170 FERC ¶ 61,015
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Neil Chatterjee, Chairman;
Richard Glick and Bernard L. McNamee.

California Independent System Operator Corporation Docket Nos. ER19-2727-000
ER19-2727-001

ORDER ON TARIFF REVISIONS

(Issued January 21, 2020)

1. On August 30, 2019, the California Independent System Operator Corporation (CAISO) filed, pursuant to section 205 of the Federal Power Act (FPA),[1] amendments to its open access transmission tariff (Tariff) intended to: (1) enhance CAISO's market rules so suppliers can request adjustments to their CAISO-calculated commitment cost and energy price reference levels to more accurately reflect their costs (CCDEBE proposal);[2] (2) allow the use of Monday-only volume-weighted average prices (VWAP) to more accurately reflect available trading data in commitment cost bid caps and default energy bids for the day-ahead and real-time markets for Monday operating days (Monday-only VWAP); (3) permanently implement some of the Tariff revisions the Commission previously accepted on an interim basis to address the limited operability of the Aliso Canyon natural gas storage facility (Aliso Canyon proposal); and (4) clarify CAISO's application of a bid-effectiveness threshold (Bid-Effectiveness Threshold proposal). In this order, we accept in part and reject in part CAISO's filing.[3]

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[1] 16 U.S.C. § 824d (2018).

[2] The acronym CCDEBE stands for "Commitment Costs and Default Energy Bid Enhancements" and is the name of the stakeholder process that resulted in this tariff filing. CAISO initiated the process in November 2016 and notes that it initially encompassed a broader proposal, which included replacing CAISO's existing static commitment cost cap with market-based commitment cost bids. Citing implementation concerns, CAISO elected to go forward initially with only a portion of these proposals and it is this portion that is the subject of the instant filing. Filing at 1, 13, and 22.

[3] CAISO states that the Monday-only VWAP, Aliso Canyon, and Bid-Effectiveness Threshold proposals can be implemented independently, and that these proposals are separate and severable from one another and from all other changes proposed in the filing. Filing at 4-5; CAISO Deficiency Response at 4.

Specifically, we accept CAISO's Monday-only VWAP and the Aliso Canyon and Bid Effectiveness Threshold proposals, to be effective on CAISO's actual implementation date, as requested, subject to condition, and require CAISO to submit a compliance filing within thirty days of this order. We reject the CCDEBE proposal, as discussed below.

I. Background

2. CAISO administers day-ahead and real-time wholesale electricity markets. The Tariff sets forth rules for the submission of bids and self-schedules of energy and ancillary services in the CAISO markets. The existing CAISO market design allows market participants to submit separate bid components for commitment costs and market bids for energy above minimum load. The maximum energy bid price is $1,000/MWh.[4]

3. CAISO calculates and uses cost reference levels in four circumstances. First, suppliers can bid commitment costs up to a resource's cost-based commitment cost reference level calculated by CAISO. Second, although CAISO allows resources to bid up to $1,000/MWh for energy above minimum load, when a resource's energy bid is subject to market power mitigation, the market systems use the resource's default energy bid to schedule or dispatch the resource. Third, CAISO uses a resource's default energy bid as part of various energy financial settlement provisions for residual energy and exceptional dispatches under certain scenarios. Fourth, the CAISO market systems calculate resources' commitment costs and energy costs (1) to produce generated bids, which are bids generated when resource adequacy resources fail to submit required bids; or (2) when the CAISO market systems must complete an incomplete submitted bid.[5]

4. For natural gas-fired resources, the CAISO-calculated reference levels are based on published natural gas price indices used to reflect resources' daily fuel costs. However, suppliers' actual natural gas costs may be greater than a price derived from these published indices.[6]

II. Notice and Responsive Pleadings

5. Notice of CAISO's filing was published in the *Federal Register*, 84 Fed. Reg. 47,281 (2019), with interventions and protests due on or before September 20, 2019. Timely motions to intervene were filed by PacifiCorp, EDF Trading North America, LLC, Pacific Gas and Electric Company, Calpine Corporation, NRG Power Marketing

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[4] CAISO operates its markets using a market software system that utilizes various information, including transmission constraints that CAISO enforces. Filing at 5-7.

[5] *Id.* at 3.

[6] *Id.* at 4.

LLC, Northern California Power Agency, the California Department of Water Resources State Water Project, the Modesto Irrigation District, the City of Santa Clara, California, and San Diego Gas & Electric Company. The Public Utilities Commission of the State of California filed a notice of intervention. Timely motions to intervene and comments were filed by the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, Six Cities), the Department of Market Monitoring of the California Independent System Operator Corporation (DMM), and Southern California Edison Company (SoCal Edison). On October 7, 2019, CAISO filed an answer.

6. On November 4, 2019, Commission staff issued a deficiency letter that requested additional clarification regarding CAISO's proposal (Deficiency Letter). On November 22, 2019, CAISO filed its response to the Deficiency Letter (Deficiency Response). Notice of CAISO's Deficiency Response was published in the *Federal Register*, 84 Fed. Reg. 66,180 (2019), with interventions and protests due on or before December 13, 2019. None were filed.

