

142 FERC ¶ 61,246
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Philip D. Moeller, John R. Norris,
Cheryl A. LaFleur, and Tony Clark.

California Independent System Operator Corporation Docket No. ER13-794-000

ORDER ACCEPTING AMENDED OPERATING AGREEMENT

(Issued March 29, 2013)

1. On January 24, 2013, the California Independent System Operator Corporation (CAISO) filed an Amended Operating Agreement between CAISO and PacifiCorp (Amended Operating Agreement) pursuant to section 205 of the Federal Power Act (FPA).¹ The Amended Operating Agreement provides for PacifiCorp and its customers to receive option congestion revenue rights for transactions scheduled at a specific CAISO scheduling point as the sink.² As discussed below, we will accept the Amended Operating Agreement, effective April 1, 2013, as requested.

I. Background

2. This proceeding concerns the easternmost of two 500 kV transmission lines that comprise a part of the Pacific AC Intertie.³ CAISO explains that PacifiCorp owns a 47-mile segment of this line, between the Malin substation in southern Oregon and a point in northern California, known as Indian Spring. Pacific Gas and Electric Company (PG&E) owns the connecting section of the line, from Indian Spring south to the Round Mountain substation.⁴ PacifiCorp previously leased the full capacity of its segment to PG&E under a capacity agreement, but in 2007 PacifiCorp began the process of

¹ 16 U.S.C. § 824d (2006).

² CAISO Filing at 1-2.

³ The Pacific AC Intertie is also known as the Pacific Northwest-Pacific Southwest Intertie. *See Pac. Gas & Elec. Co.*, 111 FERC ¶ 61,175 (2005).

⁴ *Id.* at 2. The parallel western segment is owned by the Western Area Power Administration.

terminating the capacity agreement and withdrawing its capacity from CAISO's operational control. At that time, the parties to the capacity agreement commenced various proceedings and negotiations regarding related agreements and the future coordination of the intertie.⁵ CAISO explains that the Commission initiated a paper hearing, and ultimately approved a complex settlement among the parties that included a series of interlocking agreements specific to the Pacific AC Intertie, including the original Operating Agreement.⁶

3. According to CAISO, the settlement provided that PacifiCorp and PG&E would each control one-half of the capacity of the eastern segment of the Pacific AC Intertie from the Malin substation to the Round Mountain substation.⁷ CAISO states that, for a period of ten years, PacifiCorp leased a portion of the capacity under its control to PG&E, but beginning on January 1, 2012, the capacity would revert over time to PacifiCorp and would no longer be under the operational control of CAISO.⁸

4. CAISO states that, in the spring of 2012, it was informed by the Western Area Power Administration (Western) of an unauthorized use of Western's transmission system. CAISO states that it was advised that a PacifiCorp customer attempted to schedule an import at the Malin substation and an export at the Round Mountain substation.⁹ CAISO explains that this schedule was related to another scheduled import at the Round Mountain substation to bring the energy back into the CAISO market. As a temporary solution to allow CAISO and PacifiCorp time to address this issue, Western agreed to make partial transmission service between Round Mountain and Cottonwood available to PacifiCorp and its customers under Western's Open Access Transmission Tariff (OATT).¹⁰

5. CAISO states that it became clear that PacifiCorp and its customers disagreed with CAISO about whether the settlement and original Operating Agreement allowed

⁵ *Id.* at 3; CAISO Answer at 3.

⁶ CAISO Filing at 1, n.3 (citing *PacifiCorp, et al.*, 121 FERC ¶ 61,278 (2007)).

⁷ *Id.* at 3.

⁸ The capacity that has reverted back to PacifiCorp is referred to as the "PacifiCorp Share."

⁹ CAISO Filing at 4.

