170 FERC ¶ 61,069
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 No. ER20-398-000

ORDER ACCEPTING CONGESTION REVENUE RIGHTS EXCHANGE AGREEMENT

(Issued January 31, 2020)

1. On November 18, 2019, the California Independent System Operator Corporation (CAISO) filed, pursuant to Section 205 of the Federal Power Act (FPA),[1] a Congestion Revenue Rights Exchange Agreement (Agreement) between CAISO and the Transmission Agency of Northern California (TANC). In this order, we accept the Agreement, effective February 1, 2020, as requested.

# I. Background

2. This proceeding concerns an agreement between CAISO and TANC that provides TANC the opportunity to exchange transmission capacity on the California-Oregon Transmission Project (COTP) for option congestion revenue rights.[2] TANC is a joint powers agency and project manager and majority owner of the COTP.[3] The COTP was

[1] 16 U.S.C. § 824d (2018).

[2] Option congestion revenue rights refer to a financial instrument that provides a positive revenue stream to the holder, as opposed to obligation congestion revenue rights, which can provide either a positive or negative revenue stream to the holder. CAISO Transmittal at n.3; CAISO Tariff, Appendix A.

[3] TANC members include the Cities of Alameda, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah, the Modesto and Turlock Irrigation Districts, Sacramento Municipal Utility District, and the Plumas-Sierra Rural Electric Cooperative.

constructed to operate in parallel with the Pacific AC Intertie.[4] The COTP is located in, and is operated by, the Balancing Authority of Northern California (BANC). CAISO explains that the COTP and the Pacific AC Intertie 500kV transmission lines comprise the California Oregon Intertie, for which CAISO is the transmission path operator. CAISO states that in 2013, the Commission accepted an Amended Operating Agreement that allowed PacifiCorp to exchange its transmission capacity on the Pacific AC Intertie for option congestion revenue rights.[5] CAISO states that, in that proceeding, TANC opined that other transmission owners should have similar opportunities.[6]

## II. CAISO Filing

3. CAISO states that pursuant to the Agreement, at least thirty (30) days prior to the beginning of a calendar month, TANC will notify CAISO of the COTP capacity that TANC will release for conversion to congestion revenue rights. The COTP capacity will be released on a directional basis (i.e., as north-to-south or south-to-north transmission capacity). CAISO states that any schedules using TANC COTP rights that are not converted to congestion revenue rights will remain as transactions under TANC's transmission tariff. CAISO explains that it will settle TANC congestion revenue rights as option congestion revenue rights payments when there is a congestion price difference in the day-ahead market between the source and the sink.[7]

4. CAISO asserts that the Agreement would benefit both CAISO and TANC, as well as other CAISO market participants, by increasing the available transmission capacity to and from the Pacific Northwest without affecting other congestion revenue rights holders. In exchange, CAISO states that TANC will receive congestion revenues. CAISO notes that alternatively, TANC can continue to schedule transmission transactions on the COTP and receive revenues under CAISO's tariff. CAISO states that it would be willing to

[4] Pacific Gas and Electric Company (PG&E) built and owns most of the Pacific AC Intertie. Additionally, Western Area Power Administration and PacifiCorp own portions of Pacific AC Intertie. The Pacific AC Intertie is located in the CAISO balancing authority area and CAISO has operational control over it.

[5] *See Cal. Indep. Sys. Operator Corp.*, 142 FERC ¶ 61,246 (2013) (PacifiCorp Order).

[6] CAISO Transmittal at 2.

[7] *Id.* at 1-3.

work with any similarly situated entity that expresses an interest in developing a similar exchange agreement.[8]

## III. Notice and Responsive Pleadings

5. Notice of CAISO's filing was published in the *Federal Register*, 84 Fed. Reg. 64,518 (2019) with interventions and protests due on or before December 9, 2019. Timely motions to intervene were filed by TANC, Southern California Edison Company, Powerex Corp., and Modesto Irrigation District. Timely motions to intervene and comments were filed by PG&E and BANC. CAISO filed an answer on December 19, 2019.

