

140 FERC ¶ 61,044
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Philip D. Moeller, John R. Norris,
Cheryl A. LaFleur, and Tony T. Clark.

SIG Energy, LLLP

Docket No. EL12-55-000

v.

California Independent System Operator Corporation

ORDER DENYING COMPLAINT

(Issued July 19, 2012)

1. On April 4, 2012, pursuant to Rule 206 of the Commission's Rules of Practice and Procedure,¹ SIG Energy, LLLP (SIG) filed a petition against the California Independent System Operator Corporation (CAISO). SIG alleges that CAISO's determination of the settlement price for congestion revenue rights (CRR) at certain pricing nodes on certain dates in 2011 resulted in unjust and unreasonable rates, in violation of CAISO's tariff and business practice manuals. SIG requests that the Commission direct CAISO to resettle SIG's CRR payments. As discussed below, we find that CAISO correctly determined SIG's CRR settlement price for the trading dates at issue and will, therefore, deny SIG's complaint, as amended.

I. Background

A. CAISO CRRs

2. CRRs are financial instruments that allow market participants to manage their exposure to transmission congestion costs in the day-ahead market. Each CRR is structured as a pair of points: a "source," where the power is injected into the transmission system, and a "sink," where the power is taken off the system. Each CRR

¹ 18 C.F.R. § 385.206 (2011).

also has a designated megawatt (MW) quantity and a term, consisting of either a season or a month.

3. CRRs are released to market participants on an annual basis for seasonal CRRs and on a monthly basis for monthly CRRs. The quantity of CRRs available for release is based on a transmission network model of CAISO's transmission system (CRR full network model). CRRs are settled on an hourly basis in the day-ahead market based on the difference in the marginal cost of congestion, a component of the locational marginal price, between the source and sink points. If either the source or sink pricing node² becomes physically disconnected from the system, section 27.1.1 of the CAISO tariff specifies that “the closest electrically connected [pricing node] will serve as the location from which the ISO will select the [locational marginal price] for the disconnected node.”³

B. SIG Complaint

4. SIG states that it purchased CRRs for 2011, sourced at various points and sinking at the South Point 69 kilovolt (kV) pricing node, in CAISO's annual auction. SIG reports that in August 2011 it held 305.4 MW of seasonal contracts for CRRs sinking at the South Point node. SIG alleges that on August 17 and August 19, 2011, a binding transmission constraint should have resulted in revenue payments to holders of CRRs that sink at the South Point node. SIG argues that CAISO improperly assumed that the South Point node was disconnected from the CAISO network on August 17 and 19, 2011. CAISO therefore, erred in calculating the marginal cost of congestion used to determine the payment to the South Point node CRR holders on those dates in violation of its tariff and business practice manuals, resulting in significant financial harm to SIG.⁴

5. SIG contends that, at the time of settlement of the CRRs on August 17 and August 19, 2011, CAISO should have modeled the South Point Node as connected to the network, which was the way the CRRs were modeled when SIG purchased them. SIG insists that if CAISO modeled a CRR node as connected to the network at the time of sale, the settlement model must likewise treat that node as connected to the network unless there is documentation to show that the CRR node had in fact become physically disconnected. SIG argues that doing otherwise is inconsistent with the tariff, is unjust

² A pricing node is the location where a physical injection or withdrawal is modeled and for which a locational marginal price is calculated and used for financial settlements. CAISO Tariff, Appendix A.

³ CAISO Tariff, § 27.7.1.

