149 FERC ¶ 61,284
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Cheryl A. LaFleur, Chairman;
Philip D. Moeller, Tony Clark,
and Norman C. Bay.

California Independent System Operator Corporation Docket Nos. ER15-15-000
ER15-15-001

ORDER ACCEPTING PROPOSED TARIFF REVISIONS
AND DIRECTING INFORMATIONAL FILING

(Issued December 30, 2014)

1. In this order, we accept proposed amendments (October 1 Filing) filed by the California Independent System Operator Corporation (CAISO) under section 205 of the Federal Power Act (FPA)[1] to provisions in the CAISO tariff regarding recovery of start-up and minimum load costs effective December 31, 2014. We also direct CAISO to submit an informational report, as discussed below.

I. Background

2. In determining which generating resources to commit in the day-ahead market, CAISO considers, among other things, start-up costs (i.e., the costs of starting up resources) and minimum load costs (i.e., the costs of running resources at their minimum operating levels).[2] CAISO's tariff currently provides scheduling coordinators participating in the CAISO markets with the choice to calculate start-up and minimum load costs for the resources they schedule using either a proxy cost option or a registered cost option. Under the proxy cost option, resources recover start-up and minimum load costs consisting of cost components specified in the tariff that reflect the resources' actual unit-specific performance parameters.[3] A resource subject to the proxy cost option can

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[1] 16 U.S.C. § 824d (2012).

[2] October 1 Filing at 4.

[3] CAISO Tariff, section 30.4.1.1.1.

submit daily bids for its start-up and minimum load costs that are between zero and a cap of 100 percent of the proxy cost calculated under CAISO's tariff.[4]

3. The registered cost option allows scheduling coordinators to register, for a 30-day period, fixed start-up and minimum load cost values of their choosing for each resource they represent, subject to a cost cap set at 150 percent of the projected proxy cost.[5] CAISO explains that the registered cost option is less flexible than the proxy cost option, because it does not incorporate daily gas costs or allow for daily bidding of commitment costs.[6]

4. CAISO uses a natural gas price index to calculate start-up and minimum load costs for natural gas-fired resources under the proxy cost option.[7] CAISO calculates the natural gas price index between 7:00 PM and 10:00 PM Pacific Time using up to four (but at least two) natural gas price indices published that day by Natural Gas Intelligence, SNL Energy/BUT's Daily Gas Wire, Platt's Gas Daily, and the Intercontinental Exchange (ICE).[8] CAISO then uses this gas price index in the next day's day-ahead market run for the following trading day (i.e., two days from the day on which the prices were published), as well as the next day's real-time market.

5. CAISO explains that the markets it administers experienced uncharacteristically high and volatile natural gas prices during certain days in December 2013 and January-February 2014. In particular, CAISO notes that between the evening of February 5 and morning of February 6, 2014, natural gas prices in California increased by about

[4] October 1 Filing at 5. CAISO Tariff, sections 30.7.9, 30.7.10 (addressing the format and validation of start-up and minimum load costs).

[5] October 1 Filing at 5.

[6] *Id*. at 6.

[7] CAISO also uses the natural gas price index to calculate: (1) variable cost energy bids for resources subject to local market power mitigation and for settling exceptional dispatches and residual imbalance energy; and (2) generated bids used when a scheduling coordinator does not submit a bid for a resource that is subject to a must-offer requirement. *Id*. at 4 n.7, 6.

[8] *Id*. at 5.

300 percent.[9] CAISO asserts that these sudden price increases were not reflected in either the proxy cost or registered cost calculation of start-up and minimum load costs. Consequently, CAISO reports that its day-ahead market ended up committing more resources at their minimum load than would have been warranted by commitment costs reflecting the higher natural gas prices, and the resources committed in the day-ahead market had difficulty recovering their actual costs of procuring natural gas from energy revenues at the locational marginal price.