III. Discussion

A. Procedural Matters

7. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2019), the notice of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

8. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2019), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We accept CAISO's answer because it has provided information that assisted us in our decision-making process.

B. Substantive Matters

9. As discussed below, we accept in part and reject in part CAISO's proposed Tariff revisions. We accept CAISO's Monday-only VWAP and the Aliso Canyon and Bid Effectiveness Threshold proposals, to be effective on CAISO's actual implementation date, as requested, subject to condition, and require CAISO to submit a compliance filing within thirty days of the date of this order. However, we reject the CCDEBE proposal, without prejudice to CAISO refiling its proposal with additional support.

1. CCDEBE Proposal

a. CAISO Proposal

10. CAISO proposes Tariff revisions to allow suppliers to request adjustments to their commitment cost and energy reference levels. CAISO asserts that the proposed revisions

will provide a just and reasonable method for verifying a supplier's request to increase a resource's reference levels when its actual or expected costs will be greater than CAISO-calculated costs, based on verifiable contemporaneously available information. CAISO explains that these procedures will enable it to use fuel or fuel-equivalent prices in calculating reference levels that reflect suppliers' actual or expected fuel or fuel-equivalent costs. CAISO contends that this, in turn, will provide CAISO with more efficient resource schedules and dispatches and will ensure suppliers are adequately compensated.[7]

11. CAISO's proposed Tariff revisions specify a process for CAISO to adjust reference levels upon a supplier's request prior to the CAISO market process.[8] Under the proposal, suppliers will be able to choose either an automated process or a manual process for proposing and evaluating adjustments.

i. Automated Reference Level Change Requests

12. Under the automated process, a supplier can request an adjustment to its resources' reference levels, and the CAISO market systems will compare the proposed adjusted amount to a resource-specific "reasonableness threshold." CAISO explains that its market systems will calculate the reasonableness thresholds by recalculating commitment cost bid caps and default energy bids using fuel prices increased by fixed percentages. According to CAISO, the reasonableness thresholds will be different for each resource because each resource has different operational characteristics. For demand response and storage resources, the systems will calculate reasonableness thresholds as the energy bid cap because CAISO does not calculate default energy bids for those resources.[9]

13. CAISO states that, for natural gas-fired resources, the reasonableness thresholds will be determined using the same methodology CAISO uses to calculate resources' proxy cost-based default start-up bids, proxy cost-based default minimum load bids, and variable cost-based default energy bids, except that the fuel price used to calculate the reasonableness thresholds will be multiplied by a fixed percentage. CAISO states that, for days without a published daily gas price index, the CAISO market systems will multiply the natural gas commodity price component of the calculation by 125 percent. CAISO states that, for days with a published daily gas price index, the CAISO market

[7] Filing at 25.

[8] *Id.* at 27.

[9] *Id.* at 28.

systems will multiply the natural gas commodity price component of the calculation by 110 percent.

14. CAISO states that, if the cost submitted in a supplier's automated reference level change request is equal to or less than the reasonableness threshold for a resource, CAISO will include this verified reference level as soon as practicable in the next applicable CAISO market run. If, on the other hand, the cost submitted in an automated reference level change request exceeds the resource's reasonableness threshold, CAISO will approve the reference level change request only to the level that equals the resource's reasonableness threshold. The supplier can then request after-market recovery for any amounts not accepted through the automated reference level change request process.[10]

15. CAISO states that, although a supplier is not required to submit supporting documentation when it submits an automated reference level change request, each such request must be supported by contemporaneously-available documentation that the supplier has on hand when it submits the request. Further, CAISO requests authority to audit automated reference level change requests to ensure suppliers submit such requests based on an actual expectation of increased exposure to fuel costs.[11]

16. CAISO notes that automated reference level change requests will not be available for hydro default energy bids because hydro default energy bids are based on an opportunity cost methodology based on both electricity prices and natural gas prices. CAISO explains that only the natural gas component of the hydro default energy bid is eligible for adjustment, and CAISO will evaluate that through its proposed manual adjustment request process, as discussed in more detail below.[12]

17. CAISO also proposes updates to natural gas prices used to calculate reasonableness thresholds and reference levels. First, as discussed further below, CAISO proposes to make permanent the current day-ahead market procedure through which the CAISO will use the natural gas commodity price reported on the Intercontinental Exchange (ICE) based on current next-day natural gas trading between 8:00 a.m. and 9:00 a.m. the day prior to the applicable trading day.

18. CAISO also seeks authority to update the natural gas commodity price used to calculate a resource's real-time reasonableness threshold. CAISO proposes to revise reasonableness thresholds for all resources within a fuel region if the same-day gas price is ten percent greater than the next-day gas price that CAISO uses to calculate

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[10] *Id.* at 28-29.

[11] *Id.*

[12] *Id.* at 29.

reasonableness thresholds and reference levels. CAISO notes that it is possible that CAISO will not be able to determine that same-day gas prices are in fact ten percent greater than the next-day gas price previously used to calculate the reasonableness thresholds. CAISO states that, if it is not able to make this determination, it will not update the reasonableness thresholds for affected resources.