### A. Comments

6. BANC supports the Agreement because market participants will be able to schedule transactions using the transfer capacity made available by TANC, which, according to BANC, may enable CAISO to address congestion more efficiently and with greater flexibility, without affecting other congestion revenue rights holders.[9]

7. PG&E agrees that there will likely be benefits from the Agreement but asserts that the Agreement raises substantial policy and market issues. PG&E contends that because the Agreement gives TANC the option to specify the amount of transmission capacity it exchanges for congestion revenue rights on a monthly basis, TANC could have an incentive to offer an amount that maximizes its own congestion revenues, and to bid such that the affected transmission constraint becomes binding. PG&E states that the Agreement differs from other congestion revenue rights exchanges by merchant transmission owners allowed by the CAISO Tariff,[10] in which the exchange is binding for a long duration.

8. PG&E also argues that the Agreement seems to be predicated on CAISO modeling the transmission capacity on radial facilities into CAISO and ignoring the transmission network outside CAISO. PG&E asserts that this arrangement effectively allows TANC to elect its congestion revenue rights allocation before other participants in the normal election process, thereby giving TANC priority over other market participants. PG&E argues that CAISO should provide more information on how the Agreement would not give TANC (or an entity operating under a similar agreement in the future) priority

[8] *Id.* at 4.

[9] BANC Comments at 3.

[10] PG&E Comments at 4 (citing CAISO Tariff, § 36.11).

access to other parts of the system to form the congestion revenue rights options. PG&E also contends that if, in the future, CAISO enters into a similar agreement with an entity that has networked transmission rights, such an arrangement could give that entity rights to congestion that may arise on lines other than the facility on which CAISO is given capacity for use.[11] Thus, PG&E recommends that the Commission accept the Agreement for a two-year duration before extending the provisions indefinitely, and require CAISO to provide an annual analysis on the market impacts of the type and timing of congestion revenue rights exchanges under the Agreement. PG&E further recommends that CAISO open a stakeholder process to review market results and policy implications of such arrangements.[12]

### B. CAISO Answer

9. CAISO contends that PG&E's request for conditional acceptance of the Agreement ignores the fact that the Commission accepted the same type of exchange agreement with PacifiCorp (PacifiCorp Agreement).[13] CAISO acknowledges that elections by PacifiCorp are on a quarterly basis, rather than the monthly election specified in the Agreement, but argues that acceptance of the Agreement is supported by the same reasoning that supported the Commission's acceptance of the PacifiCorp Agreement. Specifically, CAISO highlights that, in the PacifiCorp Order, the Commission found that the PacifiCorp Agreement will result in increased market efficiency and rejected the assertion that "CAISO is unfairly providing benefits to PacifiCorp because . . . this proposal will benefit all parties transacting on the Pacific AC Intertie by making additional capacity available for day-ahead scheduling."[14] CAISO asserts that the Agreement will implement the same type of exchange arrangement as the PacifiCorp Agreement and, therefore, will provide the same type of benefits.[15]

10. CAISO also argues that PG&E fails to provide any precedent in support of its request that the Commission accept the Agreement for a limited two-year period. CAISO argues that, should any party believe that the Agreement has become unjust and unreasonable, the remedy afforded by the FPA is for the Commission or another party to

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[11] *Id.* at 4-6.

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

[13] CAISO Answer at 3 (citing PacifiCorp Order, 142 FERC 61,246).

[14] *Id.* at 3-4 (citing PacifiCorp Order, 142 FERC ¶ 61,246 at P 21).

[15] *Id.* at 4.

initiate a proceeding under FPA Section 206. Further, CAISO asserts that conditioning acceptance of the Agreement on a two-year duration may result in no implementation of any agreement with TANC.[16]