6. As a result of this volatility, CAISO filed a petition with the Commission in March 2014 seeking limited waiver of the calculation of natural gas prices in section 39.7.1.1.1.3 of its tariff to permit CAISO to execute and settle the market using a gas price published on the morning of the day-ahead market run, rather than the prior evening's calculated gas price index, in the event of a significant price spike.[10] Specifically, CAISO proposed to replace the natural gas price index calculated pursuant to section 39.7.1.1.1.3 with the gas price reported by ICE in its day-ahead market cost formulas and market processes, whenever the daily gas price reported by ICE on the morning of the day-ahead market run exceeded the natural gas price index calculated the previous evening by 150 percent. CAISO notes that, of the four publications it uses to calculate the natural gas price index, ICE publishes gas prices the earliest in the day (almost always by 10:01 AM, and no later than noon) and generally around the time that CAISO's day-ahead market closes.[11] CAISO also sought waiver of section 30.4.1.2 of its tariff (Registered Cost Option) to allow resources subject to the registered cost option to switch to the proxy cost option temporarily until gas prices decreased (i.e., instead of being required to remain under the registered cost option for the remainder of the applicable 30-day period, and then to switch to the proxy cost option for a minimum of 30 days).

7. On March 21, 2014, the Commission issued an order granting the waivers until April 30, 2014, as requested by CAISO.[12] As indicated in its waiver petition, CAISO subsequently initiated a stakeholder process to address the issues raised by volatile gas

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[9] *Id*. at 7.

[10] Petition for Limited Waiver of Tariff Provisions, Request for Shortened Comment Period, and Request for Expedited Commission Action by March 19, 2014, Docket No. ER14-1440-000 (Mar. 6, 2014).

[11] October 1 Filing at 5, 8.

[12] *Cal. Indep. Sys. Operator Corp.*, 146 FERC ¶ 61,218 (2014).

market conditions and develop tariff solutions. CAISO represents that the tariff revisions in the instant filing, which resulted from that stakeholder process, are supported by the Department of Market Monitoring, supported as a near-term solution by the Market Surveillance Committee, and generally supported with qualifications by stakeholders.[13]

II. CAISO's Filing

8. In this filing, CAISO seeks to implement the same changes that were approved in response to the previous temporary waiver petition—with some modifications—on a permanent basis, and proposes two additional revisions that it asserts will allow scheduling coordinators to more effectively manage their resources and enable the markets to better reflect volatility in natural gas prices. First, CAISO proposes to increase the existing proxy cost bid cap from 100 percent of the resource's calculated proxy cost to 125 percent.[14] CAISO argues that this revision is just and reasonable because it will provide additional flexibility for scheduling coordinators to account for commitment costs not included in the proxy cost calculation, while also providing reasonable protection against the exercise of market power.[15] According to CAISO, the proposed cap also will account for variations in other resource-specific costs, such as variable operation and maintenance expenses and greenhouse gas costs. Based on an analysis of gas price increases and stakeholder information, CAISO has concluded that the increased cap should be sufficient to cover almost all gas price volatility between the day-ahead gas price index and intra-day gas prices. CAISO explains that resources will be able to recover their natural gas costs in the event of an extraordinary spike in natural gas prices, because its proposal includes a provision where CAISO will use the single gas price published in the morning in the day-ahead market when it exceeds the gas price index calculated on the previous evening by more than 125 percent.[16]

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[13] October 1 Filing at 8-9.

[14] *Id*. at 9-11.

[15] *Id*. at 10.

[16] CAISO states that there have been only seven days when natural gas prices have increased by more than 125 percent from the previous evening's natural gas price index between April 2009 and the submission of its filing. *Id*.

9. CAISO also proposes to eliminate the registered cost option for all resources except use-limited resources.[17] CAISO states that elimination of the registered cost option is just and reasonable because this option would be rendered largely obsolete by the proposed revisions to the proxy cost methodology. Under the registered cost option, resources are required to stay on the same bid for a month and cannot compensate for temporary system changes. Therefore, CAISO states that the registered cost option can lead to inefficient resource commitment decisions because monthly future gas prices do not reflect natural gas price spikes, such as the spike that occurred in February 2014. CAISO reports that it also performed an analysis which demonstrated that scheduling coordinators can better manage gas price fluctuations under the proxy cost methodology, due to the extra headroom to reflect gas volatility afforded by the proposed 125 percent proxy cost option cap.[18] Moreover, CAISO asserts that revising the registered cost methodology to make it more responsive to fluctuations in natural gas prices would likely require reducing the 30-day period for electing a method for calculating start-up and minimum load costs, which could lead to concerns about manipulative bidding unless the registered cost option cap was reduced commensurate with the 125 percent cap in CAISO's current proposal. CAISO maintains that using a single, effective option—i.e., the proxy cost methodology—for all resources other than use-limited resources is preferable to modifying the registered cost option and will help to streamline CAISO's existing processes.[19]