⁴ SIG April 4, 2012 Complaint at 10-11, 33-34 (SIG Complaint).

and unreasonable, and prevents CRR holders from getting the benefit of their bargain. SIG asserts that, based on CAISO's responses to SIG's inquiries about the settlements in question, CAISO appears "to have simply assumed" that the South Point node was disconnected from the network on those dates. SIG states that CAISO has provided no outage report or other documentation for the disconnection.⁵

6. Further, SIG argues that if the South Point node was disconnected on August 17 and August 19, 2011, CAISO selected the wrong node as the proxy price for settlement of CRRs sinking at the South Point node. SIG contends that the CAISO tariff requires CAISO to use the "electrically closest connected pricing node for CRRs that was on the same side of the constraint" as a proxy node.⁶ SIG asserts that the proxy node used by CAISO, the Mohave 1 node, was not a viable CRR node and was not on the same side of the constraint as the node it was replacing. Rather, SIG claims that CAISO should have used the Laughlin 500 kV node as a proxy because it is the electrically closest connected pricing node on the same side of the constraint as the South Point node. By applying a price from an unconstrained point, SIG contends that CAISO has contravened the entire purpose of CRRs, which is to hedge the risk of congestion.⁷

7. Finally, SIG alleges that a notice posted by CAISO implies that the South Point node may have been permanently removed from service as of June 2011. SIG states that the notice indicated that the South Point 69 kV line was removed from service as part of a June 11 through June 13, 2011 transmission outage, but did not elaborate on what this meant for CRRs sinking at the South Point node, or the duration of the outage. SIG claims that the revision history of CAISO's CRR business practice manual makes clear that CAISO must use a biddable node when it selects a substitute for a disconnected node.⁸ SIG states that Mohave 1 is not a biddable node. Further, SIG argues that the CAISO tariff requires CAISO to determine whether CRRs sinking at a permanently impaired or retired node remain feasible and, if not, to assign the CRR customer the next closest electrically connected CRR biddable node.⁹ Thus, SIG argues that, assuming the

⁵ *Id.* at 19-21.

⁶ *Id.* at 23.

⁷ *Id.* at 23-29.

⁸ *Id.* at 27 (citing CAISO CRR Business Practice Manual, Version 10, "Disconnected [pricing nodes] [are] now mapped to CRR *biddable* [pricing nodes]." (emphasis in the original)).

⁹ *Id.* at 30 (citing CAISO Tariff, § 36.4.2 and Attachment B of the CRR Business Practice Manual).

South Point node was permanently disconnected from the CAISO transmission system, CAISO should have assigned a suitable replacement node before the congestion events of August 17 and 19, 2011. SIG contends that the Laughlin node would have been the appropriate replacement.¹⁰

8. SIG claims that CAISO's alleged modeling and settlement errors resulted in an aggregate CRR underpayment of \$4,754,467 to SIG for the month of August 2011. Thus, SIG requests that the Commission order CAISO to refund to SIG \$4,754,467, plus interest, to reflect the appropriately calculated value of its CRRs held on those dates.¹¹

II. Notice of Filing and Responsive Pleadings

9. Notice of SIG's complaint was published in the *Federal Register*, 77 Fed. Reg. 24,192 (2012), with interventions due on or before May 4, 2012. Timely motions to intervene were filed by the City of Santa Clara, California and the M-S-R Public Power Agency; Southern California Edison Company (SoCal Edison); California Department of Water Resources State Water Project; and Pacific Gas and Electric Company.

10. On May 1, 2012, CAISO submitted a motion requesting an extension of time until May 11, 2012 to file its answer. SIG filed an answer supporting CAISO's motion. Notice granting the extension of time was published on May 3, 2011.

11. CAISO timely filed its answer. SoCal Edison filed comments. SoCal Edison suggests that, regardless of how the complaint is resolved, the Commission should direct CAISO to revise its tariff and CRR business practice manual in order to provide for a formal procedure for notifying CRR holders of node changes.¹² SIG filed an answer on May 29, 2012. On June 13, 2012 CAISO filed an answer to SIG's answer.

12. On July 2, 2012, SIG filed an amended complaint requesting an additional \$700,140 in refunds.

III. CAISO Answer

13. CAISO contends that SIG's arguments are without merit. To provide context for its answer, CAISO describes the process for developing and modifying the CRR full network model. CAISO states that the CRR full network model it uses for an upcoming annual release of CRRs is based on the topology of the transmission system at the time

¹⁰ *Id.* at 29-31.

