ORDER ACCEPTING TARIFF REVISIONS

(Issued March 31, 2011)

1. On January 26, 2011, the California Independent System Operator Corporation (CAISO) submitted, pursuant to section 205 of the Federal Power Act (FPA)\(^1\) and Part 35 of the Commission’s regulations,\(^2\) revisions to its tariff to modify the provisions under which resources recover start-up and minimum load costs.\(^3\) CAISO also proposes to clarify tariff provisions regarding how daily updates to the master file\(^4\) are made.\(^5\) This order accepts CAISO’s proposed tariff revisions, to become effective April 1, 2011, as requested.

I. **Background**

2. Under section 30.4 of the current CAISO tariff, resources are permitted to recover their start-up and minimum load costs through the election of either a proxy cost option or a registered cost option. The proxy cost option is a cost-based recovery option that includes a fuel cost component that is updated on a daily basis to account for changes in the cost of gas in the daily spot market.\(^6\) The registered cost option is a market-based recovery option under which a resource submits start-up and minimum load bids that do

---


\(^3\) CAISO Tariff § 30.4, 30.4.1.1, 30.4.1.2, 30.7.9, and 30.7.10.

\(^4\) The CAISO master file is a file containing information regarding generating units, loads and other resources. CAISO Tariff, Appendix A.

\(^5\) CAISO Tariff § 30.7.3.2.

\(^6\) CAISO Tariff § 30.4.
not need to reflect the resource’s actual costs. The registered cost option allows resources to bid at any level below a unit-specific offer cap set by CAISO. The current Commission-accepted cost cap for the registered option is 200 percent of a resource’s projected proxy cost. The tariff allows a scheduling coordinator to switch to the proxy cost option for the balance of any 30-day period if the value calculated for the proxy cost option exceeds the registered cost option.

3. As originally approved by the Commission, the CAISO tariff specified that a unit’s election of either the proxy cost option or registered cost option applied to both the start-up costs and minimum load costs and remained in effect for six months. In an order issued September 29, 2009, the Commission accepted, among other things, CAISO’s proposal to allow resources to select between the proxy cost and registered cost options for start-up and minimum load costs every 30 days, rather than every six months. The Commission found in that proceeding that the proposal to decrease the time period for elections from six months to 30 days increased the flexibility for resource owners to choose the option that best enabled recovery of a resource’s start-up and minimum load costs.

4. In this proceeding, CAISO proposes tariff revisions to further increase resource owners’ flexibility in choosing between the options available to recover start-up and minimum load costs by allowing a resource to select different recovery option for each type of cost and by introducing a daily bid option.

II. Notice and Responsive Pleadings

5. Notice of the CAISO Filing was published in the Federal Register, 76 Fed. Reg. 6125 (2011), with interventions and comments due on or before February 16, 2011. Timely motions to intervene were filed by Calpine Corporation (Calpine); the Cities of

---

7 CAISO Tariff § 39.6.1.6.
8 CAISO Tariff § 30.4.1.2.
12 Id. P 26-34.
Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California; the City of Santa Clara, California; Dynegy Morro Bay, LLC, Dynegy Moss Landing, LLC, Dynegy South Bay, LLC, and Dynegy Oakland, LLC (collectively, Dynegy); JP Morgan Ventures Energy Corporation and BE CA LLC; Modesto Irrigation District; NRG Companies (NRG); Northern California Power Agency; Pacific Gas and Electric Company; and Southern California Edison (SoCal Edison). Comments were filed by SoCal Edison, Calpine, Dynegy, and NRG (California Generators) jointly filed a protest. CAISO and California Generators submitted answers.

III. Discussion

A. Procedural Matters

6. Pursuant to Rule 214 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2010), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

7. Rule 213(a)(2) of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2010), prohibits an answer to a protest unless otherwise ordered by the decisional authority. The Commission will accept the answers submitted by CAISO and California Generators because they have provided information that assisted us in our decision-making process.