10. As noted above, however, CAISO proposes to retain the registered cost option for use-limited resources, which do not operate continuously and usually only come online when demand on the system is greatest.[20] Because such resources operate at limited intervals, CAISO explains that the opportunity cost for their use can be greater than the proposed 125 percent cap. CAISO submits that it is therefore appropriate for use-limited resources to retain the registered cost methodology, with its existing 150 percent cap,

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[17] *Id*. at 11-13. Per the proposed revisions to the definition of "Use-Limited Resource" in Attachments A and B of the October 1 Filing, use-limited resources are resources that, due to design considerations, environmental restrictions on operations, cyclical requirements (such as the need to recharge or refill), or other non-economic reasons, are unable to operate continuously.

[18] *Id*. at 12.

[19] *Id*. at 12-13.

[20] *Id*. at 13.

until CAISO can implement new provisions to enable use-limited resources to bid their opportunity costs directly, which CAISO expects to happen before the 2015-2016 winter season.

11. CAISO's proposal also includes a mechanism, similar to the mechanism temporarily accepted in its waiver petition, to use and update the natural gas price in the day-ahead market to deal with unexpected natural gas price spikes.[21] Specifically, proposed section 39.7.1.1.1.3(b) provides that CAISO will use the ICE natural gas price in all CAISO cost formulas and market processes for that day's day-ahead market that would otherwise use the natural gas price index, if, on the morning of the day-ahead market run, the daily price reported by ICE exceeds 125 percent of any natural gas price index calculated for the day ahead market between 7:00 PM and 10:00 PM Pacific time.[22] CAISO states that its proposal in the October 1 Filing uses a lower threshold for determining when to substitute the ICE natural gas price than the 150 percent cap used in the proposal found just and reasonable in the Commission's order on the waiver. CAISO explains that, based on its findings that gas prices have only rarely spiked by more than 125 percent in recent years, it has determined that the 125 percent cap would strike an appropriate balance between providing resources a reasonable opportunity to recover their fuel costs and protecting against the potential exercise of market power until such time as a more dynamic market power mitigation mechanism can be developed and implemented explicitly for commitment costs.[23] CAISO recognizes that load-serving entities may bear increased costs when the alternative natural gas price is triggered, but asserts that this outcome is both rare and justified by the benefit of more accurate cost recovery calculations.[24]

12. As in the waiver petition, CAISO proposes to revise section 30.4.1.2 of its tariff to address switching a resource from the registered cost methodology to the proxy cost methodology in the event that the alternative natural gas price is triggered.[25] CAISO states that it is revising the tariff to state that if the alternative natural gas price is

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[21] *Id.* at 14-17.

[22] *Id.* at 14.

[23] *Id.* at 14-15.

[24] *Id*. at 15.

[25] *Id*. at 17-18.

triggered, and if a use-limited resource's start-up costs and minimum load costs calculated pursuant to the proxy cost methodology using the alternative gas price exceeds the value registered in the master file, then CAISO will switch the use-limited resource to the proxy cost methodology. Any use-limited resource thereby switched to the proxy cost methodology will revert to the registered cost methodology when the use-limited resource's alternative proxy cost calculation no longer exceeds the value registered using the registered cost methodology.[26] CAISO argues that requiring use-limited resources to switch to the proxy cost methodology under certain circumstances will also ensure efficient dispatch of resources and permit the CAISO markets to reflect accurate costs for all resources in the event of a natural gas price spike.

