157 FERC ¶ 61,138
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Norman C. Bay, Chairman;
Cheryl A. LaFleur, and Colette D. Honorable.

California Independent System Operator Corporation   Docket No. ER16-2445-000

ORDER ACCEPTING TARIFF REVISIONS

(Issued November 21, 2016)

1. On August 19, 2016, as amended on August 23, 2016, the California Independent System Operator Corporation (CAISO) filed, pursuant to section 205 of the Federal Power Act (FPA),[1] revisions to its tariff to make permanent three of the tariff provisions that will otherwise expire on November 30, 2016, and were previously accepted, subject to condition, on an interim basis by the Commission in an order issued on June 1, 2016.[2] In this order, we accept the proposed tariff revisions, effective November 30, 2016, as requested. We direct CAISO to submit an informational report by October 1, 2017, as discussed below.

I. Background

2. In the June 1 Order, the Commission accepted, subject to condition, tariff provisions that would allow CAISO to address limitations in the natural gas delivery system in southern California that could adversely impact the reliability of CAISO's electric grid and market operations during the summer of 2016. As relevant here, the June 1 Order accepted CAISO's proposed bidding enhancement measures to (1) allow scheduling coordinators to rebid commitment costs[3] in CAISO's real-time market if they were not committed in the day-ahead market or residual unit commitment process; (2) ensure that CAISO's short-term unit commitment process does not commit resources

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[1] 16 U.S.C. § 824d (2012).

[2] *Cal. Indep. Sys. Operator Corp.*, 155 FERC ¶ 61,224 (2016) (June 1 Order).

[3] Commitment costs include the costs of starting a resource, the costs of running a resource at its minimum operating level, and transition costs for resources that can operate in different configurations. *Id.* at n.26.

that did not submit bids into the real-time market unless they were scheduled or committed in the day-ahead market or had a real-time must-offer obligation; and (3) allow scheduling coordinators to seek after-the-fact recovery of unrecovered commitment costs that exceed the commitment cost bid cap as a result of actual marginal fuel procurement costs pursuant to a FPA section 205 filing submitted to the Commission.[4] All of the tariff provisions accepted in the June 1 Order will expire on November 30, 2016, absent a filing by CAISO requesting that the Commission retain or modify the tariff provisions.[5]

II. CAISO Filing

3. CAISO requests that the Commission accept its proposal to make permanent the three bidding enhancement measures accepted in the June 1 Order, with several modifications. CAISO notes that the June 1 Order accepted the revisions concerning the real-time rebidding of commitment costs and the short-term unit commitment process as "just and reasonable because they constitute appropriate improvements upon CAISO's current tariff provisions that should enable CAISO to address limitations in the natural gas delivery system in southern California and facilitate fuel cost recovery by generators."[6] CAISO argues that the issues addressed by these tariff provisions continue to exist independent of the Aliso Canyon situation and therefore the provisions should be maintained.

4. CAISO explains that the three tariff provisions in the instant filing were developed independently of the issues related to the limited availability of the Aliso Canyon natural gas storage facility. CAISO states that these provisions were part of an earlier stakeholder effort regarding bidding rule enhancements that was approved by CAISO's Governing Board in March 2016, and were never intended to be interim in nature. Nonetheless, CAISO included the instant bidding rule enhancements in the package of interim tariff revisions accepted in the June 1 Order as CAISO believed that these provisions would help it manage its transmission system and market operations during the summer of 2016 due to the limited operability of Aliso Canyon.[7]

5. CAISO states that absent the ability to rebid commitment costs in real-time, scheduling coordinators are unable to reflect in their bids any gas balance limitations or

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[4] *Id.* PP 12, 91-96.

[5] *Id.* P 13.

[6] CAISO Filing at 5 (citing June 1 Order, 155 FERC ¶ 61,224 at P 12).

