

173 FERC ¶ 61,143
FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426

November 17, 2020

In Reply Refer To:
California Independent System Operator
Corporation
Docket No. ER20-2922-000

California Independent System Operator Corporation
250 Outcropping Way
Folsom, CA 95630

Attention: Roger E. Collanton

Dear Mr. Collanton:

1. On September 18, 2020, the California Independent System Operator Corporation (CAISO) submitted for filing an amendment to section 11.5.6.2.4 (Settlements and Billing) of its Open Access Transmission Tariff (Tariff) to augment the settlement rules for exceptional dispatch energy.¹ The amendment specifies that resources issued post-day-ahead exceptional dispatch energy schedules will be settled based on their day-ahead bid (instead of their real-time bid). As discussed below, we accept CAISO's Tariff amendment for filing, effective November 18, 2020, as requested.
2. CAISO explains that the proposed revision addresses a gap in its Tariff whereby a resource subject to an exceptional dispatch energy schedule issued in the post-day-ahead timeframe may be able to exercise market power. CAISO elaborates that it identified this gap in the exceptional dispatch settlement rules while working with stakeholders to operationalize specific types of proxy demand resources (PDRs) to meet local capacity requirements for reliability.² Specifically, CAISO states that one of its primary objectives was to operationalize "slow" PDRs, which have limitations that can hinder their usefulness as local capacity resources. CAISO explains that slow PDRs cannot

¹ Section 34.11 of CAISO's Tariff allows issuance of exceptional dispatches—manual dispatches by CAISO operators outside of CAISO's automated dispatch process—to resources to address reliability issues. Transmittal at 4.

² *Id.* at 1.

“start” like a typical generator and be ready or pre-positioned to respond to a CAISO dispatch instruction quickly enough so that CAISO can reposition the system within 30 minutes of a contingency occurring.³ Thus, CAISO states that such slow demand response resources require significant additional notification time, relative to other resources, to respond to a CAISO dispatch instruction. CAISO explains that it held a stakeholder initiative and workshops to examine how to operationalize such slow PDRs. This stakeholder process resulted in a new process to issue exceptional dispatch energy schedules to slow PDRs after the day-ahead market results are available, if such resources are necessary to address a contingency. According to CAISO, this allows enough notification so these resources can be ready to address a possible contingency before it occurs.⁴

3. CAISO states that it already issues exceptional dispatches post-day-ahead time frame to certain other types of resources—prior to the operating day. According to CAISO, although the existing Tariff provisions allow it to issue post-day-ahead exceptional dispatch energy schedules, CAISO recognized a gap in the Tariff’s settlement provisions that could allow resources receiving an exceptional dispatch energy schedule in the post-day-ahead timeframe to exercise market power if not addressed.⁵

4. Specifically, CAISO explains that the standard manner in which it settles exceptional dispatch commitments is by settling commitment costs resulting from the post-day-ahead exceptional dispatch commitment through CAISO’s bid-cost recovery mechanism. If a real-time exceptional dispatch of energy does occur, CAISO settles the energy at the maximum of: (a) the 15-minute market or real-time dispatch locational marginal price; (b) the 15-minute market or real-time dispatch energy bid price; (c) the default energy bid price if the resource has been mitigated, and for energy that does not have an energy bid price; or (d) the negotiated price as applicable to system resources (*i.e.*, resources located outside of the CAISO balancing authority area).⁶ CAISO notes

³ *Id.* at 3. CAISO explains that it must dispatch resources to return the system to an N-1 secure state within 30 minutes of a contingency occurring to minimize the risk that the next contingency poses to system reliability. After CAISO operators perform real-time assessments and issue dispatch instructions in response to the contingency, resources have approximately 20 minutes to provide generation or reduce load to reposition the system.

⁴ *Id.* at 3-4.

⁵ *Id.* at 4.

⁶ *Id.* at 4-5 (citing Tariff section 11.5.6.2.4). CAISO notes that there are several categories of exceptional dispatch, depending on the reliability reason, and all are subject to the same general settlement rules.

that any resource (including a PDR) receiving an exceptional dispatch energy schedule in the post-day-ahead timeframe would be able to inflate its 15-minute market and real-time dispatch bid prices, bidding at or near the bid cap of \$1000/MWh. CAISO explains that because the 15-minute market or real-time dispatch energy bid price is one of the factors determining settlement price, this provides an opportunity for such resources to exercise market power and obtain the highest compensation possible.⁷

5. In order to mitigate the potential for resources to exercise market power, CAISO proposes a Tariff revision designed to apply to slow PDRs and all other types of resources that receive post-day-ahead exceptional dispatch energy schedules. CAISO proposes to augment the Tariff provisions on the settlement of exceptional dispatches for non-transmission-related modeling limitations to add a new pricing rule for resources receiving an exceptional dispatch energy instruction prior to the operating day. Specifically, the proposed exceptional dispatch settlement price will be the maximum of: (a) the applicable 15-minute market or real-time dispatch locational marginal price; (b) the Integrated Forward Market energy bid price; or (c) the default energy bid price if the resource has been mitigated in the day-ahead market and for energy that does not have an Integrated Forward Market energy bid price.⁸

