

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**California Independent System)
Operator Corporation)** **Docket No. ER23-____-000**

**PETITION FOR LIMITED WAIVER OF
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR
CORPORATION**

The California Independent System Operator Corporation (CAISO) respectfully requests a limited waiver to excuse the CAISO from utilizing the average of two vendor indices to reflect the greenhouse gas allowance price in reference levels for resources in Washington, as required by CAISO tariff section 39.7.1.1.1.4. Two vendor indices are not currently available but the CAISO expects a second vendor to publish its index in early June. The waiver would permit the CAISO to continue using the most recent auction price as the basis for that calculation until the CAISO systems are ready to consume daily vendor data, no later than December 15, 2023.¹ This petition seeks a waiver for a limited period of time, reflects that the CAISO has acted in good faith, and addresses a concrete problem. Granting the relief requested will not create undesirable outcomes.

¹ The CAISO submits this petition for limited waiver pursuant to Rule 207 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.207. Capitalized terms not otherwise defined herein have the meanings set forth in the CAISO tariff.

The CAISO anticipates that two indices reflecting Washington greenhouse gas allowance price will become available in June 2023.² The CAISO's systems, however, are not yet able to consume vendor data on a daily basis and will not be ready to do so until on or about October 1, 2023. Instead, the CAISO relies on a manual process to reflect a Washington greenhouse gas allowance price in resources' reference levels based on the most recent greenhouse gas allowance price from auctions administered by the Washington Department of Ecology. The CAISO requests authority to continue to employ this manual process until it has deployed system upgrades and required testing.

I. Background

On November 21, 2022, the CAISO filed a tariff amendment to allow resources within Washington to reflect their cost of greenhouse gas compliance associated with Washington State's new cap-and-invest program in their reference levels for default energy bids and commitment costs.³ The CAISO uses reference levels to calculate a participating resource's default energy bid and default commitment costs. Default energy bids are used in the local market power mitigation process, and commitment costs are similarly used to determine whether to commit the resource as part of a security constrained unit commitment. The Federal Energy Regulatory Commission (Commission) approved this tariff amendment, subject to a compliance filing and effective with

² The Intercontinental Exchange provided notice to clients via email that it will begin publishing an index for Washington's cap-and-invest program in early June. ARGUS has already been publishing its index.

³ *Tariff Amendment to Implement Reference Level Changes for Washington Resources to Reflect Costs of Greenhouse Gas Compliance*, ER23-474-000 (filed Nov. 21, 2022).

notice from the CAISO.⁴ The tariff amendment ultimately went into effect on May 1, 2023.⁵

With the rollout of Washington's cap-and-invest program, the CAISO proposed a phased approach to utilize the best available proxy for the compliance cost, or price of greenhouse gas allowances. The CAISO currently utilizes the most recent allowance auction price in calculating the greenhouse gas allowance price. Tariff section 39.7.1.1.1.4 requires the CAISO to begin using the average of the two prices from Intercontinental Exchange and ARGUS when these two indices are both available. ARGUS has been publishing an index for most of the year, and the CAISO expects the Intercontinental Exchange to begin publishing its index in early June.

The CAISO will likely launch the software it is developing to support the daily consumption and processing of these two indices in October 2023. However, to allow Washington resources to reflect the cost of greenhouse gas emissions compliance in their default energy bids and commitment costs in advance of the full software changes, the CAISO implemented the tariff amendments using a manual process. Rather than utilizing the new cost component specific to greenhouse gas compliance that will be implemented in the full software update, the CAISO allows Washington resources to include these greenhouse gas costs in their fuel costs. Resources may do this by

⁴ *Cal. Indep. Sys. Operator Corp.*, 182 FERC ¶ 61,067 (2023); Letter Order, ER23-474-001 (April 20, 2023).