13. CAISO also proposes several clarifying revisions to its tariff. These revisions include referencing the tariff instead of the business practice manual regarding natural gas values in section 39.7.1.1.1.3, distinguishing between natural gas-fired resources and non-natural gas fired resources in relation to the proxy cost methodology, revising the definition of "Use-Limited Resource" to remove language that could be read to suggest that a use-limited resource must be able to operate on every trading day and to clarify that the definition is not limited to resource adequacy resources, and correcting certain typographical errors.[27]

14. CAISO states that stakeholders generally have expressed support for the proposed tariff revisions, but notes that some stakeholders requested modifications to the proposal.[28] CAISO requests that the Commission accept the proposed tariff revisions effective as of December 1, 2014.[29]

III. <u>Notice and Responsive Pleadings</u>

15. Notice of CAISO's filing was published in the *Federal Register*, 79 Fed. Reg. 61,073 (2014), with interventions and protests due on or before October 22, 2014. Timely motions to intervene were filed by Dynegy Moss Landing, LLC, Dynegy Oakland, LLC and Dynegy Marketing and Trade, LLC; Exelon Corporation; Northern

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[26] *Id.* at 17.

[27] *Id.* at 18-19.

[28] *Id*. at 19-22.

[29] *Id*. at 22.

California Power Agency; the Modesto Irrigation District; Powerex Corporation; and California Department of Water Resources State Water Project. Timely motions to intervene and comments were filed by Pacific Gas and Electric Company (PG&E); Southern California Edison Company (SoCal Edison); NRG Power Marketing LLC and GenOn Energy Management, LLC (NRG Companies); and the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (Six Cities). Western Power Trading Forum (WPTF) filed a timely motion to intervene and limited protest. On October 31, 2014, 2014, CAISO filed a motion for leave to answer and answer.

A. Initial Pleadings

16. Commenters generally support CAISO's efforts to address natural gas price fluctuations.[30] SoCal Edison expressly supports: (1) CAISO's proposal to retain the registered cost option for use-limited resources pending development of a new process to include the opportunity costs of use-limited resources in the proxy cost bid calculation; (2) the proposed clarifying edits to the definition of "Use-Limited Resource"; and (3) the proposed mechanism to use and update the natural gas price in the day-ahead market in the event of a sudden increase in natural gas prices.[31]

17. PG&E and Six Cities support CAISO's proposed tariff revisions, but request an additional modification initially raised in the stakeholder process.[32] Specifically, these parties ask that the Commission require CAISO to modify its proposal such that CAISO would be required to manually update the gas price for *decreases* in natural gas prices of 25 percent or more, instead of only for natural gas price increases.[33] PG&E maintains, and Six Cities agree, that this approach would not inhibit generators' ability to recover their natural gas costs, but would protect load against the potential for artificially inflated energy prices and uplift costs due to volatile natural gas prices.[34] PG&E also argues that,

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[30] WPTF Limited Protest at 3; PG&E October 22 Comments at 3; SoCal Edison Comments at 2; NRG Companies October 22 Comments at 5; Six Cities October 22 Comments at 1.

[31] SoCal Edison Comments at 2-3.

[32] PG&E October 22 Comments at 3-6; Six Cities October 22 Comments at 1-3.

[33] PG&E October 22 Comments at 3; Six Cities October 22 Comments at 2-3.

[34] PG&E October 22 Comments at 3; Six Cities October 22 Comments at 3.

contrary to CAISO's assertions, generators do not always have an economic incentive to bid below the proxy cost cap when gas prices suddenly decrease. PG&E calculates that the decrease in gas prices between February 6 and February 7, 2014 resulted in CAISO load being subject to approximately $7.7 million in excess costs.[35] PG&E contends that the implementation impact of this revision would be small, as gas prices have only decreased by 25 percent or more three times since implementation of CAISO's new market structure in 2009.[36]

18. NRG Companies support CAISO's proposal as "a step in the right direction," but request that the Commission direct CAISO to file a more permanent solution by September 1, 2015, for a November 1, 2015 effective date.[37] NRG Companies report that they incurred approximately $5 million in unrecoverable natural gas costs due to the events of December 7-11, 2013 and February 6-10, 2014.[38] NRG Companies note that CAISO originally characterized the provisions in the waiver petition (i.e., the substitution of the ICE natural gas price and the ability to switch from the registered cost option to the proxy cost option during a natural gas price spike) as an interim solution, and stated that it would comprehensively reexamine its bidding rules in 2014, which it has not yet done.[39] NRG Companies assert that the current proposal is not just and reasonable as a long-term solution, because the 125 percent proxy cost bid cap may not allow generators to recover fuel costs in all situations.[40] In addition, NRG Companies contend that the use of the day-ahead ICE price index during natural gas price spikes provides no guidance for marginal generators regarding what, or if, to procure during real-time price spikes.[41] NRG Companies suggest that one potential long-term solution might be a bidding methodology that sets a soft bidding cap of 125 percent of proxy costs, but allows

[35] PG&E October 22 Comments at 4.

