to operational system limitations, this predictive "price screen" is effectively applied 53 minutes prior to the hour of operation based on the projected imbalance energy dispatch for that hour of operation. This means that if AMP is not triggered due to an expected price greater than \$91.87/MWh in the next hour at 53 minutes before that hour, AMP will not be triggered at all for the next hour, even if a contingency occurs after 53 minutes before the beginning of the hour that causes the actual price to be greater than \$91.87/MWh (an interval of time of one hour and 53 minutes). Furthermore, the price prediction algorithm, which is imperfect, suffers from "false-positive" and false-negative" type errors.

IV. Statement of Facts

On June 21, 2004, at 6:21 a.m., a northern California thermal unit tripped off-line. At 6:33 a.m., another unit within NP15 tripped off-line, creating a frequency deviation of

59.901 Hz. The CAISO dispatched all available resources in northern California to recover because Path 15 was congested in the hour-ahead forward market in the South-to-North direction. Consequently, the real-time incremental price spiked to \$210/MWh between 6:30 a.m. and 7:00 a.m. This price was set by a hydro resource that had a reference level of approximately \$17.50/MWh. However, the predictive price screen threshold precluded AMP from being implemented because the spike could not have been predicted prior to the beginning of the hour.

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IV. Discussion

The CAISO must have sufficient mitigation tools and rules to prevent unjust and unreasonable rates. AMP should give the CAISO the ability to mitigate the market effects of any conduct that would substantially distort competitive outcomes in the CAISO Real Time Market, but not mandate unnecessary interference with competitive price signals.

The CEOB cites the June 21, NP 15 example less for the magnitude of cost but more because of the inherent flaw with the system of AMP. Under the current market power mitigation measures ordered by the Commission, AMP is not to be implemented unless the price is predicted to be greater than \$91.87/MWh. However, a price predicting algorithm is more likely to predict a market outcome that exceeds the \$91.87 screen during times when market fundamentals suggest the predicted price is competitive. During times when unusual or unexpected market conditions provide the opportunity to exercise market power, the prediction algorithm is unlikely to predict a price in excess of

the \$91.87 screen. It is these situations that AMP should be run to determine if market power is being exercised.

The CEOB believes that AMP should be run in all hours where the Ex Post Price exceeds \$91.87/MWh, not only in the hours the price is predicted to be greater than \$91.87/MWh. To run AMP in all hours the Ex Post Price exceeds \$91.87/MWh is nondiscriminatory. Bids above \$91.87/MWh would be subject to mitigation without regard to unit representation or underlying unit bid behavior.

Furthermore, the AMP triggering dollar amount of \$91.87 is a relic from the energy crisis and a poor indicator of a fair energy price in each and every hour in a dynamic market. The concept of only looking at bids above a certain point is an artifact of what was done during the energy crisis, and at a time when there were pending investigations and potential refunds, to create a damage control mechanism. Even if \$91.87/MWh is an appropriate price for evaluating competitive bids in some hours, it is clearly a multiple of competitive prices in other hours. As a result, the CEOB urges the Commission to direct the CAISO, Department of Market Analysis (DMA), to investigate and report to the Commission on whether a financial break point for AMP should be more rationally set (e.g. the price cap rationally related to the time period that it applies).

Going forward under MD02 (newly titled Market Redesign and Technology Upgrade - MRTU), the CAISO has set in motion a stakeholder process to obtain ideas and feedback on new and potentially different market power mitigation. In the interim and prior to implementation of MRTU, the CEOB believes that AMP must be altered to protect the market.

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V. Conclusion and Request For Relief

As a means of nondiscriminatory market power mitigation, the Commission should direct the CAISO to run AMP in all hours the Ex Post Price exceeds \$91.87/MWh. In addition, the CEOB urges the Commission to direct the CAISO DMA to investigate and report to the Commission on whether a different financial break point for AMP should be more rationally set.

September 29, 2004

Respectfully submitted,

/s/ Erin R. Koch-Goodman

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² On May 6, 2003, the CEOB and CPUC filed a joint intervention and comments in support of the CAISO's Amendment No. 51.

³ Motion for Leave to File Answer and Answer of the California Independent System Operator Corporation to Motions to Intervene, Comments and Protests (May 21, 2003) filed in ER03-746.

Attorneys for the
Oversight Board
California Electricity

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Electricity Oversight Board)
Complainant,) Docket No. EL04- -000
v.)
California Independent System)
Operator Corporation)
Respondent)

Notice of Filing

(, 2004)

Take notice that on, 2004, the California Electricity Oversight Board (CEOB) tendered for filing with the Federal Energy Regulatory Commission (Commission) pursuant to Rule 206 of the Commission's Rules of Practice and Procedure, 18 CFR, §385.206, a Complaint Requesting Relief. CEOB filed the Complaint against California Independent System Operator Corporation (CAISO) and requests the Commission direct the CAISO to run Automatic Mitigation Procedures (AMP) in all hours the Ex Post Price exceeds \$91.87/MWh. In addition, the CEOB urges the Commission to direct the CAISO

Department of Market Analysis to investigate and report to the Commission on whether a different financial break point for AMP should be more rationally set.

Any person desiring to intervene or to protest this filing should file with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (§385.211 and §385.214). Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party must file a motion to intervene. All such motions or protests should be filed on or before the comment date, and, to the extent applicable, must be served on the applicant and on any other person designated on the official service list. This filing is available for review at the Commission or may be viewed on the Commission's web site at <http://www.ferc.gov>, using the "FERRIS" link. Enter the docket number excluding the last three digits in the docket number field to access the document. For assistance, contact FERCOOnlineSupport~ferc.gov or toll-free at (866) 208-3676, or for TTY, contact (202) 502-8659.

Protests and interventions may be filed electronically via the Internet in lieu of paper; see 18 CFR 385.2001(a)(IXiii) and the instructions on the Commission's web site under the "e-Filing" link. The Commission strongly encourages electronic filings.

Comment Date: ,2004

Magalie R. Salas
Secretary

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing original complaint upon the attached list of parties below per Title 18 CFR §385.206 on September 29, 2004.

Charlie Robinson California Independent System Operator
Vice President and Chief Counsel
California Independent System Operator
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Arcoles Aguilar California Public Utilities Commission
California Public Utilities Commission
505 Van Ness Ave Rm 5138
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Magalie Salas, Secretary Federal Energy Regulatory Commission
Federal Energy Regulatory Commission
888 First Street, N.E. LJ1
Washington, DC 20426

Dated at Sacramento, California, this 29th day of September, 2004.

/s/ *Larry Cook*

Larry Cook
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