FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426

OFFICE OF ENERGY MARKET REGULATION

In Reply Refer To:
California Independent System
Operator Corporation
Docket No. ER19-2727-000

Issued: November 4, 2019

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

Reference: Deficiency Letter

On, August 30, 2019, California Independent System Operator Corporation (CAISO) filed amendments to its open access transmission tariff to enhance its market rules to allow suppliers to request adjustments to their CAISO-calculated commitment cost and energy price reference levels to more accurately reflect their costs.

Please be advised that the filing is deficient and that additional information is necessary to process the filing. Please provide the information requested below:

1) CAISO states that it has identified two sets of proposed tariff revisions in this filing that are severable from the other proposed tariff revisions: "(1) permanent implementation of tariff revisions the Commission previously accepted on an interim basis to address the limited operability of Aliso Canyon (*see supra* section IV.C of this transmittal letter); and (2) clarification of the tariff section that describes the CAISO's application of a bid-effectiveness threshold to determine when transmission constraints are relaxed and penalty prices are triggered (*see supra* section IV.D of this transmittal letter)."[1] CAISO also states that tariff sections 39.7.1.1.1.3(a)-(c) are severable from the rest of the filing as part of the previously accepted Aliso Canyon-related tariff revisons discussed in section IV.C of the transmittal letter.[2] CAISO's proposal

[1] CAISO Transmittal at 57 n.195.

[2] *Id.* at 4-5 & n.10.

to use a Monday-only index to calculate commitment cost bid caps and default energy bids (DEBs) for the day-ahead market that runs on Sundays for the Monday operating day is included in section IV.A of its transmittal letter.

a. Please specify whether CAISO's proposal to use a Monday-only index is severable from previously accepted Aliso Canyon-related provisions described in section IV.C of the transmittal letter.
b. Please specify whether CAISO's proposal to use a Monday-only index is severable from the main body of CAISO's proposal discussed in sections IV.A and IV.B of the transmittal letter.

2) Under its proposal, CAISO would reflect the Monday-only natural gas price in DEBs when CAISO determines that the Monday-only market is sufficiently liquid. Please explain how CAISO would communicate to market participants that Monday DEB values will be calculated using Monday-only natural gas prices, as opposed to the weekend strip natural gas prices.

3) In its transmittal letter, CAISO states that it did not include a specification that gas imbalance penalties would be eligible for after-the-fact cost recovery because doing so would violate Commission precedent. In its answer, CAISO clarifies that suppliers would be able to include these costs in reference level adjustments.

a. Given that CAISO's proposed tariff sections contain no prohibition on the after-the-fact recovery of gas imbalance penalties, please explain whether there would be any circumstances under which CAISO would approve the after-the-fact recovery of gas imbalance penalties. To the extent that CAISO approves gas imbalance penalties for inclusion in reference levels, please explain whether a market participant could receive bid cost recovery payments or other uplift payments on this basis.
b. Please explain what demonstration a market participant would have to make to be eligible to include gas imbalance penalties in its reference levels. Please include specific examples.
c. Please specify whether a market participant could use the potential to incur gas imbalance penalties as a justification for adjusting reference levels up to the reasonableness threshold as part of an automated reference level adjustment.

4) In its answer, CAISO explains that inclusion of gas imbalance penalties could improve gas system reliability by allowing CAISO to consider these costs in the CAISO market.
    a. Please elaborate and explain using numerical examples. As one example, in situations in which gas imbalance penalties might result from shippers violating system-wide natural gas pipeline operational flow orders, please explain whether, and if so, how CAISO would incorporate such potential gas penalties into commitment and dispatch instructions without jeopardizing the reliability of natural gas pipeline system.

5) In its answer, CAISO clarifies that the 10 percent adder used to develop DEBs and 25 percent headroom used for the commitment cost bid cap will also be applied to supplier submitted costs. CAISO states in its transmittal letter, citing prior Commission orders, that "the 10 percent adder is intended to account for differences between the prices individual suppliers actually pay for gas and the average price reported by the published indices"[3] and notes that the "25 percent headroom on the commitment cost bid cap also accounts for this and includes an additional 15 percent to account for gas price volatility and other costs."[4]
    a. Given that the Commission approved these scalars based on CAISO's representation that they would account for variability between an index and actual costs, please explain why it is appropriate to apply them to actual fuel costs. Please support your explanation with one or more numeric example(s) based on historic data.

6) Proposed tariff section 30.11.3.1 includes the following statement: "[t]he Scheduling Coordinator must not submit a Reference Level Change Request for the purpose of strategically bidding near the Reasonableness Threshold to bid above actual or expected costs."
    a. Please explain the purpose of this provision and give examples of the behavior it is meant to thwart.
    b. Please explain how this is consistent with the 10 and 25 percent scalars applied to reference levels for supplier submitted costs.

This letter is issued pursuant to delegated authority, 18 C.F.R. § 375.307 (a) (1)(v)

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[3] *Id.* at 17.

[4] *Id.*

and is interlocutory. This letter is not subject to rehearing pursuant to 18 C.F.R. § 385.713. CAISO must respond to this letter within 30 days of the date of this letter by making an amendment filing in accordance with the Commission's electronic tariff requirements.[5]

The filing requested in this letter will constitute an amendment to the filing, and a new filing date will be established, pursuant to *Duke Power Company*, 57 FERC ¶ 61,215 (1991), upon receipt of CAISO's electronic tariff filing. A notice of amendment will be issued upon receipt of the response.

Failure to respond to this deficiency letter within the time period specified, and in the manner directed above, may result in an order rejecting the filing. Until receipt of the amendment filing, a new filing date will not be assigned to this case.

Issued by: Steven T. Wellner, Director - Division of Electric Power Regulation – West

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[5] *Electronic Tariff Filings*, 130 FERC ¶ 61,047, at P 3-8 (2010) (an amendment filing must include at least one tariff record even though a tariff revision might not otherwise be needed). The response must be filed using Type of Filing Code 180 – Deficiency Filing. If there are no changes to tariff records, Company can attach a single tariff record with no changes.

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