19. CAISO states that it also seeks authority to adjust the reasonableness threshold for a specific resource if CAISO observes the resource's actual fuel or fuel-equivalent costs are repeatedly systematically greater than the costs CAISO used in calculating the resource's corresponding reference level. CAISO will adjust the resource's reasonableness threshold based on observing persistent payments made to a resource through the after-market cost recovery process. CAISO states that these adjustments will be in the form of a percentage multiplier to the reasonableness threshold, and this would allow CAISO to tune the resource's reasonableness thresholds to be more reflective of the resource's actual costs.

ii. Manual Reference Level Change Requests

20. CAISO also proposes to allow suppliers to request manual reference level changes. CAISO explains that for natural gas-fired resources, the manual process may be used to propose changes to default start-up bids, default minimum load bids, and default energy bids. For non-natural gas-fired resources, manual reference level change requests can be submitted only for default energy bids. CAISO states that a supplier can request a manual reference level change when its actual or expected fuel or fuel-equivalent costs exceed the fuel or fuel-equivalent costs CAISO used to calculate the resource's reference level by the higher of ten percent or $0.50/MMBTU. CAISO explains that these are the same metrics that would apply for an automated reference level change. CAISO reasons that, if the resource's costs were less than ten percent or $0.50/MMBTU, the supplier would have submitted an automated reference level request change. CAISO expects to conduct manual requests only if costs exceed the automated thresholds, and therefore, these metrics indicate when reasonable grounds exist to submit manual reference level change requests.[13]

21. CAISO states that suppliers must submit manual reference level change requests by 8:00 a.m. on the business day the applicable CAISO market is executed, and such requests must include documentation of contemporaneously available information at the time of submission. CAISO explains that prior to the day-ahead market, if practicable, or as soon as practicable for the real-time market, it will validate the submitted information and any other available evidence of current costs that apply to the manual reference level change request. CAISO will implement the reference level change if it determines that the information supports the request, and will use the revised reference level in the

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[13] *Id.* at 43-44.

CAISO market processes and for settlement. If CAISO cannot validate the information, CAISO will reject the manual reference level change request and make no changes to the resource's reference levels. However, as with automated reference level change requests, suppliers may request after-market reference level adjustments for any amounts CAISO does not validate prior to the execution of the applicable market run.[14]

22. CAISO explains that if it accepts a sufficient number of manual reference level change requests for a natural gas-fired resource from a supplier that controls both a hydro resource and a natural gas-fired resource in the same gas fuel region, CAISO may also update the natural gas price used in calculating the hydro default energy bid when CAISO adjusts the gas price used in the reasonableness thresholds for the entire gas fuel region in which the hydro resource is located. CAISO states that, although it likely would adjust the hydro default energy bid in such circumstances, it is not proposing an automatic adjustment because it wants to ensure the adjustment is for gas price changes and not for changes in the prevailing bilateral electricity prices that are the basis of the other components of the hydro default energy bid.[15]

iii. After-Market Cost Recovery Procedures

23. CAISO also proposes new procedures to allow suppliers to request adjustments to their resource reference levels based on a resource's actual fuel or fuel-equivalent costs up to sixty business days after the applicable CAISO market. CAISO explains that the new procedures are similar to existing Tariff provisions, but they allow a supplier to request CAISO to consider and approve the after-market recovery of costs instead of, or before, Commission review. CAISO states that, whether the supplier seeks after-market cost recovery from CAISO or the Commission, the supplier must submit supporting documentation that demonstrates the submitted costs represent actually incurred daily fuel or fuel-equivalent costs for a given trading day that exceed the fuel or fuel-equivalent costs CAISO used to calculate the resource's reference levels. CAISO states that these costs must be reasonable and reflect prudent procurement practices. CAISO also explains that the supplier can seek recovery from the Commission if CAISO determines the resource is ineligible for after-market fuel cost recovery, or the supplier chooses to seek recovery from the Commission instead of from CAISO.[16]

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[14] *Id.* at 44.

[15] *Id.* at 45.

[16] *Id.* at 46-47.

iv. Other Tariff Revisions

24. CAISO states that it generates cost-based bids (i.e., generated bids) using the same cost components and resource-specific information used in the variable-cost default energy bid when a supplier does not submit a bid for a resource adequacy resource subject to a must-offer requirement or pursuant to CAISO's generally applicable scheduling and bidding rules. CAISO explains that it determines natural gas costs for generated bids of natural gas-fired resources using the same gas pricing provisions it uses to determine gas costs for commitment costs and variable cost default energy bids.[17] CAISO proposes to revise its Tariff to define a generated bid as a post-market bid generated by CAISO "using the applicable Default Energy Bid and Default Commitment Cost Bids."[18] CAISO also proposes revisions to correctly capitalize existing Tariff-defined terms and use existing defined terms more precisely, clarify the meaning of certain Tariff provisions, and implement new and more precise definitions that in some cases supersede existing Tariff terms.[19]

b. Comments

25. DMM supports each of the general elements of the CCDEBE proposal included in CAISO's filing.[20] However, DMM questions the need to continue to include a 125 percent multiplier in commitment cost bid caps calculated by CAISO and in requests by suppliers to increase commitment cost bids above these caps based on the suppliers' own determination of their resources' actual costs.[21] DMM asserts that there is inconsistency with regard to the headroom scalar between CAISO's explanation of its proposal in its transmittal letter and the actual proposed Tariff language.[22]