[36] *Id*. at 6.

[37] NRG Companies October 22 Comments at 1-2, 5-7.

[38] *Id*. at 4, 5.

[39] *Id*. at 4, 7.

[40] *Id*. at 6.

[41] *Id*. at 6-7.

generators to increase their bids in unique situations where the generators' costs exceed the cap.[42]

19. In its limited protest, WPTF asserts that CAISO's proposal does not sufficiently address market distortion due to natural gas price volatility because the proposal does not account for intra-day gas prices.[43] According to WPTF, CAISO's proposal fails to compensate suppliers when actual next-day gas prices exceed those assumed by CAISO in the bid cost recovery formulae, and also does not compensate suppliers who buy gas based on day-ahead market results or exceptional dispatch instructions and later have to sell the gas at a loss when CAISO does not operate the unit to the day-ahead schedules or instructions.[44] WPTF thus advocates that CAISO should be required to implement supplier-based bidding of start-up and minimum load costs, with the ability to update these bids intra-day, similar to the approach employed in other markets. WPTF requests that the Commission direct CAISO to make a compliance filing reflecting this approach by June 2015.

20. In its answer, CAISO argues that the Commission should reject PG&E's and Six Cities' requests to use updated natural gas price data for sudden decreases in natural gas prices, as well as requests by WPTF and NRG Companies that CAISO be required to submit a further filing by a date certain. CAISO reiterates that the proposed 125 percent proxy cost bid cap acts as a ceiling, not a floor, and asserts that generators will have a sufficient incentive to lower their bids to avoid pricing themselves out of the market in the event that natural gas prices decrease significantly overnight.[45] Given that there have been only three instances of overnight decreases in natural gas prices of 25 percent or more in the past five years, CAISO contends that the *de minimis* risk of sudden drops in natural gas prices resulting in inflated start-up and minimum load bids does not justify the administrative burden to CAISO and disruption to the day-ahead market of manually recalculating gas prices.[46] Additionally, CAISO asserts that PG&E's claim that CAISO load overpaid on February 7, 2014 is flawed because: (1) PG&E's analysis conflates the

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[42] *Id*. at 7.

[43] WPTF Limited Protest at 3-5.

[44] *Id*. at 4.

[45] CAISO Answer at 4-5.

[46] *Id*. at 5.

system head rate with minimum load costs, while failing to account or control for other factors that could have caused higher prices; and (2) even if default energy bids were inflated, they should not have impacted prices, because CAISO did not apply local market power mitigation and mitigate any bids on that date.[47]

21. CAISO maintains that it has demonstrated that the proposed modifications are just and reasonable, and that WPTF and NRG Companies have not met their burden of demonstrating that further modifications are warranted under section 206 of the FPA.[48] CAISO invites WPTF and NRG Companies to raise their concerns in the bidding rules stakeholder process, scheduled to begin at the end of 2014, and asserts that requiring, or setting a deadline for, further tariff revisions would be premature at this time.[49]

B. Deficiency Letter and Responsive Pleadings

22. On November 6, 2014, Commission staff issued a deficiency letter directing CAISO to provide additional information about its proposed revisions to the start-up and minimum load recovery tariff provisions. On November 25, 2014, CAISO filed its response to the deficiency letter (Deficiency Response). Notice of CAISO's Deficiency Response was published in the *Federal Register*, 79 Fed. Reg. 71,991 (2014), with interventions and protests due on or before December 5, 2014. Timely comments on the Deficiency Response were filed by NRG Companies, PG&E, Six Cities, and Northern California Power Agency. On December 8, 2014, CAISO filed a limited answer to PG&E's comments on the Deficiency Response.