⁵ *Informational Filing of Effective Date of Washington WEIM Greenhouse Gas Compliance Tariff Amendment*, ER23-474 (filed May 5, 2023).

selecting from among a series of new fuel regions that include these costs. Fuel regions reflect a specific combination of gas commodity prices, gas transportation costs, and other fuel-related miscellaneous costs. Resources can elect to assign themselves to fuel regions to more accurately capture their fuel costs, provided that the fuel region is appropriate given the resource's geographic location, gas supplier, and other specifics. Updating fuel regions is a manual process and thus can support changes in greenhouse gas compliance costs associated with periodic new auction results, but it cannot be updated daily to reflect vendor index prices. Implementing this fuel region option was critical for Washington resources that were already incurring compliance costs but were unable to reflect them in their reference levels due to the lead time necessary to implement system changes to support full functionality to consume daily indices. The CAISO provided notice to stakeholders of this fuel region option prior to implementation.⁶

At the time of implementation and until the two indices are published, this manual process is consistent with the tariff because it uses the most recent auction price.⁷ Regardless, even when the two indices become available—likely in early June—the CAISO is still unable to use a daily index price because it is still working to configure its systems to consume and utilize the index prices. The CAISO expects its external vendor to deliver the necessary software code by

⁶ See <http://www.caiso.com/Documents/washington-weim-greenhouse-gas-enhancements-notice-of-expected-activation.html>.

⁷ The CAISO suggested this waiver may be necessary in its notice of effective date. See *Id.*

June 30, 2023. Pursuant to its standard implementation cycle process, upon receiving the software code, the CAISO plans to conduct testing and undertake a market simulation stage before moving into the final deployment implementation phase. After the CAISO completes this final phase, it plans to promote its software enhancement into its production system on or before October 1, 2023.

Washington's Department of Ecology has published a schedule of expected auction dates, including May 31, 2023 and August 30, 2023.⁸ The CAISO will update the calculation of the greenhouse gas allowance price to reflect the price from these auctions, ensuring that the calculation is as current as possible before the software changes are implementable.

II. Petition for Waiver

Good cause exists for the Commission to grant a limited waiver to excuse the CAISO from utilizing the average of two vendor indices in calculating the greenhouse gas allowance price for resources in Washington and instead permit the CAISO to continue using the most recent auction price as the basis for that calculation until system changes are ready, no later than December 15, 2023. The Commission previously has granted requests for tariff waivers where: (1) the applicant acted in good faith; (2) the waiver was of limited scope; (3) the waiver addressed a concrete problem; and (4) the waiver did not have undesirable

⁸ See <https://apps.ecology.wa.gov/publications/documents/2302007.pdf>.

consequences, such as harming third parties.⁹ This waiver petition meets all four conditions.

The CAISO has acted in good faith because it implemented a manual process to ensure Washington resources could reflect the cost of greenhouse gas compliance in their reference levels as soon as possible, rather than awaiting a software solution—a delay that would otherwise negatively impact market participants incurring these compliance costs. The CAISO’s manual solution is consistent with the tariff until the two vendor indices are published. The CAISO promptly filed this request after confirmation that the second vendor index would be available. The waiver is of limited scope because it will apply only for approximately seven months, with the systems expected to be available even sooner, and the greenhouse gas allowance price will be updated within that time at least twice to reflect the most current cost data from the Washington auctions. The waiver will also remedy the concrete problem that the CAISO cannot implement the move to an average cost under the tariff without the necessary software upgrades to consume vendor prices daily. Further, the waiver will not have undesirable consequences because the CAISO can continue to calculate the greenhouse gas allowance price for Washington resources using the most recent auction price.

⁹ See, e.g., *Cal. Indep. Sys. Operator Corp.*, 173 FERC ¶ 61,185, at P 6 (2020); *Cal. Indep. Sys. Operator Corp.*, 158 FERC ¶ 61,072, at P 5 (2017); *N.Y. Indep. Sys. Operator, Inc.*, 146 FERC ¶ 61,061, at P 19 (2014); *PJM Interconnection, L.L.C.*, 146 FERC ¶ 61,041, at P 5 (2014); *ISO New England, Inc.*, 134 FERC ¶ 61,182, at P 8 (2011).

Therefore, good cause exists to grant the CAISO's request for limited waiver to permit it to continue utilizing the most recent auction price to calculate the greenhouse gas allowance price until the software is available to utilize the average of the two vendor indices.

III. Conclusion

For the foregoing reasons, the Commission should find that good cause exists to grant this request for limited waiver.

Respectfully submitted,

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Dated: June 2, 2023

CERTIFICATE OF SERVICE

I certify that I have served the foregoing document upon the parties listed on the official service list in the captioned proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 2nd day of June, 2023.

/s/ Jacqueline Meredith

Jacqueline Meredith
An employee of the California ISO