¹¹ *Id.* at 33-34.

¹² SoCal Edison May 11, 2012 Comments.

CAISO prepares the model. CAISO notes that because building each version of the CRR full network model is a complex process that takes several months to complete, the topology and conditions represented in the model are not necessarily identical to the topology and system conditions on a specific trading date covered by the CRRs. CAISO states that, while it does not go back and re-run the model after it has been finalized, it does provide an opportunity for market participants to review the model before finalization. Further, pursuant to its CRR business practice manual, CAISO does not implement changes in topology in the CRR full network model if they are not yet included in the full network model used for general market operations.¹³

14. In response to SIG's allegations, CAISO asserts that it did not simply assume that the South Point node was disconnected on August 17 and 19, 2011. Rather, CAISO asserts that its treatment of the South Point node as disconnected was consistent with the configuration of the transmission grid in the model used for settling CRRs. CAISO explains that the default position of the South Point line is that it is disconnected, and the day-ahead market is normally run using that configuration. CAISO asserts that it treats the South Point node as connected only when CAISO receives notice that the Laughlin node is disconnected. CAISO avers that the telemetry data also demonstrates that the South Point node was disconnected on the dates in question.¹⁴

15. CAISO acknowledges that it modeled the South Point line as connected when it determined the feasibility of CRRs for the auction, but points out that all nodes at which CRRs are offered must be modeled as connected. CAISO explains that if a node was modeled as disconnected for purposes of this feasibility determination, no CRRs would be released at that node and parties forced to schedule at that node would be unable to protect themselves against congestion in the day-ahead market. Thus, because the CRR feasibility determination does not take into account whether a node is normally operated as connected or disconnected, CAISO rejects SIG's claim that the CRR feasibility modeling must dictate how CRRs at a particular node are settled.¹⁵

16. CAISO admits that it erred when performing the modeling to establish the amount of CRRs available for each pricing node for the 2011 annual CRR auction by incorrectly excluding the South Point line from the definition of the Laughlin branch group. However, CAISO argues that this error provides no support for using the price at the Laughlin node for settlement of CRRs at the disconnected South Point node. Indeed, CAISO explains that because the Laughlin branch group is fully encumbered by

¹³ CAISO May 11, 2012 Answer at 6-8 (CAISO Answer).

¹⁴ *Id.* at 2, 12-13.

¹⁵ *Id.* at 13.

transmission ownership rights in the export direction, i.e., the direction of flow at issue here, any reassigned CRRs from South Point to Laughlin would be infeasible unless the reassignment included counterbalancing CRRs, of which there were none. CAISO asserts, therefore, that the proper remedy for the error would be to eliminate SIG's South Point CRRs, not to use the same price to settle the Laughlin and South Point nodes.¹⁶

17. CAISO maintains that its use of the Mohave 1 node as a substitute node for South Point was consistent with the CAISO tariff. CAISO contends that the relevant sections of its tariff require it to use the locational marginal price at the closest electrically connected node as a substitute for a disconnected node when calculating congestion costs. CAISO avows that its tariff contains no requirement that the substitute node also be a biddable node or that it be on the same side of a particular constraint. Further, CAISO contends that SIG's tariff interpretation is not only contrary to the plain language of the tariff, but also operationally infeasible. CAISO points out that when a scheduling point is disconnected there is not generally an alternative node on the same side of the constraint and explains that Laughlin is a minority exception to the more prevalent configuration.¹⁷