26. According to DMM, CAISO's transmittal letter can be read to imply that CAISO is proposing that when a supplier submits a reference level change request that requests a value greater than the CAISO reference levels, the requested reference level may not

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[17] *Id.* at 55.

[18] *Id.* at 55-56 (citing CAISO, CAISO eTariff, app. A (Definitions), Generated Bid (2.0.0)).

[19] *Id.* at 56.

[20] DMM Comments at 5.

[21] DMM refers to the 125 percent multiplier as a twenty-five percent headroom scalar in its comments.

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

exceed the resource's actual or expected costs.[23] DMM explains that headroom scalars are specifically designed primarily to cover potential differences between a generator's actual or expected gas cost and the next-day gas cost indices used by CAISO to calculate default energy bids and commitment cost bid caps. Since requested reference levels are based on the supplier's own estimate of actual or expected costs, DMM asserts that reference level change requests would not be permitted to include the ten percent and twenty-five percent headroom scalars that are applied to the standard default energy bids and commitment cost bid caps calculated by CAISO. However, DMM states that CAISO's proposed Tariff language appears to specifically require that suppliers include the ten percent adder and 125 percent multiplier in calculating supplier-determined default energy bids and commitment costs.[24] DMM asserts that CAISO has not justified continuing to apply the current 125 percent multiplier to commitment cost bid caps and reference levels calculated from supplier-determined fuel costs.[25] According to DMM, allowing suppliers to apply the twenty-five percent headroom scalars to all supplier-determined costs may undermine CAISO's ability to perform effective ex post verification of suppliers' actual or expected cost.[26]

27. DMM also states that additional clarification or changes are needed with respect to how a supplier's estimate of any risk associated with natural gas supply limitations or pipeline imbalance charges should be treated when calculating bid caps or reasonableness thresholds. DMM explains that CAISO excludes gas imbalance penalties from after-market cost recovery because doing so would provide a disincentive for suppliers to follow gas pipeline instructions. DMM also expresses concern that CAISO had not defined important details of its proposed adjustments to reasonableness thresholds for persistent conditions.

28. In contrast, Six Cities expresses concern that CAISO's proposal does not allow recovery of costs actually incurred for gas usage penalties under any circumstances. Six Cities acknowledges that compliance with restrictions on gas consumption imposed by pipelines and local distribution companies generally should be expected, and penalties for non-compliance should be recoverable only under very limited circumstances.[27]

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[23] *Id.* (citing Filing at 40-41).

[24] *Id.* at 7-8 (citing CAISO, CAISO eTariff, § 30.11.2 Reference Level Change Requests (0.0.0), § 30.11.2.2).

[25] *Id.* at 12-15.

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

[27] Six Cities Protest at 2.

29. SoCal Edison states that it does not oppose CAISO's filing, but suggests minor edits to CAISO's proposed Tariff language.[28] Specifically, SoCal Edison proposes revisions to Tariff Section 30.4.5.1 to include major maintenance adders in proxy cost calculation. SoCal Edison proposes revisions to Tariff Sections 30.7.9(g) and 30.7.10.1(c) to explicitly include the 125 percent multiplier to commitment costs consistent with other Sections of the Tariff. SoCal Edison proposes a revision to Tariff Section 30.11.1.1 to provide that CAISO would calculate reasonableness thresholds for Hydro Default Energy Bids consistent with what it believes to be CAISO's intent. SoCal Edison asserts that its proposed revisions will minimize misinterpretation, improve internal consistency, and reflect what SoCal Edison believes to be CAISO's intentions.[29] Similarly, Six Cities requests that a typographical error in Tariff Section 30.11.1.1 and erroneous cross-references and a grammatical error in Tariff Section 30.11.3.4(b) be corrected.[30]

c. <u>CAISO Answer</u>

30. CAISO asserts that DMM's comments regarding how CAISO calculates reference levels exceed the scope of this proceeding and lack merit. CAISO explains that, under the existing Tariff, it uses a twenty-five percent multiplier in calculating commitment cost reference levels and a ten percent multiplier in calculating energy reference levels. CAISO asserts that, contrary to DMM's contention, it need not justify either of the existing, Commission-approved multipliers in this proceeding because it does not propose any changes to those multipliers in the CCDEBE proposal.[31]

31. CAISO contends that it is just and reasonable to use the same multipliers to calculate reference level change requests that it uses to calculate reference levels. According to CAISO, the whole purpose of this initiative is to ensure that suppliers have a method for seeking revisions to their reference levels if, in its totality, the methodology for calculating their reference levels does not capture a supplier's expected costs. CAISO explains that the formulaic approaches used to calculate reference levels may or may not

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[28] SoCal Edison Comments at 2.