8. We note that this order addresses only the contested features of CAISO’s proposal. With respect to the proposed tariff revisions that are not contested and not specifically discussed herein, the Commission finds that they are just and reasonable and they are hereby accepted.

B. Start-Up and Minimum Load Costs

9. CAISO proposes tariff revisions to allow resources to elect one cost recovery option for start-up costs and another for minimum load costs. CAISO proposes to allow resources to submit daily bids at or below the units’ calculated proxy cost for start-up and minimum load costs, if a resource elects the proxy cost option. There are no changes proposed for resources that elect the registered cost option. Under the current tariff provisions, those resources will be permitted to revise their bids no more than once every 30 days.\(^{13}\)

\(^{13}\) CAISO Filing at 2-3. We note that CAISO also proposes minor conforming changes to tariff sections 30.4.1.1 and 30.4.1.2 to reflect these revisions.
1. **Daily Bidding Under the Proxy Cost Option**

10. California Generators support CAISO’s proposal to allow generators to place daily minimum load and start-up bids but urge the Commission to direct CAISO to permit daily bids up to a resource’s registered cost. California Generators contend that limiting daily bidding to the proxy cost option decreases flexibility to generators while increasing costs to ratepayers.

11. California Generators claim that permitting daily bidding only by those units using proxy costs, while denying this option to units using registered costs, constitutes undue discrimination between similarly situated parties. California Generators explain that, because generators using the registered cost option must use that option for all hours within the month, generators cannot reduce their bids if gas prices decrease during the month, making the unit uneconomic. California Generators assert that daily bidding increases a generators’ ability to reflect the costs of committing the unit and allows the generator to respond to changing conditions in the delivered price of natural gas. Thus, California Generators contend that limiting daily bidding to the proxy cost option may result in operating losses and put certain units at a competitive disadvantage compared to the units that are permitted to bid commitment costs on a daily basis. According to California Generators, the holding by the United States Court of Appeals for the D.C. Circuit in *Dynegy Midwest Generation v. FERC*, 14 stands for the proposition that a rate causing “arbitrary differences in the competitive position of generators in different zones” is unduly discriminatory under section 205 of the FPA. 15

12. California Generators argue that proxy costs are not a suitable basis for mitigating start-up and minimum load bids because a unit’s proxy cost is only a rough estimate of actual commitment costs and is based on a series of often incorrect assumptions. According to California Generators, the proxy cost methodology understates the actual costs of producing minimum load and start-up energy for many units by ignoring several important factors, including local gas taxes, the high costs of intra-day gas purchases, actual variable operations and maintenance costs, and lost opportunity costs. California Generators complain that, although these additional costs can dwarf the 10 percent adder that CAISO includes in its proxy cost estimate, CAISO provides no mechanism for generators to demonstrate these costs. California Generators note that New York Independent System Operator (NYISO), Midwest Independent System Operator (Midwest ISO), Electric Reliability Council of Texas (ERCOT) and ISO New England Inc. (ISO-NE) permit generators to recover such costs. Therefore, California Generators

---


15 California Generators February 16, 2011 Protest, Docket No. ER11-2760-000 at 5-9 (California Generators Protest).
assert that market participants should be allowed to bid their daily start-up and minimum load costs, capped at the registered cost option.\textsuperscript{16}

13. California Generators claim that capping daily bidding at the proxy cost will increase costs to ratepayers, without improving the functioning of the CAISO markets. California Generators argue that, as a result of this proposal, generators will be more likely to choose the registered cost option for the entire month at up to two-times the moving gas index price, rather than operate at a loss by electing to bid under the proxy cost option on a daily basis. California Generators contend that it makes no sense to allow a unit to bid up to the registered cost cap for the entire month but not allow that same unit to bid less than the registered cost (but more than the proxy cost) on a daily basis when the unit can secure natural gas at a lower price. According to California Generators, allowing generators to bid up to the registered cost cap on a daily basis would save a considerable amount of money.\textsuperscript{17} California Generators provide examples from ERCOT, ISO-NE, NYISO, and Midwest ISO that CAISO can use as models for allowing daily bidding up to a unit’s registered costs.\textsuperscript{18}