[7] *Id.* at 6-7.

price increases that may arise in between the day-ahead and real-time markets. To address these issues, CAISO proposes to retain the effectiveness of the tariff provisions accepted in the June 1 Order that permit a scheduling coordinator to submit new daily bids in the real-time market for commitment costs for resources or multi-stage generating configurations for which the scheduling coordinator previously submitted such bids in the day-ahead market. The scheduling coordinator will be able to submit the new daily bids at any time starting after the close of the day-ahead market, and the new bids will apply to all remaining eligible hours of the day unless subsequently modified by the scheduling coordinator.[8]

6. CAISO also proposes to retain the two exceptions to a scheduling coordinator's ability to rebid commitment costs in the real time market. CAISO explains that the first exception prohibits scheduling coordinators from rebidding their commitment costs in the real-time market for trading hours in which the resource or multi-stage generator configuration has received a day-ahead schedule or a start-up instruction in the residual unit commitment process. CAISO contends that this exception is necessary because permitting a committed resource to rebid higher commitment costs in the real-time market can lead to inefficient dispatches and distortions in the day-ahead market. CAISO also states that the second exception prohibits scheduling coordinators from rebidding their commitment costs in the real-time market for trading hours that span the minimum run time of the resource or multi-stage generator configuration after CAISO has committed the resource or the scheduling coordinator has self-committed the resource in the real-time market. CAISO explains that the second exception is necessary because any increase to commitment costs during this period would inappropriately inflate bid cost recovery payments without improving the efficiency of market dispatch.[9]

7. CAISO also proposes to keep the previously-accepted tariff revisions regarding its short-term unit commitment process for the real-time market so that the process does not commit non-resource adequacy or use-limited resources that were not bid into the real-time market if those resources were not scheduled or committed in the day-ahead market. CAISO states that these tariff provisions align the short-term unit commitment process with the ability of resources to rebid their commitment costs. CAISO notes that the original rationale for these revisions is that such resources have no obligation to, and have chosen not to, participate in the real-time market. CAISO states that because this rationale is not tied to Aliso Canyon, the current interim short-term unit commitment process should remain in effect beyond November 30, 2016. However, CAISO proposes one modification to the tariff language that the Commission accepted in the June 1 Order

[8] *Id.* at 9.

[9] *Id.* at 10.

to clarify that, in the event that a resource has a real-time must-offer obligation for that trading hour and did not submit a bid, CAISO will use a generated bid for that resource.[10]

8. Lastly, CAISO proposes to retain a modified version of the tariff provisions that permits scheduling coordinators to make an FPA section 205 filing with the Commission to recover natural gas costs that are not recovered through CAISO's tariff mechanisms. CAISO states that in the June 1 Order, the Commission accepted, on an interim basis, procedures that permit scheduling coordinators to seek after-the-fact recovery of both fuel-related commitment costs and incremental fuel costs associated with energy bids pursuant to filings submitted under FPA section 205 to the Commission. Here, CAISO proposes to retain the tariff provisions permitting after-the-fact recovery of fuel-related commitment costs, but not for incremental fuel costs associated with energy bids. Specifically, the proposal would allow for recovery of actual marginal fuel procurement costs that exceed allowable limits on commitment cost bids. CAISO asserts that the option of after-the-fact cost recovery remains an important backstop measure when unexpected events, such as extreme swings in gas prices, occur over a short time. CAISO states that it also plans to retain the current eligibility requirements and procedures for after-the-fact cost recovery, as accepted in the June 1 Order. CAISO contends that incremental fuel cost recovery associated with energy bids was not considered in the package approved by the CAISO Board in March 2016 and that broader cost recovery issues will be explored in a future stakeholder process.[11]

9. CAISO requests a November 30, 2016 effective date so that the instant tariff revisions will go into effect immediately after the interim measures accepted in the June 1 Order automatically expire on November 30, 2016.

III. Notice of Filing and Responsive Pleadings

10. Notice of CAISO's August 19, 2016 filing was published in the *Federal Register*, 81 Fed. Reg. 59,207 (2016), with interventions and protests due on or before September 9, 2016. Notice of CAISO's August 23, 2016 errata filing[12] was published in the *Federal Register*, 81 Fed. Reg. 59,614 (2016), with interventions and protests due on or before September 13, 2016. Timely motions to intervene were filed by Alliance for Retail Energy Markets; Modesto Irrigation District; Powerex Corp.; the City of Santa Clara,

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[10] *Id.* at 11.