[29] *Id.* at 3-4.

[30] Six Cities Protest at 3-4.

[31] CAISO Answer at 4-7 (citing *Potomac-Appalachian Transmission Highline, LLC*, Opinion No. 554, 158 FERC ¶ 61,050, at P 222 (2017) ("A contrary result, in which the filing utility bore the burden of justifying unchanged components of a filed rate, would, the Court explained, upend the basic structure and purpose underlying sections 205 and 206 of the FPA.") (citing *Winnfield v. FERC*, 744 F.2d 871 (D.C. Cir. 1984))).

reflect a resource's actual or expected fuel or fuel-equivalent cost exposure. Resources may have a request that cannot be processed through the automated process and may not have an opportunity to make a manual request, and without the twenty-five percent and ten percent multipliers, CAISO may fail to reflect all fuel or fuel-equivalent costs the resource may face related to gas price volatility and/or incidental costs unrelated to gas price volatility. CAISO also asserts that, if the Commission accepted DMM's argument, then suppliers who do not request a reference level adjustment would have more headroom to reflect such costs as compared to suppliers that did make a reference level change request. CAISO contends that such a dual bidding structure would be unduly discriminatory and unjust and unreasonable. CAISO states that, given the purpose of the CCDEBE proposal, it is reasonable to apply the multipliers to reference level change requests, and doing so strikes a reasonable balance between cost causation and providing resources with sufficient flexibility to recover their costs.[32] CAISO also asserts that applying the twenty-five percent and ten percent multipliers will not undermine its ability to perform ex post verification of suppliers' actual or expected costs.[33]

32. CAISO states that it agrees with Six Cities' proposal that it correct a typographical error in new Tariff Section 30.11.1.1 and two erroneous cross-references and a grammatical error in new Tariff Section 30.11.3.4(b). CAISO requests that the Commission direct it to make these revisions on compliance.[34] However, CAISO disagrees with the Tariff revisions proposed by SoCal Edison. CAISO asserts that there is no risk of misinterpretation of, or need to modify, the identified Tariff provisions.[35]

33. CAISO contends that it should be permitted to adjust the reasonableness threshold for persistent conditions. CAISO asserts that it is not possible to define in advance what constitutes systematically greater amounts of actual fuel or fuel-equivalent costs, but it proposes that if there are verifiable market conditions that warrant modifications to a reasonableness threshold, it will adjust the reasonableness threshold to account for those verifiable facts. The after-the-fact verifications will be based on CAISO's assessments of actual costs that suppliers incurred.[36]

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[32] *Id.* at 7-11.

[33] *Id.* at 15-19.

[34] *Id.* at 24-25.

[35] *Id.* at 25-26.

[36] *Id.* at 20-21.

34. In response to DMM's and Six Cities' comments, CAISO clarifies that it may be appropriate for suppliers to reflect gas imbalance penalties in reference level change requests but not in cost recovery after the CAISO market process.[37]

d. <u>CAISO Deficiency Response</u>

35. In the Deficiency Letter, Commission staff asked CAISO to clarify whether and how a market participant would be able to recover gas imbalance penalties through after-the-fact cost recovery or adjusted reference levels. CAISO responded by clarifying that there are no circumstances under which CAISO would approve after-the-fact recovery of gas penalty costs under new Tariff Section 30.12 or of fuel or fuel-related costs under existing Tariff Sections 30.11 and 30.12.[38] CAISO states that, therefore, a market participant cannot receive bid cost recovery payments or other uplift payments on this basis. CAISO further stated that it intended to modify its proposed business practice manual provisions to state that market participants may not submit reference level change requests to recover costs associated with gas imbalance penalties and offered to make a Tariff revision on compliance to reflect this.[39]

36. Commission staff requested information that would justify CAISO's use of the scalars applied to CAISO-calculated costs in the context of supplier submitted costs. In response, CAISO states that it "determined that it cannot provide the Commission with any historic data that would support including the additional fifteen percent (i.e., twenty-five percent as opposed to ten percent) in the commitment cost reference level."[40] In this response, CAISO argues that ten percent is appropriate for both supplier-submitted commitment costs and for the purpose of calculating revised commitment cost bid caps and default energy bids.[41]

37. CAISO argues that the 110 percent multipliers to reference levels for the purpose of calculating both the revised commitment cost bid cap and the revised default energy bids may be necessary to account for differences in natural gas prices at the time when a resource makes a reference level change request and when a resource actually purchases the natural gas. CAISO notes that the Commission has previously approved the 110 percent multiplier for default energy bids in part to account for incidental costs in

[37] *Id.* at 22-23.

[38] CAISO Deficiency Response at 6.

[39] *Id.* at 7-9.

[40] *Id.* at 13.