18. CAISO asserts that SIG's reliance on the reference to biddable nodes in the revision history for the CRR business practice manual is misplaced. CAISO states that, while the revision history contains the statement "[d]isconnected nodes [are] now mapped to CRR biddable nodes," nothing in the actual language of the CRR business practice manual refers to biddable nodes. CAISO discloses that, despite its intention, it inadvertently failed to include in the CRR business practice manual a modified methodology for selecting a new biddable pricing node for outstanding CRRs in the event that a pricing node is retired from the full network model. CAISO avers that it never intended to map disconnected (as opposed to retired) pricing nodes to CRR biddable pricing nodes. Moreover, CAISO states that the revisions regarding retired pricing nodes did not become effective until August 23, 2011, almost a week after the trading dates in question. Thus, CAISO asserts that the retired node revisions could not have had any impact on the selection of a substitute pricing node for the South Point node on August 17 and 19, 2011.¹⁸

19. CAISO also refutes SIG's assertion that, pursuant to section 36.4.2 of the CAISO tariff and section B.14 of the CRR business practice manual, the removal of certain 69 kV facilities interconnecting Mohave and South Point requires CAISO to replace the South Point CRRs with CRRs at a biddable replacement node. CAISO argues that

¹⁶ *Id.* at 14-15; Price Testimony at P 43-46.

¹⁷ *Id.* at 16-20.

¹⁸ *Id.* at 20-22.

section 36.4.2 of the CAISO tariff is not relevant to this issue. CAISO explains that section 36.4.2 is the mechanism by which it addresses the infeasibility of seasonal CRRs caused by outages and derates by increasing the transfer capacity on the overloaded facilities just enough to make the seasonal CRRs feasible. CAISO argues that, in this case, increasing the transfer capacity was not an option because, following the removal of the 69 kV line from service, there was no additional capacity to be made available, so section 36.4.2 did not apply.¹⁹

20. Finally, CAISO argues that even if the retired node reassignment provisions were applicable in this case, these provisions would not provide the remedy SIG seeks (i.e., use of the Laughlin pricing node, rather than Mohave 1, as a substitute for the South Point node). CAISO asserts that the applicable sections of its tariff and CRR business practice manual provide that if, following the assignment of a replacement node, the reconfigured CRRs are not feasible, they will be reduced until they achieve feasibility. Due to the initial modeling error, as discussed above, CAISO issued CRRs at South Point without a corresponding counterflow to make additional CRRs at Laughlin feasible. Thus, from an operational perspective, CAISO would not have been able to award Laughlin CRRs to SIG even if it had tariff authority to do so on the trading dates at issue.²⁰

IV. Amended SIG Complaint

21. SIG alleges that on February 2, 3, 4, 5, and 7, 2011, CAISO settled SIG's South Point CRRs using Mohave 1 as the substitute pricing node. SIG does not contest the question of whether the South Point node was disconnected on those dates. Rather, SIG continues to argue, based on the same arguments presented in its original complaint, that CAISO's use of the Mohave 1 pricing node, rather than the Laughlin node, as a substitute for the disconnected South Point node violated CAISO's tariff and was unjust and unreasonable. SIG points to a June 13, 2012 email, in which CAISO notified CRR market participants that all CRRs sinking at South Point node will be reassigned to Laughlin node, as evidence that CAISO now agrees with SIG's assertion that it should have used Laughlin as the substitute pricing node to settle SIG's South Point CRRs. SIG asserts that CAISO's settlement errors for the February trading dates increase its total amount of relief requested by \$700,140, for a total refund amount of \$5,454,607.²¹

¹⁹ *Id.* at 23; CAISO Tariff, § 36.4.2.

²⁰ *Id.* at 23-24.

²¹ SIG July 2, 2012 Amended Complaint.

V. Discussion

A. Procedural Issues

22. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2011), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

23. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2011), prohibits an answer to an answer unless otherwise ordered by the decisional authority. We are not persuaded to accept SIG's answer or CAISO's June 13, 2012 Answer and will, therefore, reject them.