¹⁰ *Id.*

PacifiCorp to transfer energy directly to CAISO, or whether the settlement treats the PacifiCorp Share as a transmission ownership right for the purpose of scheduling.¹¹ According to CAISO, transmission ownership rights are required to be balanced self-schedules (i.e., to include both a demand and supply bid, and thus include a specific physical source and sink).¹² Conversely, PacifiCorp believes that the settlement and original Operating Agreement provide users of the PacifiCorp Share the opportunity to transfer energy directly to CAISO's grid at Round Mountain, which is exempt from the requirement for a balanced self-schedule with a specific physical source and sink.¹³ Ultimately, CAISO states that it was able to achieve the objectives of PacifiCorp and its customers under the settlement by offering option congestion revenue rights under the Amended Operating Agreement.¹⁴

II. CAISO's Filing

6. In its filing, CAISO proposes to amend the original Operating Agreement to allow PacifiCorp or its customers to voluntarily elect to release a portion of the capacity reserved as PacifiCorp's Share of the Pacific AC Intertie for use by CAISO in exchange for receiving option congestion revenue rights.¹⁵ CAISO states that option congestion revenue rights will provide a positive revenue stream, with compensation based on the difference between the prices at the sink and the source locations. According to CAISO, the Amended Operating Agreement will allow PacifiCorp and its transmission customers to elect to receive option congestion revenue rights, or to choose to continue to receive

¹¹ A transmission ownership right is defined as the ownership or joint ownership right to transmission facilities within the CAISO balancing authority area of a non-participating transmission owner that has not executed the transmission control agreement, with respect to transmission facilities incorporated into the CAISO controlled grid. *See* CAISO, eTariff, FERC Electric Tariff, OATT Appendix A.

¹² CAISO Filing at 4-5.

¹³ *Id.*

¹⁴ CAISO states that the Amended Operating Agreement does not in any way change or interpret the underlying principles or agreements reached under the settlement, but merely provides for an option which can be utilized in a manner that is consistent with the settlement. *Id.* at 5.

¹⁵ *Id.* at 5-6. CAISO states that the Amended Operating Agreement also removes references to Western Electricity Coordinating Council (WECC) reliability agreements that have been superseded by the WECC and North American Electric Reliability Corporation (NERC) reliability standards now in effect. In addition, CAISO has made other ministerial changes to the Amended Operating Agreement.

the current treatment, referred to as the “perfect hedge,” whereby CAISO honors existing transmission ownership rights on the Pacific AC Intertie by reversing all the congestion charges for PacifiCorp’s transactions.¹⁶

7. CAISO states that the Amended Operating Agreement provides procedures for the option congestion revenue rights. In relevant part, PacifiCorp or its customers may instruct CAISO to release a quantity of the PacifiCorp Share for use by CAISO, in exchange for option congestion revenue rights.¹⁷ CAISO will update its Open Access Same-Time Information System (OASIS) to include the released portion of the PacifiCorp Share as available for new firm use. PacifiCorp or its customers may make their election on a quarterly basis, prior to CAISO’s congestion revenue rights auction period. CAISO will allocate the option congestion revenue rights with the source at either the Malin scheduling point or the Round Mountain scheduling point, and a sink at either the Round Mountain scheduling point or the Malin scheduling point. Once CAISO issues the option congestion revenue rights, they may be transferred consistent with CAISO’s tariff.¹⁸ Finally, CAISO will settle the option congestion revenue right payments when there is a congestion price difference in the day-ahead market between the source and the sink, regardless of whether PacifiCorp or the purchaser submits a schedule.¹⁹

8. According to CAISO, the Amended Operating Agreement will benefit the CAISO market because, to the extent PacifiCorp or its customers release portions of the PacifiCorp Share for use by CAISO, market participants will be able to schedule transactions and CAISO will be able to address congestion more efficiently. CAISO also states that the Amended Operating Agreement will benefit PacifiCorp and its customers by providing the opportunity to receive some congestion revenue for transactions scheduled with CAISO, or PacifiCorp and its customers may continue to receive the perfect hedge for balanced source and sink transactions.²⁰ Finally, CAISO explains that the Amended Operating Agreement will have no effect on the congestion revenues received by other congestion revenue rights holders on the Pacific AC Intertie.

¹⁶ *Id.* at 2.

¹⁷ *Id.* at 5.

¹⁸ *Id.* at 6.

¹⁹ *Id.* CAISO states that it will not provide payments for real-time congestion differences.

²⁰ *Id.* at 7.

