

174 FERC ¶ 61,137
FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426

February 22, 2021

In Reply Refer To:
California Independent System
Operator Corporation
Docket No. ER21-1164-000

California Independent System
Operator Corporation
250 Outcropping Way
Folsom, CA 95630

Attention: Roger E. Collanton

Dear Mr. Collanton:

1. On February 17, 2021, pursuant to section 205 of the Federal Power Act¹ and in response to exigent circumstances in the western United States, California Independent System Operator Corporation (CAISO) submitted a request to accelerate the effective date of revisions to section 30.12.1 of its Open Access Transmission Tariff (Tariff), which the Commission previously accepted² as complying with parts of Order No. 831.³ CAISO therefore proposes further revisions to Tariff section 30.12.1(b) for an interim period until it can implement the remaining Order No. 831-compliant Tariff provisions on or before March 21, 2021. This proposed revision to section 30.12.1 permits resources' after-the-fact recovery of energy costs that exceed CAISO's existing \$1,000/MWh cap on energy bids. In this order, we grant CAISO's request and accept CAISO's proposed instant revisions to Tariff section 30.12.1 effective February 17, 2021, as requested.

¹ 16 U.S.C. § 824d.

² *Cal. Indep. Sys. Operator Corp.*, 172 FERC ¶ 61,262 (2020) (Order No. 831 Compliance Order).

³ *Offer Caps in Markets Operated by Regional Transmission Organizations and Independent System Operators*, Order No. 831, 157 FERC ¶ 61,115 (2016), *order on reh'g and clarification*, Order No. 831-A, 161 FERC ¶ 61,156 (2017).

2. Order No. 831 required each Independent System Operator (ISO) and Regional Transmission Operator (RTO) to make specific revisions to its tariff to: (1) cap each resource's incremental energy offer at the higher of \$1,000/MWh or that resource's verified cost-based incremental energy offer; (2) cap verified cost-based incremental energy offers at \$2,000/MWh when calculating locational marginal prices (LMP); (3) establish a verification process for cost-based incremental offers above \$1,000/MWh that ensures that a resource's cost-based incremental energy offer reasonably reflects that resource's actual or expected costs;⁴ (4) permit market participants to submit virtual transactions up to \$2,000/MWh;⁵ and (5) permit import and export transactions up to \$2,000/MWh.⁶ With regard to the verification requirement in Order No. 831, the Commission directed that if a resource submits an incremental energy offer above \$1,000/MWh, and the costs underlying that offer cannot be verified before the market clearing process begins, that offer may not be used to calculate LMPs. The Commission stated, however, that a resource will be eligible for a make-whole payment if that resource is dispatched and the resource's costs are verified after-the-fact. A resource will also be eligible for a make-whole payment if it is dispatched and its verified cost-based incremental energy offer exceeds \$2,000/MWh.⁷ The Commission permitted regional variation in the process for treating incremental energy offers above \$1,000/MWh that the RTO/ISO or Market Monitoring Unit cannot verify prior to the start of the market clearing process.⁸

3. In the instant filing, CAISO proposes to make revisions to, and accelerate the effectiveness of, section 30.12.1 in its Tariff to permit after-the-fact recovery of energy costs that exceed CAISO's existing \$1,000/MWh energy bid cap.⁹ CAISO explains that in 2020, consistent with the Commission's directives in Order No. 831, it submitted a Tariff amendment to implement its commitment cost and default energy bid (CCDEBE) initiative. That amendment included Tariff revisions to allow resources to request additional payments for actual fuel costs in specified circumstances after the market had run. CAISO further explains the revisions accepted by the Commission in the CCDEBE proceeding only extend to resources' commitment costs and default energy bids, but do not otherwise apply to incremental energy offers not subject to market power

⁴ Order No. 831, 157 FERC ¶ 61,115 at P 1.

⁵ *Id.* P 172.

⁶ *Id.* P 192.

⁷ *Id.* PP 42, 145-46.