B. Commission Determination

24. We will deny SIG's complaint, as amended. Despite the technical complexity of this case, we find that resolution of this matter hinges on two fundamental questions: (1) was the South Point pricing node disconnected on the relevant trading dates; and, if so (2) did CAISO comply with the provisions for settlement of CRRs at disconnected or retired pricing nodes in the then-effective CAISO tariff and corresponding business practices? As discussed below, we find no violations of the then-effective CAISO tariff in CAISO's treatment of the South Point node as disconnected or in its selection of Mohave 1 as the substitute pricing node.

25. With respect to the first question, we find no merit to SIG's allegation that CAISO improperly assumed, without evidence, that the South Point node was electrically disconnected. To the contrary, the record demonstrates that the South Point pricing node was, in fact, electrically disconnected on August 17 and 19, 2011. As a result, CAISO would not need to rely on outage reports in order to know that the South Point line is electrically disconnected as argued by SIG. More importantly, actual telemetry data from August 17 and 19, 2011 demonstrate that there were no flows to the South Point node,²² corroborating what CAISO already knew, based on the default configuration of the transmission grid.

26. Given that the South Point node was disconnected on August 17 and 19, 2011, CAISO was required to settle SIG's CRRs in accordance with the applicable provisions of CAISO's then-effective tariff and business practices. Pursuant to section 27.1.1 of the then-effective tariff, the proper course of action was to settle the CRRs at disconnected nodes based on the locational marginal price at the closest electrically connected node. In this case, the closest electrically connected pricing node, as determined by the process

²² CAISO Answer at 13.

specified in the CRR business practice manual, was the Mohave 1 node. Thus, we find that CAISO complied with its then-effective tariff and business practices when it treated the South Point node as disconnected and used Mohave 1 to settle SIG's South Point CRRs.

27. We find no support in either the CAISO tariff or the CRR business practice manual for SIG's assertion that the replacement node must be biddable in the CRR auction process and on the same side of the constraint as the disconnected node. SIG's reliance on the statement in the business practice manual revision history regarding biddable pricing nodes is misplaced because: (1) the referenced revision does not appear in the text of the manual; and (2) the intended revisions did not become effective until after the trading dates at issue here. Moreover, even though certain transmission facilities associated with the South Point node appear to have been removed prior to the congestion events on August 17 and 19, 2011 and even if the retired node reassignment revisions had been in effect at that time, we find that CAISO would not have been able to award Laughlin CRRs to SIG due, as discussed above, to the lack of available counterflow CRRs.²³ Thus, we find no basis in either the tariff or CRR business practice manual for using the Laughlin node to settle SIG's South Point CRRs for August 17 and 19, 2011.

28. With regard to SIG's request in its amended complaint for additional relief for the February trading dates, we find that SIG's new allegations suffer from the same deficiencies as its original complaint. As discussed above, CAISO complied with its then-effective tariff and business practices on the dates in question when it settled SIG's South Point CRRs using Mohave 1 as a substitute pricing node. We find that SIG's reliance on the June 13, 2012 email is misplaced because it has no bearing on the tariff rules that governed CAISO's CRR settlement practices on the dates included in both SIG's original and amended complaints. The June 13, 2012 email communicates a prospective CRR reconfiguration based on the retirement of the South Point node, a permanent change in the topology of the CAISO grid. This announcement does not change the fact that in 2011, pursuant to CAISO's then-effective tariff, Mohave 1 was the correct substitute pricing node when South Point was disconnected. Thus, we disagree with SIG's assertion that CAISO's prospective reconfiguration of the South Point CRRs serves as evidence that CAISO should have used the Laughlin node as a substitute pricing node for South Point in 2011.

29. With regard to SoCal Edison's comments regarding CAISO's change notification procedures, we find that this type of tariff revision is beyond the scope of this proceeding, which is limited to the settlement of SIG's South Point CRRs on August 17 and 19, 2011. As such, we find that SoCal Edison's concerns would be more appropriately addressed through a CAISO stakeholder process.

²³ See *supra* P 15, n.17.

The Commission orders:

SIG's complaint, as amended, is hereby denied, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.