11. CAISO argues that the Commission should reject PG&E's request for additional analysis and reporting because the Commission already rejected the argument that this type of arrangement provides unfair benefits in the PacifiCorp Order.[17] CAISO contends that - like the exchange facilitated in the PacifiCorp Agreement - TANC will have a financial incentive to make its transmission capacity available during months when congestion is most likely to materialize. TANC argues that such incentive is appropriate because congestion revenue is the only mechanism by which TANC (like PacifiCorp) can be compensated for capacity made available to CAISO. CAISO also points out that periods when congestion is most likely to materialize is exactly when market participants benefit most from the additional transmission capacity.[18] Further, CAISO notes that PG&E already has access to data that will allow it to track TANC's release of transmission capacity on the CAISO Open Access Same-Time Information System (OASIS), so additional reporting is unnecessary. CAISO states that it has seen no evidence that the PacifiCorp Agreement has had adverse impacts on CAISO market participants in the six and a half years it has been in effect. Lastly, CAISO states that it intends to evaluate the impacts of the Agreement after two (2) years to determine whether congestion has improved.[19]

12. Finally, CAISO claims that PG&E's arguments related to transmission system modeling are beyond the scope of this proceeding. Nevertheless, CAISO explains that the modeling of the congestion revenue rights options provided to TANC will be consistent with the process for how CAISO models the congestion revenue rights options provided under the PacifiCorp Agreement. CAISO also argues that PG&E's concerns about hypothetical future exchange agreements are premature because CAISO would need to file any such agreement with the Commission.[20]

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[16] *Id.* at 5-7.

[17] *Id.* (citing PacifiCorp Order, 142 FERC ¶ 61,246 at P 21).

[18] *Id*. at 7-8.

[19] *Id*. at 9.

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

## IV. Discussion

### A. Procedural Matters

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

14. 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

15. We accept the proposed Agreement, effective February 1, 2020, as requested. We find that the Agreement is a just and reasonable arrangement providing benefits to both parties without impacting the current allocation of congestion revenue rights. Specifically, we find that the Agreement benefits TANC by providing the opportunity for a new stream of revenue and benefits the CAISO market generally by increasing the ability of CAISO market participants to schedule transactions on the COTP and enabling CAISO to address congestion on its system more efficiently.

16. We reject PG&E's arguments concerning the Agreement. We find that the arrangement will result in increased market efficiency by allowing CAISO to address congestion more efficiently and reliably, which is the same rationale that supported acceptance of the PacifiCorp Agreement.[21] The terms of the agreements are broadly similar in that they both involve an exchange of transmission capacity for congestion revenue rights. PG&E contends that the instant filing differs from the PacifiCorp Agreement because of the monthly nature of the election; however, we do not believe this is a meaningful distinction. As CAISO notes, the Agreement provides an incentive to TANC to release transmission capacity during months when congestion revenue rights are most valuable, and it is during these months that the transmission capacity has the greatest potential to benefit market participants. Further, TANC must commit to the capacity being released for the entire period. Moreover, neither PG&E nor any other party has argued that the PacifiCorp Agreement has had adverse impacts on the CAISO market to date.

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[21] PacifiCorp Order, 142 FERC ¶ 61,246 at P 6.

17. Regarding PG&E's concern about the modeling of the transmission system as it relates to the congestion revenue rights in an exchange agreement, the modeling of the congestion revenue rights options being provided to TANC will be consistent with how CAISO currently models the congestion revenue rights under the PacifiCorp Agreement. Under the PacifiCorp Agreement, the modeling includes radial injections at relevant scheduling points.[22] We find that CAISO's approach- as it relates to this similar Agreement- is therefore reasonable. We also agree with CAISO that PG&E's concerns about modeling issues in a looped transmission configuration that may arise under a hypothetical future exchange agreement are beyond the scope of this filing.

18. We also reject PG&E's request that the Agreement have a two-year term. We find the Agreement to be just and reasonable and reject PG&E's challenges for the reasons discussed herein. Thus, based upon the record here we see no reason why the Agreement should be time-limited.

19. Finally, we decline to adopt PG&E's recommendation for annual reporting by CAISO. In light of the information on released transmission capacity available through CAISO's OASIS,[23] we find no need for CAISO to file similar information with the Commission.

<u>The Commission orders</u>:

The Agreement is hereby accepted, effective February 1, 2020, as discussed in the body of this order.

By the Commission.

( S E A L )

Kimberly D. Bose,
Secretary.

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[22] *Id.* at 11.

[23] *Id.* at 9.

Document Content(s)