⁸ *Id.* P 147.

⁹ CAISO, CAISO eTariff, § 30.12.1, Applicability (10.0.0).

mitigation.¹⁰ CAISO notes that the Commission accepted the CCDEBE Tariff amendment effective as of its actual implementation date, which would be specified in a future CAISO filing to be submitted within five business days of the implementation of the CCDEBE Tariff provisions. CAISO states that the CCDEBE Tariff provisions were implemented on February 15, 2021 for Trading Date February 16, 2021.¹¹

4. CAISO avers that in 2019, it filed Tariff revisions in compliance with Order No. 831. The Tariff revisions provide for, among other things, a soft energy bid cap of \$1,000/MWh, which resources may exceed by submitting a request to CAISO to adjust a resource's default energy bid and by CAISO validating that request, and a hard energy bid cap of \$2,000/MWh, effective March 21, 2021.¹² CAISO states that it also proposed, and the Commission accepted, in compliance with Order No. 831, the addition of new Tariff section 30.12.1(b) to specify that resources may request after-the-fact recovery of amounts in a reference level¹³ change request for a change request submitted for a default energy bid or default minimum load bid that exceeds the new \$2,000/MWh bid cap.¹⁴

5. CAISO states that in recent days, extreme weather conditions across much of the country have impaired natural gas infrastructure at the same time demand in some regions has skyrocketed. As a result, CAISO asserts, natural gas prices across the country have increased dramatically. CAISO states that it has observed very high natural gas prices in southern California and, therefore, is partly relying on generation in the north to serve southern California load. CAISO explains that high natural gas prices in

¹⁰ CAISO Transmittal at 3-4 (citing *Cal. Indep. Sys. Operator Corp.*, 172 FERC ¶ 61,263 (CCDEBE Order), *notice of denial of reh'g by operation of law*, 173 FERC ¶ 62,096 (2020)).

¹¹ CAISO submitted an informational filing to specify an effective date of February 15, 2021 for the CCDEBE Tariff revisions. *Cal. Indep. Sys. Operator Corp.*, Informational Filing of Effective Date of CCDEBE, Docket No. ER20-2360-000 (filed Feb. 18, 2021).

¹² Order No. 831 Compliance Order, 172 FERC ¶ 61,262.

¹³ Reference levels refer to a resource's default startup bid, default minimum load bid, default transition bid, and default energy bid. CAISO calculates reference levels using resource parameters registered in the Master File and fuel or fuel-equivalent inputs, and commitment cost reference levels are used to cap the commitment cost components of participants' default energy bids. Market participants may request reference level change requests when their reference levels do not adequately reflect their actual or expected fuel costs.

¹⁴ CAISO Transmittal at 4.

southern California may prevent natural gas-fired resources in that portion of the CAISO balancing authority area (BAA) from fully recovering their production costs pursuant to the existing \$1,000/MWh energy bid cap. CAISO notes that, over the past several days, it has observed gas price trades in southern California at levels that would result in production costs that exceed the \$1,000/MWh energy bid cap. According to CAISO, if transmission contingencies limit north to south power transfers and it must dispatch additional gas-fired generation in southern California, some gas-fired generators may not be able to recover their production costs above the \$1,000/MWh energy bid cap. CAISO believes that without the opportunity for after-the-fact recovery of production costs above \$1,000/MWh, gas-fired generators in the south may not continue to operate when needed, which creates a reliability risk.¹⁵

6. CAISO explains that, although the CCDEBE Tariff provisions allow a resource to request additional payment for its actual fuel or fuel-equivalent costs in specified circumstances following the CAISO market process, those Tariff provisions do not allow a resource to request additional payment for its actual fuel or fuel-equivalent costs for incremental energy costs that exceed the \$1,000/MWh energy bid cap.