[11] *Id.* at 16.

[12] CAISO's August 23, 2016 errata filing corrected the heading for proposed tariff section 30.11.

California, and M-S-R Public Power Agency; and San Diego Gas & Electric Company (SDG&E). A timely notice of intervention was filed by the Public Utilities Commission of Nevada. Timely motions to intervene and comments were filed by the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (Six Cities); Southern California Edison Company (SoCal Edison); Pacific Gas and Electric Company (PG&E); and the Western Power Trading Forum (WPTF). In addition, CAISO's Department of Market Monitoring (CAISO DMM) filed timely comments. On September 26, 2016, CAISO submitted an answer to the comments filed by CAISO DMM, PG&E and SoCal Edison. On October 11, 2016, PG&E filed an answer to CAISO's answer.

A. Comments

11. Both WPTF and Six Cites filed comments supporting acceptance of CAISO's proposal without condition. PG&E generally supports CAISO's proposal, but prefers, in the long term, that CAISO develop and use market mechanisms to conform to gas system constraints and avoid the need for after-the-fact cost recovery.[13] SoCal Edison also supports CAISO's proposal with the understanding that interested parties may intervene and comment on any after-the-fact cost recovery filings.[14]

12. CAISO DMM is generally supportive of CAISO's filing, but recommends modifications to several aspects of the proposal. CAISO DMM recommends that the tariff language permitting the real-time rebidding of commitment costs only be extended until the end of summer 2017, pending further assessment of how limitations on rebidding commitment costs may be directly enforced through the CAISO market software. CAISO DMM asserts that continued reliance on non-automated, after-the-fact monitoring and enforcement by CAISO or CAISO DMM is not an effective tool to protect against the potential for excessive bid cost recovery payments or other detrimental market outcomes.[15] In addition, CAISO DMM states that it supports a mechanism for market participants to seek after-the-fact recovery of prudently-incurred gas costs, but recommends that CAISO continue to work with stakeholders to develop more specific guidelines, requirements, and methodological details prior to implementing this mechanism on a permanent basis.[16]

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[13] PG&E Comments at 3-4.

[14] SoCal Edison Comments at 2.

[15] CAISO DMM Comments at 4-6.

[16] *Id.* at 6-7.

B. Answers

13. CAISO states that it does not object to further assessing whether any additional limitations should be placed on real-time rebidding of commitment costs, including determining whether CAISO can better automate the process, as recommended by CAISO DMM. CAISO notes that the assessment can take place between the present and the end of summer 2017 and, if need be, CAISO can file any revisions to its tariff at that time if experience indicates that market participants are not complying with the bidding rules. However, CAISO argues that there is no need to sunset the real-time rebidding of commitment cost tariff provisions, as requested by CAISO DMM.[17]

14. In addition, CAISO contends that there is no need to develop additional guidelines to the after-the-fact recovery process, as requested by CAISO DMM. CAISO maintains that the current improvements to its cost recovery mechanisms, combined with additional stakeholder initiatives currently underway, should mitigate any potential after-the-fact cost recovery filing with the Commission to the rarest of circumstances involving extreme and unanticipated events. Thus, CAISO argues that not prejudging the circumstances of any potential filing and leaving the burden of proof on the applicant, as set forth in the proposed tariff language, is the best process.[18]

15. PG&E supports CAISO DMM's comments and requests that the Commission require CAISO to implement the instant tariff revisions on an interim basis. PG&E contends that CAISO has not addressed CAISO DMM's concerns regarding non-automated after-the-fact enforcement of rebidding limitations. Thus, PG&E asserts that the tariff provisions should expire by their terms by the end summer of 2017 if CAISO has not addressed the issues raised by CAISO DMM.[19]

IV. Discussion

A. Procedural Matters

16. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2016), the notice of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

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[17] CAISO Answer at 6.

[18] *Id.* at 8.

[19] PG&E Answer at 1-2.

17. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2016), prohibits answer to a protest unless otherwise ordered by the decisional authority. We accept the answers filed by CAISO and PG&E because they have provided us with information that assisted us in our decision-making process.