14. California Generators also reject the notion that the costs and benefits of gas volatility will average out so that generators will not be operating at a loss over the long run. First, California Generators assert that CAISO has not provided empirical evidence to support this position. Second, California Generators assert that this assumption does not apply to resources that are issued an out-of-merit order dispatch notice, or in an unpredictable way that exposes generators to difficult to predict spikes in delivered natural gas prices. California Generators argue that these are legitimate costs that should be reflected in a unit’s minimum load and start-up costs.\textsuperscript{19}

15. In its response, CAISO urges the Commission to accept the tariff amendments as filed. CAISO states that the parties did not protest CAISO’s proposed tariff amendments, but rather, requested enhancements beyond those being proposed. CAISO argues that the parties’ arguments that CAISO should make further amendments do not render its proposal unjust and unreasonable, noting that the fact that there may be other approaches that may also be just and reasonable, or even superior, is irrelevant.\textsuperscript{20}

\textsuperscript{16} Id. at 9-13.
\textsuperscript{17} Id. at 13-15.
\textsuperscript{18} Id. at 17-21.
\textsuperscript{19} Id. at 16.
\textsuperscript{20} CAISO March 3, 2011 Answer, Docket No. ER11-2760-000 at 3 (CAISO Answer).
16. CAISO adds that it would support daily bidding of the registered cost option, or a higher cap on the proxy cost option, with some form of dynamic market power mitigation of start-up and minimum load costs. CAISO explains that it has not proposed to allow daily bidding under the registered cost option because it has not yet developed such mitigation measures and has not identified when it will be able to devote resources to this effort in light of other high priority initiatives. Further, CAISO contends that the fact that it is not currently proposing to implement additional cost categories or a higher cap on proxy cost bidding, or daily bidding under the registered cost option, does not render its proposal to permit daily bidding of proxy costs unjust or unreasonable.21

17. CAISO rejects arguments that its proposal upsets the careful balance of choosing either the proxy or registered cost option a month in advance. CAISO responds that the scheduling coordinators remain free to elect the registered cost option up to 200 percent of the proxy costs if they believe the proxy cost option is not sufficiently compensatory. CAISO argues that the static nature of election of the proxy cost or the registered cost option militates against the submission of higher costs, thereby preventing the exercise of market power.22

18. CAISO contends that the record in the stakeholder process was devoid of evidence that the bid cap of 200 percent of the projected proxy cost was insufficient to cover costs. CAISO points out that California Generators have only argued that the proxy cost option should include more costs but do not argue that the cap on the registered cost option is insufficient. CAISO states that it considered the types of costs raised by California Generators and concluded that such costs were inappropriate for inclusion in a fixed adder.23 CAISO states that it remains open to consideration of how such additional costs might be appropriately recovered. CAISO adds that the existing tariff provides options for recovering additional costs by negotiating a resource-specific operations and maintenance cost but notes that, to date, no unit has taken advantage of this option.24

19. In their answer, California Generators argue that CAISO has mischaracterized California Generators’ position as supporting CAISO’s proposal. California Generators claim that, to the contrary, they have demonstrated that CAISO’s start-up and minimum load cost recovery methodology systematically under-compensates generators for these costs, in contravention of the FPA. California Generators assert that inclusion of the

21 Id. at 5.

22 Id.

23 CAISO does not provide further explanation as to why these costs are inappropriate for inclusion in a fixed adder.

24 Id. at 5-7.
types of costs discussed in their protest is required in order to ensure that generators in California do not operate at a loss. California Generators contend that CAISO has failed to dispute that CAISO’s proposal continues to under-compensate generators for their start-up and minimum load costs. In addition, California Generators assert that the CAISO Answer ignores the undue discrimination arguments raised by California Generators in their protest. California Generators reiterate their position that allowing daily bidding at registered costs would not impose additional costs on rate payers. They add that CAISO has offered no valid reason for its assertion that dynamic market power mitigation must be implemented before it will permit daily bidding under the registered cost option.  