23. In its Deficiency Response, CAISO requests that the Commission approve the rate revisions proposed in the October 1 Filing as soon as possible to allow the revisions to go into effect on December 9, 2014, or as soon thereafter as possible.[50] CAISO states that its proposal does not represent a significant departure from its current start-up and minimum load cost recovery mechanism, but is rather an "incremental improvement," "combin[ing] the best features of the proxy cost and registered cost options," that can be

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[47] *Id*. at 5-6.

[48] 16 U.S.C. § 824e (2012).

[49] CAISO Answer at 8-10.

[50] CAISO Deficiency Response at 1-2.

implemented in time for winter 2014-2015 while CAISO and its stakeholders consider new bidding rules.[51]

24. In support of the proposed 125 percent proxy cost bid cap, CAISO provides a corrected and expanded version of the day-over-day analysis submitted in its October 1 Filing,[52] as well as analyses related to intra-day gas purchasing costs.[53] CAISO asserts that these analyses show that some bidding headroom is appropriate to allow resources to recover costs associated with day-over-day and intra-day gas price volatility, but that a higher cap is not necessary given the relative rarity of gas price increases greater than 25 percent.[54] CAISO explains that switching to the ICE price when the 125 percent natural gas price threshold is triggered instead of increasing the proxy price cap would not be appropriate because this price would not include bidding headroom to allow resources to account for costs that vary from the calculated proxy cost, and that using the ICE price every day would be too administratively burdensome.[55]

25. CAISO further explains that CAISO's proxy cost formula currently does not account for gas-related costs other than commodity and transportation costs, such as costs associated with intra-day gas purchases, hedging costs, and other risk premiums, as well as certain non-gas-related variable costs.[56] CAISO states that the standard resource-specific costs used to calculate proxy cost "do not, and cannot, perfectly reflect day-to-day variations in the actual costs incurred by generators," but contends that the proxy cost option, in conjunction with the proposed 125 percent cap, strikes a reasonable balance between cost causation and administrative feasibility, while providing resources with sufficient flexibility to recover their costs.[57]

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[51] *Id*. at 4.

[52] *Id*., Attachment A.

[53] *Id*., Attachment B.

[54] *Id*. at 6-8.

[55] *Id*. at 9.

[56] *Id*. at 10-11.

[57] *Id*. 12-14.

26. Finally, CAISO claims that, while raising the bid cap to 125 percent may allow the potential exercise of local market power in some cases, the proposal should actually reduce the potential exercise of market power, because most resources that may at some time have local market power can currently submit start-up and minimum load bids up to 150 percent of their estimated costs under the registered cost option.[58] CAISO notes that the Department of Market Monitoring has indicated that the proposal will provide for an effective level of market power mitigation while improving opportunities for generators to recover their gas costs.

27. NRG Companies, PG&E, Six Cities, and Northern California Power Agency each support CAISO's request for acceptance of its proposal on an expedited basis.[59] NRG Companies state that, while they do not agree with all of the assertions in the Deficiency Response, they strongly support CAISO's proposal as an important step in the right direction that should be implemented as soon as possible given the imminent threat of future gas price spike events.[60] PG&E points out that gas storage levels currently are lower than they were at this time last year, and that there have been recent freeze-offs in the Rocky Mountains.[61] PG&E therefore requests that the Commission approve the October 1 Filing, but require CAISO to submit a report within one year to address any outstanding concerns with the proposal. Similarly, Six Cities note that one of the more severe natural gas price spikes of the 2013-2014 winter season occurred on December 10, 2013, and argue that timely implementation of CAISO's proposal is necessary to protect reliability and avoid inefficient dispatch and commitment of resources in the event of a similar natural gas price spike.[62] Finally, Northern California Power Agency explains, for the purpose of clarification, that Attachment A of the October 1 Filing characterizes

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[58] *Id*. at 15-16.

[59] NRG Companies November 26 Comments at 1-2; PG&E December 2 Comments at 1-2; Six Cities December 4 Comments at 3; Northern California Power Agency December 5 Comments at 1.

[60] NRG Companies November 26 Comments at 1-2.

[61] PG&E December 2 Comments at 1.