6. Thus, CAISO explains that the new pricing rule for post-day-ahead exceptional dispatch energy schedules differs from the existing mechanism in two respects: first, the new pricing rule specifies the Integrated Forward Market (*i.e.*, day-ahead) energy bid price, instead of the real-time market energy bid price. CAISO asserts that this modification ensures resources that are exceptionally dispatched prior to the operating day cannot exercise market power by bidding in the real-time at the \$1,000/MWh energy bid cap (or increasing their real-time bids to the cap). Second, the new pricing rule removes the negotiated price as applicable to a system resource because CAISO explains that under its Tariff, it cannot issue post-day-ahead exceptional dispatches to system

⁷ *Id.* at 5. CAISO clarifies that, in contrast, thermal resources committed in post-day-ahead time frame are obligated to turn on and operate at minimum load; the resource then submits bids into the real-time market subject to local market power mitigation. If CAISO must issue a real-time exceptional dispatch to the resource, then its real-time bids will already have been submitted, and therefore does not create opportunities to exercise market power.

⁸ As noted above, this proposed revision is reflected in Tariff section 11.5.6.2.4. CAISO notes that it can issue exceptional dispatches to address transmission-related modeling limitations and non-transmission-related modeling limitations (*i.e.*, system reliability and other specified issues). The proposed revision in this filing does not address transmission-related modeling issues. *Id.* at 7.

resources (*i.e.*, resources located outside of the CAISO balancing authority area).⁹ CAISO states that it can only issue real-time exceptional dispatch instructions to system resources, not post-day-ahead exceptional dispatches.

7. CAISO concludes that the proposed Tariff amendment is appropriate to provide for settlement of post-day-ahead exceptional dispatch energy schedules, including but not limited to such schedules issued to PDRs operationalized to meet reliability needs. CAISO also asserts that the proposed revision will prevent these resources from exercising market power.¹⁰

8. Notice of CAISO's filing was published in the *Federal Register*, 85 Fed. Reg. 60,453 (Sept. 25, 2020), with interventions and protests due on or before October 9, 2020. Timely motions to intervene were filed by Calpine Corporation, Pacific Gas and Electric Company, San Diego Gas and Electric Company, Modesto Irrigation District, and the City of Santa Clara, California. The Department of Market Monitoring of the CAISO (DMM) filed a timely motion to intervene and comments. On October 23, 2020, CAISO filed an answer to DMM's comments.

9. DMM supports CAISO's filing, but requests clarification that CAISO's proposed revision would not supersede provisions for mitigation of exceptional dispatches specified in Tariff section 39.10. Specifically, this provision subjects resources receiving exceptional dispatch instructions to operate above a minimum dispatchable level prior to the operating day to exceptional dispatch compensation mitigation measures.¹¹ Considering the cumulative impact of relying on more energy-or capacity-limited resources, DMM also strongly urges CAISO to continue to assess and monitor operational capabilities of the overall mix of resources used to meet planning and regulatory requirements.¹² In its answer, CAISO confirms that the proposed Tariff revision does not change or supersede any existing exceptional dispatch mitigation rules, and indicates that no clarifying changes are necessary.¹³ CAISO also agrees to continue

⁹ *Id.* at 7-8.

¹⁰ *Id.* at 8.

¹¹ DMM Comments at 4-5.

¹² *Id.* at 5-6.

¹³ CAISO Answer at 2-3.

to assess and monitor the operational capabilities of demand response and the overall resource mix.¹⁴

10. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2020), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

11. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2020), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept CAISO's answer because it has provided information that assisted us in our decision-making process.

12. We accept CAISO's revision to Tariff section 11.5.2.6.4 to settle resources receiving post-day-ahead exceptional dispatch energy schedules under the same settlement rule using the resource's day-ahead bid instead of its real-time bid. We agree with CAISO that, if the post-day-ahead exceptional dispatch energy schedules were settled based on real-time bids, there would be a risk that a resource could submit higher bids in real-time for the hours it received the exceptional dispatch energy schedules. This could occur because the resource would know that it is needed for reliability and could modify its bid to exercise market power. The Tariff revision that CAISO proposes addresses this risk.

13. Further, we recognize that CAISO's Tariff revision is tailored to resources (including slow PDRs) that receive post-day-ahead exceptional dispatch schedules. It does not affect resources that do not receive schedules in a post-day-ahead time frame, and does not supersede any existing Tariff provisions, including provisions addressing mitigation of exceptional dispatches. CAISO's Tariff provisions still retain the general exceptional dispatch settlement rules for all other resources that are issued an exceptional dispatch schedule based on the relevant real-time bid price.

14. Finally, as DMM suggests (and as CAISO agrees to undertake),¹⁵ we also encourage CAISO's efforts to assess and monitor the operational capabilities of its overall mix of resources, especially as it adds more energy-limited or capacity-limited resources to meet resource adequacy and local area reliability requirements. We agree that doing so is a prudent measure in informing the ability to meet various planning and regulatory requirements in CAISO as the resource mix evolves.

¹⁴ *Id.* at 3-4.

¹⁵ DMM Comment at 5; CAISO Answer at 3-4.

15. For these reasons, as discussed in the body of this order, we accept CAISO's Tariff amendment, effective November 18, 2020, as requested.

By direction of the Commission

Kimberly D. Bose,
Secretary.