2. **Adding a Fixed Start-Up Cost Component**

20. SoCal Edison argues that CAISO should add a new fixed start-up cost component to the registered cost option, in addition to the existing fuel component of the costs. SoCal Edison argues that a two-part cost bid consisting of a fuel component and a separate fixed cost component is necessary for scheduling coordinators to accurately represent and recover legitimate costs associated with starting their resources. SoCal Edison recommends that the details of developing such an adder should be worked out through a CAISO stakeholder process. SoCal Edison claims that its requested change would not require major redesign to the master file or market software.  

21. CAISO notes that SoCal Edison expresses support for the proposed tariff revisions but requests further modifications. As noted above, CAISO points out that the parties’ requests for further amendments do not render its current proposal unjust and unreasonable.  

22. CAISO adds that it is not opposed to including a fixed-cost adder to start-up and minimum load costs, provided that it could be cost justified based on actual costs, as opposed to bilaterally agreed-upon contractual costs. CAISO states that, in response to requests for stakeholders to submit cost data, only one stakeholder submitted costs, and, therefore, CAISO concluded that it did not have enough information to propose a fixed-cost adder. CAISO also notes that it did agree to review its current default adders on a

---

26 SoCal Edison February 16, 2011 Comments, Docket No. ER11-2760-000 at 2-3.  
27 CAISO Answer at 2.  
28 CAISO Answer at 3.
three-year cycle and continues to make efforts to evaluate costs and improve its cost recovery options.29

3. Commission Determination

23. We accept CAISO’s proposed revisions to its start-up and minimum load tariff provisions. We find that the proposed tariff revisions are just and reasonable and not unduly discriminatory measures that will provide greater flexibility for market participants to manage their resources. Specifically, we find that CAISO’s proposal to allow scheduling coordinators to select different cost methodologies for start-up and minimum load costs, rather than electing the same cost methodology for both, is just and reasonable. We find that it provides increased flexibility for resource owners and scheduling coordinators to select the options that best represent the resource’s start-up and minimum load costs.

24. We find that CAISO’s proposal to allow daily bidding of start-up and minimum load costs under the proxy cost option is an appropriate incremental improvement over the existing Commission-accepted approach.30 We find that CAISO’s proposed revisions advance CAISO’s stated goal of continuing to increase flexibility with respect to the recovery of start-up and minimum load costs. Originally, the Commission approved bid cost recovery tariff provisions that included an option for resources to elect between the proxy cost option and the registered cost option every six months to recover start-up and minimum load costs.31 In 2009, the Commission approved tariff revisions to provide for more flexibility, allowing for elections every 30 days.32 This 30 day election option is still effective. CAISO’s proposal in this proceeding does not alter the existing 30-day election period; rather, the proposed revisions further refine CAISO’s market rules for the recovery of start-up and minimum load costs by providing the option to submit daily bids at or below the unit’s calculated proxy cost. We find this refinement to be just and reasonable because it allows resources to be responsive to daily changes in costs. The proxy cost option is designed to be a cost-based recovery mechanism and because it does not provide any other type of true-up mechanism, it is rational that this option should be further refined to allow resources to more accurately reflect their true costs and adjust in a timely manner. On the other hand, the registered cost option is a market-based recovery mechanism which, by definition, involves taking the risk that market prices will

29 Id. at 5-6, 8.


change in ways that increase a resource’s costs. Thus, we find it reasonable for CAISO to update the bid frequency under the proxy methodology, while retaining the 30-day lock-in of bids under the registered cost option. We acknowledge that CAISO has been following through on its previously stated intention of enhancing its market rules pertaining to the recovery of start-up and minimum load costs. We note that CAISO has again stated in this proceeding that it will continue to evaluate and update its market rules to provide for even more flexibility as its software development allows.