B. Substantive Matters

18. We accept CAISO's proposed tariff revisions. Our rationale for accepting this proposal on a permanent basis is similar to the reasons the Commission stated for accepting, subject to condition, the provisions on an interim basis in the June 1 Order.[20] Specifically, we find that the proposed revisions are just and reasonable because they constitute appropriate improvements upon CAISO's current tariff provisions that should result in a more efficient unit commitment process and enhance cost recovery, as discussed more fully below.

19. We find that CAISO's tariff revisions addressing real-time rebidding of commitment costs and the short-term unit commitment process should provide more accurate prices in the real-time market and help avoid the inefficient dispatch of resources in the real-time market based upon bids that may not reflect current fuel prices. In particular, CAISO's proposal to permit resources to rebid commitment costs in the real-time market should result in a more efficient resource unit commitment because resources will be dispatched based upon bids that reflect prevailing fuel prices. In turn, real-time prices should be more accurate, which will provide the market with better price signals. Thus, we find CAISO's tariff provisions addressing real-time rebidding of commitment costs and the short-term unit commitment process to be just and reasonable, and we accept them for filing, effective November 30, 2016, as requested.

20. We decline to sunset the real-time rebidding of commitment cost tariff provisions, as requested by CAISO DMM and PG&E. We reiterate that we find that these provisions are just and reasonable as proposed. However, in its answer, CAISO suggests that it can assess the process used to rebid commitment costs in real-time through the summer of 2017 to determine whether further tariff revisions are necessary.[21] Thus, consistent with CAISO's answer, we direct CAISO to submit an informational report by October 1, 2017, detailing its assessment of the effectiveness of the rebidding process and its efforts to automate the monitoring and enforcement process.

21. In addition, we accept CAISO's proposal to permit after-the-fact cost recovery for scheduling coordinators that cannot recover their fuel costs for start-up, minimum load or

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[20] June 1 Order, 155 FERC ¶ 61,224 at P 12, n.13 and PP 91-96.

[21] CAISO Answer at 6.

transition costs, through CAISO's existing cost recovery mechanisms, effective November 30, 2016, as requested. Despite the added flexibility to rebid commitment costs in the real-time market, as well as other interim measures accepted in the June 1 Order,[22] we agree with CAISO that unexpected events, such as extreme swings in gas prices over a short period of time, could result in a resource not recovering its fuel-related commitment costs through the market or CAISO's existing cost recovery mechanisms. However, we emphasize, as the Commission recognized in the June 1 Order, after-the-fact cost recovery cannot be a substitute for properly functioning markets, which should allow natural gas generators to recover actually incurred costs without regular intervention by the Commission.[23] Thus, while we find that it is reasonable to allow a scheduling coordinator to make an FPA section 205 filing with the Commission to seek to recover those fuel costs through an after-the-fact filing, we expect this to function as a backstop mechanism in extraordinary circumstances.

22. We will not direct CAISO to adopt additional guidelines and procedures that a scheduling coordinator must follow before seeking after-the-fact cost recovery from the Commission, as requested by CAISO DMM. We find that the procedures accepted in the June 1 Order, and accepted as permanent here, are sufficiently clear and detailed, but encourage CAISO to continue to evaluate the effectiveness of the process. We note that any scheduling coordinator making a filing under FPA section 205 would bear the burden of demonstrating that the fuel costs incurred were prudent and not already recovered through CAISO's market, and the Commission will evaluate these filings on a case-by-case basis. As is the case with any FPA section 205 filing with the Commission, interested parties will have the opportunity to intervene and comment on the filing.

The Commission orders:

(A) CAISO's proposed tariff revisions are hereby accepted, effective November 30, 2016, as discussed in the body of this order.

[22] For example, in the June 1 Order the Commission accepted CAISO's proposal to increase the gas price used to calculate the caps on commitment costs, generated bids, and default energy bids for generators connected to the Southern California Gas Company or SDG&E gas systems. June 1 Order, 155 FERC ¶ 61,224 at P 29.

[23] *Id.* P 92.

(B) CAISO is hereby directed to submit an informational report by October 1, 2017, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

Document Content(s)