7. Therefore, CAISO proposes to revise Tariff section 30.12.1(b) to delete the provision related to a reference level change request and replace references to the \$2,000/MWh hard energy bid cap (and the similar \$2,000/MWh minimum load cost hard cap) that are currently scheduled to take effect on March 21, 2021, with a reference to the current maximum energy bid price, i.e., the existing \$1,000/MWh energy bid cap.¹⁶

8. In order to assure resources that the volatility in natural gas prices will not prevent them from recovering verified costs above the energy bid cap, CAISO requests that the Commission permit revisions to Tariff section 30.12.1 to go into effect on February 17, 2021, the date of filing.

9. CAISO explains that this instant revision will allow scheduling coordinators to request an additional uplift payment to cover a resource's verified fuel costs or fuel-equivalent costs associated with their bids where such costs exceed the amount recoverable under the energy bid cap. CAISO clarifies that its request will not change the existing rules related to market clearing prices. According to CAISO, under existing Tariff provisions, if CAISO verifies that a scheduling coordinator's costs are eligible for

¹⁵ *Id.* at 5-6.

¹⁶ *Id.* at 6-8.

after-the-fact recovery, then the scheduling coordinator will receive a bid cost recovery uplift payment.¹⁷

10. CAISO states that revised Tariff section 30.12.1(b) will work in tandem with the reference level change request process included in the recently effective CCDEBE Tariff provisions. Specifically, CAISO states that scheduling coordinators with costs that exceed those recoverable under the existing energy bid cap should submit a reference level change request pursuant to the manual reference level change request mechanism set forth in Tariff section 30.11.4. According to CAISO, scheduling coordinators should utilize this manual process regardless of the magnitude of the difference between a scheduling coordinator's actual or expected fuel costs and the fuel costs used by CAISO to calculate a resource's reference level. CAISO states that it will reject such requests on the basis they are requesting a reference level in excess of the existing energy bid cap set forth in Tariff section 39.6.1. This means that costs that result in bids above \$1,000/MWh will not be eligible to set the LMP prior to the implementation of the remaining provisions of Order No. 831. However, CAISO explains, scheduling coordinators will be eligible to seek after-the-fact recovery of such costs pursuant to Tariff section 30.12.1(b) as revised in the instant filing.¹⁸

11. In light of the urgent need to address exigent circumstances related to increased and volatile natural gas prices, CAISO requests waiver of the Commission's 60-day prior notice requirement to permit the proposed Tariff amendment to become effective the day of filing, February 17, 2021. CAISO states that an order issued as soon as possible will allow the revised Tariff provision to apply to the peak and net peak hours on February 17, 2021. CAISO asserts that Commission precedent supports taking this action in exigent circumstances.¹⁹ CAISO further contends that this action is justified because the Commission has already accepted the after-the-fact cost recovery Tariff provision that is the subject of this filing, and asserts that the accelerated effectiveness requested will address the significant risk to market participants and potential issues with the reliable operation of the bulk power system in the region. Moreover, CAISO notes that the Tariff revision proposed in the instant filing will be superseded by the version of the same

¹⁷ *Id.* at 6-7; CAISO, CAISO eTariff, § 30.12.4, CAISO After-Market Evaluation of Fuel Costs (9.0.0), § 30.12.4.3.

¹⁸ CAISO Transmittal at 8-9.

¹⁹ *Id.* at 9 (citing *PJM Interconnection, L.L.C.*, 146 FERC ¶ 61,041, at PP 5-6 (2014); *ISO New England Inc.*, 142 FERC ¶ 61,058, at P 19 (2013); *Entergy Servs., Inc.*, 124 FERC ¶ 61,226, at PP 7-8 (2008); *Cal. Indep. Sys. Operator Corp.*, 93 FERC ¶ 61,239, at 61,773-74 (2000)).