25. We reject California Generators’ claims that, because CAISO proposes to permit daily bidding under the proxy cost option while continuing to restrict bidding under the registered cost option to a monthly basis, the proposal results in undue discrimination. First, we note that CAISO has provided both a cost-based (proxy cost) and a market-based (registered cost) option to allow each resource to evaluate the risks associated with recovery of its start-up and minimum load costs and make a business decision about which cost recovery method best suits its risk profile. The generators themselves, not CAISO, make the determination about which option to elect each month. Thus, the claim that generators that choose the registered cost option are at a competitive disadvantage and, therefore, subject to undue discrimination is not supported by the record, and can be distinguished from the situation in Dynegy v. FERC. In Dynegy v. FERC, the transmission owners, and not the generators, made an election between two different methods of compensating generators for reactive power. The choice made by the transmission owners had the potential to put generators in one transmission zone at a competitive disadvantage compared to generators in a different transmission zone.\(^{33}\) Here, if electing the registered cost option puts generators at a competitive disadvantage, any such disadvantage results from the generator’s own decision that the registered cost option best suited its needs. Further, the competitive disadvantage at issue in Dynegy v. FERC affected generators within a specific zone that were treated differently than generators in a different zone that were providing a similar service.\(^{34}\) Here, there is no subset of generators that is required to elect the registered cost option; as such, CAISO’s proposal does not single out a certain group of generators and treat it differently from similarly situated generators.

26. In addition to finding that generators are not obliged to elect a particular mechanism to recover their costs and therefore, are not forced into a competitive disadvantage, we find that the cost recovery options themselves are just and reasonable. We find that it is just and reasonable for CAISO to revise the rules for bidding under the proxy cost option but retain the existing limitations on bidding under the registered cost option. The Commission previously determined that mitigation in the form of a cap at 200 percent of proxy costs is necessary, in addition to the 30-day lock-in of the bid price.


\(^{34}\) Id.
to effectively prevent the exercise of market power by resources using the registered cost option. The Commission explained that applying the 200 percent cap to all registered cost bids “provides a reasonable balance between preventing the exercise of market power and enabling recovery of supplier costs.” Based on the Commission’s previous findings regarding the potential to exercise market power under the registered cost option, we find that the California Generators’ request that CAISO decrease the bidding interval to daily may alter the balance established under the 30-day commitment period. The question of whether daily bidding is appropriate under the registered cost option would involve a separate evaluation of the sufficiency of the 200 percent cap as a market power mitigation measure. Such a proposal is not before the Commission in this proceeding. By proposing daily bidding under the proxy cost option, CAISO proposes an improvement to a mechanism that the Commission has already found just and reasonable. Thus, we find CAISO’s proposal to permit daily bidding only under the proxy cost option to be just and reasonable.

27. Further, we note that, under section 205 of the FPA, the issue before us is whether CAISO’s proposal is just and reasonable, and not whether the proposal is more or less reasonable than other alternatives. Therefore, because we find CAISO’s proposal to be just and reasonable, we will not assess the justness and reasonableness of California Generators’ request to require daily bidding up to a unit’s registered costs.

28. We likewise reject California Generators’ argument that proxy costs are unsuitable as a cap on daily start-up and minimum load bids. As discussed above, the Commission has previously found CAISO’s proxy cost methodology to be just and reasonable. Furthermore, we note that resource owners have the flexibility of electing the registered cost option or the proxy cost option every 30 days, and they are not required to recover costs through the proxy cost mechanism. Additionally, CAISO retains the tariff

---


36 Id.

37 June 20, 2008 Order, 123 FERC ¶ 61,288.

38 See, e.g., Cal. Indep. Sys. Operator Corp., 128 FERC ¶ 61,265, at P 21 (2009); Oxy USA, Inc. v. FERC, 64 F.3d 679, 692 (D.C. Cir. 1995) (under the Federal Power Act, as long as the Commission finds a methodology to be just and reasonable, that methodology “need not be the only reasonable methodology, or even the most accurate one”); cf. City of Bethany v. FERC, 727 F.2d 1131, 1136 (D.C. Cir. 1984) (when determining whether a proposed rate was just and reasonable, the Commission properly did not consider “whether a proposed rate schedule is more or less reasonable than alternative rate designs”).