[41] *Id.* at 14.

addition to gas price variation.[42] CAISO also states that the Commission approved the use two nesting ten percent adders by PJM Interconnection, L.L.C. (PJM) to cost-based incremental offers.[43]

38. Finally, Commission staff asked about the purpose of the following statement in proposed Tariff Section 30.11.3.1: "[t]he Scheduling Coordinator must not submit a Reference Level Change Request for the purpose of strategically bidding near the Reasonableness Threshold to bid above actual or expected costs." CAISO responded that the purpose was to prevent a market participant from inflating its default energy bids or default commitment cost bids beyond what they would be if calculated based on its actual or expected costs.[44]

e. Commission Determination

39. We find that CAISO has not demonstrated that its proposal to apply the 125 percent multiplier to supplier submitted costs is just and reasonable. For this reason, we reject CAISO's CCDEBE proposal.[45]

40. CAISO relies on the Commission's prior acceptance of the 125 percent multiplier in developing a commitment cost bid cap. However, while the Commission accepted the 125 percent multiplier, it did so in a different context. The Commission previously accepted the proposal to apply the 125 percent multiplier to proxy costs developed using an index, and this was meant to account for the potential divergence between the supplier's average costs using an index and the supplier's actual cost.[46] In contrast, under CAISO's proposal this multiplier would be applied to verifiable supplier submitted costs, which is a meaningfully different context than the context in which the Commission initially accepted the multiplier.

41. Specifically, whereas a multiplier applied to an index captures deviations from an average cost, and therefore may account for resource-specific cost deviations from the

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[42] *Id.* (citing *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274, at P 1045 (2006)).

[43] *PJM Interconnection, L.L.C.*, 161 FERC ¶ 61,153, at P 21 (2017).

[44] CAISO Deficiency Response at 19.

[45] Because CAISO has not shown that this element of its CCDEBE proposal is just and reasonable, we make no findings regarding the other aspects of this proposal, and do not address other issues raised in the comments with respect to this proposal.

[46] *Cal. Indep. Sys. Operator Corp.*, 149 FERC ¶ 61,284, at P 31 (2014).

index, a multiplier applied to supplier-submitted costs would provide additional headroom on top of verifiable, above-average costs. CAISO has not adequately justified its proposal to apply a 125 percent multiplier on top of an upward adjustment by a supplier facing above average costs. Indeed, in its Deficiency Response, CAISO acknowledged that it could not provide historic data to support the use of a 125 percent multiplier.[47] CAISO notes that it could provide support for a 110 percent multiplier to supplier submitted costs based on the potential variability in costs between when a supplier submits its estimated gas costs in its reference level change request and when it actually purchases gas. This support speaks to the context of reference level change requests in which the multipliers would be used under CAISO's proposal because it deals with the variance between supplier submitted costs and actual costs rather than the difference between an index and actual costs. However, the evidence submitted by CAISO does not support the 125 percent multiplier to supplier submitted commitment costs that CAISO proposes in the instant filing.

42. Our rejection here is without prejudice to CAISO refiling its CCDEBE proposal.

2. Monday-only VWAP Proposal

a. CAISO Proposal

43. CAISO seeks to improve the gas information the CAISO market system uses to calculate commitment cost bid caps and default energy bids for the day-ahead and real-time markets for Monday operating days.[48] Currently, the day-ahead market that runs on Sundays for the Monday operating day calculates the VWAPs based on prices posted by ICE on the preceding Friday. The VWAPs use next-day prices for gas sold on Friday for delivery on Saturday, Sunday, and Monday.

44. CAISO proposes instead to use the Monday-only VWAP for Monday operating days when prices are reported by ICE, provided it meets certain liquidity requirements.[49] CAISO explains that the Monday-only VWAP is based on trades transacted on the preceding Friday, but it is intended for a next-day Monday-only gas product. CAISO evaluates the Monday-only VWAP under the Commission's *Policy Statement on Natural Gas and Electric Price Indices* regarding index liquidity.[50] The minimum criteria for

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[47] CAISO Deficiency Response at 13.

[48] Filing at 36-37.

[49] *Id.* at 37-38.

[50] 104 FERC ¶ 61,121 (2003).

demonstrating sufficient liquidity for inclusion of an index in a jurisdictional Tariff are stated in the Commission's *Index Liquidity Order*.[51]

45. CAISO acknowledges that the Monday-only VWAP does not satisfy each of these specific standards.[52] However, CAISO asserts that, with some additional criteria, the index meets the Commission's intent regarding sufficient liquidity, particularly when applied to the limited circumstances in which CAISO would apply it. CAISO proposes to modify these criteria by using the Monday-only VWAP to calculate reference levels only when the following conditions are met:[53]

1. The historical average volume of the Monday-only VWAP at a given location, using no more than ninety days of trading, is at least 25,000 MMBTU, based on CAISO's test of whether the volume at a given location is above 25,000 MMBTU conducted at least once every six months; and
2. On any given day, the Monday-only VWAP published at the locations that meet the requirement described in (1) above represents at least five transactions.

