

149 FERC ¶ 61,093  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Cheryl A. LaFleur, Chairman;  
Philip D. Moeller, Tony Clark,  
and Norman C. Bay.

California Independent System  
Operator Corporation

Docket No. ER14-2756-000

ORDER ACCEPTING TARIFF AMENDMENT

(Issued October 31, 2014)

1. On September 2, 2014, as amended on September 3, 2014, the California Independent System Operator Corporation (CAISO) filed proposed tariff revisions to include “nodal megawatt limit constraints” in calculating market participants’ congestion revenue right (CRR) settlement statements. The Commission accepts CAISO’s proposed tariff revisions, effective September 2, 2014, as requested.

**I. Background**

2. CRRs are financial instruments that enable their holders to hedge variability in congestion costs. Entities acquire CRRs primarily to offset integrated forward market<sup>1</sup> congestion costs reflected in the congestion component of locational marginal prices (LMPs).<sup>2</sup>

3. Of relevance here is the impact of virtual bidding on CRRs. Virtual bids are purely financial bids to sell or buy energy in the day-ahead market with the explicit obligation to buy or sell, respectively, that energy back in the real-time market. Virtual bids are included in CAISO’s day-ahead market along with physical bids to buy and sell

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<sup>1</sup> The integrated forward market is one component of CAISO’s day-ahead market process.

<sup>2</sup> Transmittal at 3.

electric power.<sup>3</sup> According to CAISO, one of the technical challenges to implementing virtual bidding is the difficulty in achieving an alternating current power flow solution in the day-ahead market due to overscheduling caused by the inclusion of virtual bids along with physical bids at certain locations.<sup>4</sup> To resolve this difficulty, CAISO uses nodal megawatt limit constraints in running its day-ahead market. CAISO uses these nodal constraints to limit the amount of bids that may clear at a particular location or set of locations when an alternating current power flow solution for the day-ahead market is not otherwise attainable.<sup>5</sup> Nodal constraints apply to both physical and virtual bids.<sup>6</sup>

4. CAISO previously sought to address the potential for virtual bidders to influence the value of CRRs, by submitting virtual bids in the day-ahead market to congest certain locations, which would then increase the congestion component of the LMPs at those locations and therefore increase the value of CRRs sourced at those locations. To address that concern, CAISO proposed, and the Commission accepted, a CRR settlement rule that automatically adjusts the revenue from CRRs for any CRR holder that also engages in certain market activities, effective February 1, 2011.<sup>7</sup> This settlement rule provides that CAISO will adjust the revenue from a CRR for a CRR holder whenever the Scheduling Coordinator for a CRR holder engages in virtual bidding, or reduces in the real-time market an import or export awarded in a day-ahead schedule, and such action has a significant impact on the value of CRRs held by the CRR holder.

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<sup>3</sup> Virtual bidding is not currently permitted at the interties. Following a technical conference, the Commission accepted CAISO's proposal to suspend virtual bidding at interties, finding that virtual bidding at interties did not enhance market efficiency and increased costs to ratepayers. *See Cal. Indep. Sys. Operator Corp.*, 143 FERC ¶ 61,087 (2013).

<sup>4</sup> *Id.*

<sup>5</sup> *Id.* *See Cal. Indep. Sys. Operator Corp.*, 133 FERC ¶ 61,039, *order on reh'g and compliance filing*, 134 FERC ¶ 61,070 (2011).

<sup>6</sup> *Cal. Indep. Sys. Operator Corp.*, 133 FERC ¶ 61,039 at P 198.

<sup>7</sup> *Cal. Indep. Sys. Operator Corp.*, 133 FERC ¶ 61,039, *order on reh'g and compliance filing*, 134 FERC ¶ 61,070.

## II. CAISO's Proposal

5. CAISO states that it recently evaluated the extent to which nodal megawatt limit constraints have been included in calculating adjustments in accordance with the CRR settlement rule. CAISO intended for the CRR settlement rule to account for nodal megawatt limit constraints, because such constraints are part of CAISO's running of the day-ahead market. However, according to CAISO, the CRR settlement rule has not accurately captured the impact of such constraints. CAISO states that capturing nodal megawatt limit constraints in its application of the CRR settlement rule is of growing concern because there has been a recent increase in the volume of cleared CRRs in the monthly CRR auction. With this rise in volume, more CRR holders, in an effort to increase their CRRs' value, may engage in behavior that requires CAISO to enforce nodal megawatt limit constraints. Accordingly, CAISO proposes to revise section 11.2.6(a) of its tariff to expressly state that the CRR settlement rule's revenue adjustment calculations will include nodal megawatt limit constraints that CAISO applies to eligible nodes. CAISO argues that this change is consistent with the Commission's determination in accepting the original settlement rule that convergence bidding practices should not influence the value of CRRs.<sup>8</sup> CAISO further states that the previously approved tariff provision in section 11.2.4.6 already authorizes CAISO to consider nodal megawatt limit constraints in determining whether to adjust or "claw back" CRR revenue, and that the proposed revisions simply clarify and reinforce that point.<sup>9</sup> CAISO states that, based on its preliminary assessment for the last 12 months, the impact of not applying the resettlement rule to the nodal megawatt limit constraints has been about \$200,000, compared to the total CRR payment over this period of approximately \$90 million.<sup>10</sup>

6. CAISO requests that the Commission waive its 60-day notice requirements<sup>11</sup> to permit the tariff revisions to become effective on September 2, 2014. CAISO states that the results of the CRR auction for September indicate that certain CRR holders will have the ability to capitalize on the absence of nodal megawatt limit constraints from the CRR's settlement rule's revenue adjustment calculations and substantially inflate their CRR revenues. CAISO states that it has not identified a similar risk during its auction

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<sup>8</sup> Transmittal at 7.