provision that permits a resource to switch from the registered cost option to the proxy cost option for the balance of the option period if the resource’s costs, as calculated by the proxy cost option, are higher than its registered cost bid.\textsuperscript{40} The CAISO tariff also continues to provide generators with the option of increasing their cost recovery under the proxy cost option by negotiating a higher, resource-specific operations and maintenance cost.\textsuperscript{41} Further, we note that CAISO is in the process of evaluating the value of the default bid adders and has stated that it could potentially “increase these amounts and/or improve the granularity of these costs effective April 1, 2012.”\textsuperscript{42}

29. We are not persuaded by California Generators’ argument that capping daily bidding at proxy costs will increase costs to ratepayers. Because CAISO proposes no revisions to the registered cost methodology or the option to select between the proxy cost and registered cost option on a monthly basis, the Commission finds that California Generators have failed to provide adequate support for their claim that accepting CAISO’s proposal would lead to increased costs. The Commission has already found that the registered cost option, including the associated market power mitigation measures, is a just and reasonable option for units to recover start-up and minimum load costs.\textsuperscript{43}

30. We also find that California Generators’ references to the start-up and minimum load cost recovery mechanisms used by other regional transmission organizations and/or independent system operators are unpersuasive. Although ERCOT, NYISO, Midwest ISO, and ISO-NE may calculate their start-up and minimum load costs in different ways that allow for more granular cost recovery, it does not follow that those differences make CAISO’s methodology unjust and unreasonable. We note that the currently effective cost recovery mechanism in PJM Interconnection L.L.C. (PJM) employs similar characteristics to the structure proposed by CAISO in this proceeding, that permits generators to submit daily bids under a cost-based option, but permits bid revisions only twice per year under the market-based option for start-up and minimum load costs.\textsuperscript{44} The analysis offered by California Generators does not demonstrate that CAISO’s circumstances are equivalent to those in ERCOT, NYISO, Midwest ISO, and ISO-NE.

\textsuperscript{40} CAISO Tariff § 30.4.1.2

\textsuperscript{41} CAISO Tariff § 39.7.1.1.2.

\textsuperscript{42} CAISO Answer at 8.

\textsuperscript{43} September 29, 2009 Order, 128 FERC ¶ 61,282 at P 30; June 20, 2008 Order, 123 FERC ¶ 61,288 at P 23.

thereby warranting a requirement that CAISO implement identical market rules. Thus, we find that the differences between the various Commission-approved cost recovery mechanisms are not dispositive with respect to the Commission’s assessment of CAISO’s proposal in this proceeding.

31. Finally, we reject requests to require CAISO to include additional cost categories in the proxy cost calculation methodology as beyond the scope of this proceeding. In the instant filing, CAISO does not propose to modify the methodology for calculating proxy costs for start-up and minimum load. Rather, CAISO proposes only to extend the bidding under the proxy cost option from a monthly to a daily basis. The Commission has previously found the existing proxy cost methodology to be a just and reasonable option for the recovery of start-up and minimum load costs; the parties have not presented any information in this proceeding to persuade us otherwise. Because the Commission has previously found CAISO’s start-up and minimum load cost recovery mechanisms to be just and reasonable, we find that California Generators’ claims in this proceeding that CAISO systematically under-compensates generators for these costs, in contravention of the FPA, to be an impermissible collateral attack on the Commission orders that approved the relevant tariff provisions.

The Commission orders:

CAISO’s proposed tariff revisions are hereby accepted, as discussed in the body of this order.

By the Commission.

( S E A L )

Nathaniel J. Davis, Sr.,
Deputy Secretary.

---

45 September 29, 2009 Order, 128 FERC ¶ 61,282 at P 29 (accepting CAISO’s proposed revisions to gas price component of the proxy cost methodology).

46 See June 20, 2008 Order, 123 FERC ¶ 61,288; September 29, 2009 Order, 128 FERC ¶ 61,282.