46. CAISO presents an analysis of SoCal Citygate to meet these criteria. CAISO acknowledges that a Monday-only price has only been published twenty-six times in the past three years, so a ninety-day window cannot be used reliably. CAISO states that its calculations find that since January 1, 2019, the Monday-only price at SoCal Citygate had an average traded volume of 26,472 MMBTU, when published.

b. <u>CAISO Deficiency Response</u>

47. In the Deficiency Letter, Commission staff asked CAISO to specify whether CAISO's proposed use of the Monday-only VWAP is severable from previously accepted Aliso Canyon-related provisions in section IV.C of the transmittal letter, and from the main body of CAISO's proposal discussed in sections IV.A and IV.B of the transmittal letter. In its Deficiency Response, CAISO clarified that its use of the Monday-only VWAP is severable from both the Aliso Canyon-related provisions and from the all other changes proposed in the CCDEBE proposal.[54]

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[51] *Order Regarding Future Monitoring of Voluntary Price Formation, Use of Price Indices In Jurisdictional Tariffs, and Closing Certain Tariff Dockets*, 109 FERC ¶ 61,184 (2004) (Index Liquidity Order).

[52] Filing at 38-39.

[53] *Id.* at 39.

[54] Deficiency Response at 3-4.

48. Commission staff also requested that CAISO clarify how it would communicate that it would be using the Monday-only VWAP in calculating reference levels. CAISO clarified that it is not proposing to change how it notifies market participants which index it uses to calculate the reference levels used in any market run and their updated reference levels. CAISO states that, for reference levels used in the day-ahead market, CAISO publishes the updated reference levels between 8:00 a.m. and 10:00 a.m. of the day on which it conducts the applicable day-ahead market.[55] CAISO states that, for the day-ahead market for Monday, CAISO will publish updated reference levels between 8:00 a.m. and 10:00 a.m. on the preceding Sunday.

c. Commission Determination

49. We find that CAISO's proposal to use a Monday-only VWAP is just and reasonable and therefore accept it. CAISO's proposal does not conform to the requirements of the *Index Liquidity Order*, but as explained in that order the Commission can evaluate the proposed use of a price to determine whether the proposal results in just and reasonable rates.[56]

50. We find that, given the facts and circumstances in this matter, CAISO has demonstrated that its proposed Monday-only VWAP will result in just and reasonable rates. CAISO has limited its application to circumstances where the Monday-only VWAP demonstrates, given these facts, volume-based and transaction-based indicators of adequate liquidity. In other circumstances, CAISO will revert to using an index based on transactions made on Friday which includes transactions for Saturday, Sunday, and Monday. We also find that when CAISO's proposed criteria are met, the proposed Monday-only VWAP will provide more accurate data for determining appropriate reference levels than is preferable to an index that includes transactions for delivery on Saturday and Sunday, as gas prices for delivery on Monday can vary considerably from the weekend deliveries.

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[55] *Id.*

[56] Index Liquidity Order, 109 FERC ¶ 61,184 at P 69.

3. **Aliso Canyon Proposal**

a. **CAISO Proposal**

51. CAISO proposes to implement on a permanent basis certain changes, previously accepted by the Commission on an interim basis, to address the limited operability of the Aliso Canyon facility,[57] which would otherwise expire on December 31, 2019.

52. First, CAISO proposes to make permanent Tariff provisions to improve the accuracy of the gas commodity price indices it uses to calculate proxy costs, default energy bids, and generated bids used in the day-ahead market, by reflecting the most recent gas commodity information.[58] CAISO asserts that the Commission previously found the Tariff provisions would enable CAISO to address limitations in the natural gas delivery system in southern California and facilitate fuel cost recovery by generators.[59] CAISO states that these Tariff revisions continue to provide the benefits the Commission identified, and it therefore proposes to make these Tariff provisions permanent.[60] CAISO notes that it also proposes to modify these provisions to include the Monday-only VWAP.[61]

53. Second, CAISO proposes to make permanent Tariff provisions to help suppliers make more informed gas procurement decisions by providing them with advisory information regarding their resources' potential commitment in the day-ahead market.[62] CAISO asserts that the Commission previously found that the Tariff revisions can help

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[57] Filing at 4-5.

[58] *Id.* at 53-54 (citing CAISO, CAISO eTariff, § 39.7.1 Calculation of Default Energy Bids (31.0.0), §§ 39.7.1.1.1.3(a)-(c)).

[59] *Id.* at 54 (citing *Cal. Indep. Sys. Operator Corp*., 155 FERC ¶ 61,224, at P 12 & n.13 (2016); *Cal. Indep. Sys. Operator Corp*., 165 FERC ¶ 61,161, at P 45 (2018)).

[60] *Id*. at 55 (citing CAISO, CAISO eTariff, § 6.5.2 Communications Prior to the Day-Ahead Market (18.0.0), § 6.5.2.3.4; *id.* § 6.5.4 RTM Communications Before the Trading Hour (13.0.0), § 6.5.4.2.3; *id.* § 39.7.1 Calculation of Default Energy Bids (33.0.0), §§ 39.7.1.1.1.3(a)-(c); *id.* § 30.4.1 Start-Up and Minimum Load Costs (18.0.0), § 30.4.1.2(b); *id.* § 31.6.1 Criteria for Temporary Waiver of Timing Requirements (10.0.0), § 31.6.1(v)).