<sup>9</sup> *Id.* at 1-2, 6.

<sup>10</sup> *Id.* at 5.

<sup>11</sup> 18 C.F.R. § 35.3 (2014).

assessment since section 11.2.4.6 went into effect in 2011.<sup>12</sup> CAISO adds that if it determines further action is required, it will notify the Commission.<sup>13</sup>

### **III. Notice and Responsive Pleadings**

7. Notice of CAISO's September 2, 2014 filing and September 3, 2014 amendment was published in the *Federal Register*, 79 Fed. Reg. 55,447 (2014), with protests and interventions due on or before September 23, 2014. Calpine Corporation, Western Power Trading Forum, Boston Energy Trading and Marketing LLC, NRG Companies, and Pacific Gas and Electric Company filed timely motions to intervene. California Department of Water Resources State Water Project (SWP), Powerex Corp. (Powerex), and Southern California Edison Company (SoCal Edison) filed timely motions to intervene and comments. On October 7, 2014, CAISO filed an answer to Powerex's comments.

#### **A. SoCal Edison's, Powerex's, and SWP's Comments**

8. SoCal Edison, Powerex, and SWP all filed comments in support of CAISO's filing.<sup>14</sup> However, Powerex notes that the timing of CAISO's filing eliminated any opportunity for consultation with stakeholders. Powerex argues that stakeholder consultation is a critical part of the amendment process and provides input on proposed measures, the circumstances in which they will be effective, and the circumstances in which they might not work as intended.<sup>15</sup> Powerex states that CAISO's current CRR settlement rule is highly vulnerable to both false positive and false negative errors and that false positive errors can materially deter activities that improve market efficiency.<sup>16</sup>

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<sup>12</sup> Transmittal at 8.

<sup>13</sup> CAISO states that it is still evaluating the settlement impact during the period from February 2011 until September 2, 2014 when the CAISO's data transfers did not account for nodal megawatt constraints in the CRR revenue adjustment calculations. *Id.* at 7.

<sup>14</sup> SoCal Edison Comments at 2; Powerex Comments at 5; SWP Comments at 5.

<sup>15</sup> Powerex Comments at 6.

<sup>16</sup> *Id.* at 7. Powerex states that false negative errors include cases in which the CRR settlement rule should apply, but does not, and that false positive errors include cases in which the CRR settlement rule should not apply, but nevertheless does. *Id.*

For those reasons, Powerex urges CAISO to promptly convene a stakeholder process to comprehensively review and propose improvements to the CRR settlement rule.

**B. CAISO's Answer to Powerex's Comments**

9. CAISO states that Powerex's comments concerning the CRR settlement rule are beyond the scope of this proceeding, which solely addresses CAISO's proposal to clarify that the CRR settlement rule includes nodal megawatt limit constraints.<sup>17</sup> CAISO notes that all parties support the amendment, and CAISO urges the Commission to accept its proposal without modification. CAISO adds that Powerex should direct its request to the currently active draft 2015 stakeholder initiatives catalog process, through which CAISO and stakeholders prioritize consideration of potential enhancements to CAISO's market design.<sup>18</sup> CAISO states that it will present the final 2015 policy development roadmap to CAISO's Governing Board in early 2015.<sup>19</sup>

**IV. Discussion**

**A. Procedural Matters**

10. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2014), 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) (2014), 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 our decision-making process.

**B. Substantive Matters**

12. The Commission accepts CAISO's proposed tariff revisions, effective September 2, 2014, as requested.<sup>20</sup> We find that including nodal megawatt limit

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<sup>17</sup> CAISO Answer at 3.

<sup>18</sup> *Id.* at 3-4.

<sup>19</sup> CAISO notes that item 6.8 in the current roadmap process expressly provides for the comprehensive review of the CRR settlement rule that Powerex seeks. *Id.* at 4.

<sup>20</sup> 18 C.F.R. § 35.11 (2014). *See Central Hudson Gas & Elec. Corp.*, 60 FERC ¶ 61,106, *reh'g denied*, 61 FERC ¶ 61,089 (1993).

constraints in the CRR settlement rule will help CAISO identify local physical constraints that impact alternating current power flows, and ensure that CRR holders will not profit unjustifiably by inflating the price of their assets through virtual bidding. Moreover, CAISO's proposal is consistent with the Commission's finding that market participants' convergence bidding practices should not enhance the value of the financial products they hold.<sup>21</sup> Lastly, we agree with CAISO that Powerex's comments are more appropriately addressed through the currently active draft 2015 stakeholder initiatives catalog process. We encourage all market participants to continue exploring enhancements to CAISO's market design through such stakeholder proceedings.

The Commission orders:

CAISO's proposed tariff revisions are hereby accepted, effective September 2, 2014, as requested, as discussed in the body of this order.

By the Commission.

( S E A L )

Nathaniel J. Davis, Sr.,  
Deputy Secretary.

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<sup>21</sup> *Cal. Indep. Sys. Operator Corp.*, 130 FERC ¶ 61,122, at P 87 (2010).