Tariff section accepted in the Order No. 831 Compliance Order, which is currently scheduled to take effect on March 21, 2021.²⁰

12. Notice of CAISO's February 17, 2021 filing was issued by the Commission with interventions and protests due on or before February 19, 2021. Timely motions to intervene were filed by NRG Power Marketing LLC, Pacific Gas and Electric Company, Calpine Corporation, the City of Santa Clara, California, the Public Utilities Commission of the State of California, and Modesto Irrigation District. Southern California Edison Company (SoCal Edison) and the CAISO Department of Market Monitoring (DMM) filed motions to intervene and comments.

13. SoCal Edison and DMM support CAISO's proposal. SoCal Edison asserts that current natural gas prices are unprecedented and unforeseen, and given these emergent conditions, it is important for suppliers to have confidence that actual costs can be recovered.²¹ DMM estimates that at prevailing natural gas prices on February 15, 2021, the marginal costs for a significant quantity of gas-fired generation in southern California exceeded \$1,000/MWh and observes that on February 17, 2021, natural gas prices at trading hubs where gas-fired generators in southern California purchase gas had spiked to historically high levels. DMM explains that if a resource's cost of providing energy exceeds the revenues that it can receive, the resource will have a strong incentive not to offer energy in the market. Therefore, DMM supports CAISO's proposed Tariff revision and the requested effective date.²² However, DMM asserts that generators should be able to fully recover their actual gas costs for responding to CAISO manual energy dispatches or their actual gas costs for operating at minimum load when those costs exceed minimum load bid caps. DMM requests that CAISO clarify how these costs can be recovered under the current Tariff or make further Tariff revisions.²³

14. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2020), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

15. We accept CAISO's proposal to accelerate the effectiveness of Tariff section 30.12.1 by modifying Tariff section 30.12.1 on an interim basis pending it being superseded by implementation of the remaining Order No. 831-compliant Tariff provisions, which the Commission directed to be effective on or before March 21, 2021.

²⁰ *Id.* at 9-10.

²¹ SoCal Edison Comments at 2.

²² DMM Comments at 2-4.

²³ *Id.* at 5.

We find that Tariff section 30.12.1, as modified in the instant filing, will allow scheduling coordinators to request uplift payments to cover a resource's actual fuel costs or fuel-equivalent costs associated with their bids where such costs exceed the amount recoverable under the applicable energy bid cap. We recognize that the historically high natural gas prices resulting from extreme weather conditions across much of the United States create the possibility that some natural gas-fired resources needed to serve load in the CAISO BAA would be unable to recover their production costs pursuant to the existing \$1,000/MWh energy bid cap. We find that CAISO's proposed revisions will avoid this outcome and mitigate potential reliability risk by assuring generators of their ability to recover their actual cost of production during these conditions.

16. We do not believe that CAISO's filing requires further clarification, as requested by DMM. The Commission had previously directed CAISO to make the clarifications requested by DMM to Tariff section 30.12.4.3 in the CCDEBE Order, and CAISO submitted these revisions in a compliance filing that was accepted by delegated letter order in Docket No. ER20-2360-001.²⁴ Specifically, these revisions specified that CAISO would resettle bid cost recovery and exceptional dispatch using revised bid costs and revised default energy bids, as applicable. Further, section 30.12.1 states that scheduling coordinators may request an additional uplift payment associated with minimum load bid costs. Thus, pursuant to section 30.12, generators will be able to recover their verified fuel costs for responding to CAISO exceptional dispatch and for operating at minimum load when those costs exceed minimum load bid caps.

17. We grant CAISO's request for waiver of the 60-day prior notice requirement for good cause shown. CAISO has demonstrated that allowing the revised Tariff provisions to become effective on the date of filing will help to mitigate potential reliability risks due to the ongoing exigent circumstances in the western United States.

18. For the reasons discussed above, we accept CAISO's revision to section 30.12.1, effective February 17, 2021, as requested.

By direction of the Commission.

Kimberly D. Bose,
Secretary.

²⁴ See *Cal. Indep. Sys. Operator Corp.*, Docket No. ER20-2360-001 (Dec. 28, 2020) (delegated order).