[61] *Id.*

[62] *Id.* at 54 (citing CAISO, CAISO eTariff, § 6.5.2 Communications Prior to the Day-Ahead Market (16.0.0), § 6.5.2.2.3).

scheduling coordinators make more informed gas procurement decisions and more closely match their gas procurement with their potential gas consumption, reducing gas and electric reliability risks associated with imbalances between the amount of gas electric generators nominate and the amount of gas they burn.[63] CAISO contends that these Tariff revisions continue to provide the benefits the Commission identified, and it therefore proposes to make these Tariff provisions permanent.[64]

54. CAISO notes that, while it seeks to make permanent the deletion of Tariff Section 31.6.1(v), it inadvertently omitted this deletion in the redlined document provided with its filing. CAISO requests that the Commission direct it to delete Tariff Section 31.6.1(v) in a compliance filing.[65]

b. Commission Determination

55. We accept CAISO's proposal to permanently implement Tariff Section 6.5.2.2.3, which authorizes CAISO to provide advisory information to suppliers regarding their resources' potential commitment in the day-ahead market. We continue to find that these provisions can help scheduling coordinators make more informed gas procurement decisions and more closely match their gas procurement with their gas consumption, which may help reduce reliability risks associated with imbalances between the amount of gas electric generators nominate and the amount they burn.[66]

56. We accept, subject to the condition,[67] CAISO's proposal to permanently implement the provisions regarding the use of the day-ahead gas market index in Tariff Sections 6.5.2.3.4, 6.5.4.2.3 and 39.7.1.1.1.3(a)-(c) and the deletion of Tariff Sections 30.4.1.2(b) and 31.6.1(v). Consistent with CAISO's request, we direct CAISO to submit a compliance filing, within thirty days of the date of this order, deleting Section 31.6.1(v) from its Tariff, a deletion CAISO states was inadvertently omitted in its

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[63] *Id.* (citing *Cal. Indep. Sys. Operator Corp*., 155 FERC ¶ 61,224 at P 16; *Cal. Indep. Sys. Operator Corp*., 165 FERC ¶ 61,161 at P 45).

[64] *Id.* at 55 (citing CAISO, CAISO eTariff, § 6.5.2 Communications Prior to the Day-Ahead Market (18.0.0), § 6.5.2.2.3).

[65] CAISO Answer at 26.

[66] *Cal. Indep. Sys. Operator Corp*., 155 FERC ¶ 61,224 at P 16.

[67] The United States Court of Appeals for the District of Columbia Circuit has held that, in certain circumstances, the Commission has "authority to propose modifications to a utility's [FPA section 205] proposal *if the utility consents to the modifications*." *NRG Power Mktg., LLC v. FERC*, 862 F.3d 108, 114-15 (D.C. Cir. 2017).

initial filing. We find that these permanent deletions will continue to enable CAISO to address limitations in the natural gas delivery system in southern California and facilitate fuel cost recovery by generators.

4. Bid-Effectiveness Threshold

a. CAISO Proposal

57. CAISO states that, based on discussions with DMM, it proposes to clarify the Tariff provision specifying that the CAISO markets software includes a lower effectiveness threshold setting that governs whether the software will consider a bid "effective" for managing congestion on a congested transmission constraint.[68] According to CAISO, DMM asked whether CAISO applies the effectiveness threshold to the individual constraints that make up the nomogram or to the nomogram overall. To provide clarity, CAISO proposes to revise the Tariff Section to state that it applies the effectiveness thresholds to the individual flowgates that make up the nomogram, not to the nomogram itself.[69] CAISO explains that this does not change how CAISO applies the effectiveness threshold. CAISO states that this clarification is not related to the market rule changes proposed in the filing.[70]

b. Commission Determination

58. We find that CAISO's proposal to revise Section 27.4.3.6 of its Tariff to clarify that CAISO's market software applies the bid-effectiveness thresholds to the individual flowgates that make up the nomogram, not to the nomogram itself, is just and reasonable and we therefore accept it. CAISO's proposal will resolve ambiguity in its existing Tariff provision.

The Commission orders:

(A) CAISO's proposed revisions to its Tariff are hereby accepted in part, subject to condition, to become effective on CAISO's actual implementation date, as requested, and rejected in part, as discussed in the body of this order.

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[68] Filing at 56 (citing CAISO, CAISO eTariff, § 27.4.3 CAISO Markets Scheduling and Pricing Parameters (8.0.0), § 27.4.3.6).

[69] *Id.*

[70] *Id.* at 5.

(B) CAISO is hereby directed to notify the Commission of the actual effective date of the Tariff revisions within five business days of their implementation, in an eTariff submittal using Type of Filing Code 150 – Report.

(C) CAISO is hereby directed to submit a compliance filing, within thirty days of the date of this order, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

Document Content(s)