[62] Six Cities December 4 Comments at 3.

the price increase over the prior day by adding 100 percent, whereas other portions of the October 1 Filing simply identify the percentage increase over the prior day's price.[63]

28. In its limited answer, CAISO asks the Commission to deny PG&E's recommendation to require CAISO to submit a report within one year. CAISO submits that a reporting obligation is not needed because "it is not at all clear to the CAISO what the Commission's concerns are, or if any still remain" after the Deficiency Response, and because CAISO is already subject to other reporting requirements and thus should not be further burdened absent "very specific concerns."[64] In addition, CAISO states that it expects the process of updating the master file listings of non-use-limited resources currently using the registered cost option to reflect the move to the proxy cost option to take three business days (instead of the five to ten business days permitted in CAISO's tariff).[65]

IV. Discussion

A. Procedural Matters

29. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2014), the timely, unopposed motions to intervene serve to make the entities that filed them parties to the proceeding.

30. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2014), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept CAISO's answers because they have provided information that assisted us in our decision-making process.

B. Commission Determination

31. We find that the proposed revisions to CAISO's start-up and minimum load cost recovery tariff provisions are just and reasonable, and represent an improvement over the existing commitment cost recovery mechanism in CAISO's tariff. CAISO has demonstrated that its proposal will reduce the potential for inefficient commitment and dispatch of resources due to out-of-date natural gas costs and will help protect resources

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[63] Northern California Power Agency December 5 Comments.

[64] CAISO December 8 Limited Answer at 4-5.

[65] *Id*. at 2-4.

from unrecoverable start-up and minimum load costs during the upcoming winter season. Consistent with CAISO's request to permit the tariff provisions to go into effect on December 9, 2014 or as soon thereafter as possible, and to avoid any potential conflicts with the currently-effective cost recovery tariff provisions, we will therefore accept these tariff revisions effective December 31, 2014. We note that California does not appear to have experienced any day-over-day natural gas price increases of 125 percent or more in the period between December 9, 2014 and the present. In accepting this filing, we note that the proposal is the result of discussions with stakeholders during the commitment cost enhancements stakeholder process and that intervenors generally support CAISO's proposal as an improvement over the current commitment cost recovery mechanism.

32. While we agree with CAISO that the current proposal represents an immediate improvement that can be implemented in time to provide generators a better opportunity to recover their costs during periods of natural gas price volatility that may occur during the 2014-2015 winter season,[66] we expect CAISO to abide by its commitment to consider longer-term market design changes for commitment cost bids in conjunction with the bidding rules enhancements stakeholder initiative commenced earlier this month.[67] Consistent with CAISO's commitment in its Deficiency Response, such stakeholder process should explore the need for changes to the proxy cost formula to better reflect the non-gas-related variable costs that CAISO states are currently captured in the "headroom" afforded by the 125 percent proxy cost cap.

33. Furthermore, we strongly encourage CAISO to file any tariff revisions resulting from this stakeholder process sufficiently in advance of the 2015-2016 winter season to permit Commission review and implementation prior to the onset of cold weather. To that end, we direct CAISO to file by August 1, 2015, an informational report regarding the status of the stakeholder process, if CAISO has not already submitted relevant tariff revisions.[68] To provide stakeholders and the Commission with information about how the instant proposal is working in practice, such report should also include data from winter 2014 through summer 2015 indicating the frequency of bids submitted at or near

[66] *See* Deficiency Response at 4, 11, 14.

[67] Materials regarding the bidding rules enhancements initiative are available at http://www.caiso.com/informed/Pages/StakeholderProcesses/BiddingRulesEnhancements.aspx.

[68] This report is for informational purposes only and will not be noticed for comment or require Commission action.

the 125 percent proxy cost cap, as well as incidences of day-to-day or intra-day natural gas price spikes.

34. Finally, having found CAISO's current proposal to be just and reasonable, we do not believe that requiring CAISO to change its proposal as suggested by PG&E, Six Cities, WPTF, and NRG Companies to be necessary at this time. However, we expect CAISO and its stakeholders to explore these commenters' proposals in the bidding rules stakeholder initiative, and to include a description of the discussion with respect to these proposals in the informational report discussed above.

The Commission orders:

(A) CAISO's filing is hereby accepted, effective December 31, 2014, as discussed in the body of this order.

(B) CAISO is hereby directed to file an informational report by August 1, 2015, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.