9. CAISO recognizes that similar benefits could be made available to other transmission ownership rights holders in its markets, and CAISO states that it will consider whether to initiate a stakeholder effort that would propose changes to its tariff consistent with the provisions of the Amended Operating Agreement as part of its stakeholder market initiative planning in 2013.²¹ However, CAISO maintains that there is an immediate need to accommodate PacifiCorp and its customers to avoid potential disputes between CAISO and PacifiCorp. Therefore, CAISO submits that the Commission should permit the Amended Operating Agreement to become effective while broader stakeholder consideration continues.²²

III. Notice and Responsive Pleadings

10. Notice of CAISO's filing was published in the *Federal Register*, 78 Fed. Reg. 7425 (2013), with interventions and comments due on or before February 14, 2013. Timely interventions raising no substantive issues were filed by Southern California Edison Company, Western, the Balancing Authority of Northern California, Modesto Irrigation District, the California Department of Water Resources State Water Project, and the City of Santa Clara, California and the M-S-R Public Power Agency. Timely interventions and supporting comments were filed by PG&E, Iberdrola Renewables, LLC (Iberdrola), and Powerex Corp. (Powerex). Transmission Agency of Northern California (TANC) filed a timely intervention and protest. CAISO filed an answer.

Comments in Support

11. PG&E states that it supports CAISO's proposal because it will allow for more efficient congestion management and make greater amounts of capacity available for scheduling under the CAISO tariff. PG&E explains that allowing PacifiCorp and its customers the opportunity to release capacity to CAISO on a quarterly basis (instead of after the hour-ahead scheduling deadline) will provide CAISO market participants with additional capacity on the critical California-Oregon Intertie in advance of the real-time market.²³ PG&E notes that the proposal will reduce the administrative burden for both CAISO and PacifiCorp for scheduling and settlements, as it will allow use of CAISO's regular tariff provisions for scheduling procedures and scheduling transactions, instead of

²¹ *Id.*

²² *Id.* at 8.

²³ The California-Oregon Intertie (COI) consists of the Pacific AC Intertie and the California Oregon Transmission Project between Captain Jack and Olinda substations. PG&E states the COI operates and functions as a closely coordinated system and is crucial to power transfers between the Pacific Northwest and northern California. PG&E Comments at 2.

the current two-part process where PacifiCorp validates for accuracy schedules submitted by its customers before submitting them to CAISO. Finally, PG&E states that the proposal will be a helpful test-run to confirm that this approach is efficient and effective prior to expanding its scope.²⁴

12. Iberdrola and Powerex also support CAISO's proposal. Iberdrola and Powerex state that, as transmission rights holders, they appreciate that CAISO and PacifiCorp have reached a reasonable compromise that would allow transmission rights holders the option to utilize their rights through existing CAISO market processes.²⁵ Powerex explains that this solution avoids the inefficiency of PacifiCorp customers having to purchase an additional leg of transmission from Western in order to use their rights on the PacifiCorp Share to deliver power to the CAISO grid. Powerex states that the workaround solution of procuring transmission from Western is only available for a limited quantity of power each hour, and as additional transmission reverts to the PacifiCorp Share under the settlement, this mismatch will increase and potentially strand transfer capability. Powerex also states that CAISO's proposal allows for efficient allocation of PacifiCorp's physical transmission space according to CAISO's locational marginal pricing market processes, with the PacifiCorp transmission customer receiving the congestion value associated with the use of their rights by another party.²⁶

TANC Protest

13. TANC generally agrees with the concept of option congestion revenue rights and sees merit in CAISO's proposal if offered to all market participants. TANC argues that CAISO's proposal will provide PacifiCorp with benefits that are not available to other transmission ownership rights holders in the CAISO market by providing congestion revenues when PacifiCorp or its customers voluntarily elect option congestion revenue rights, even when they do not schedule over PacifiCorp's Share of the Pacific AC Intertie.²⁷

14. Additionally, TANC asserts that the Amended Operating Agreement is a one-off solution to address the dispute between CAISO, PacifiCorp and Western, rather than CAISO amending its tariff to offer the same treatment of awarding option congestion revenues on a market-wide basis. TANC also contends that CAISO did not develop option congestion revenue rights through its normal stakeholder process. According to

²⁴ *Id.* at 6-7.

²⁵ Iberdrola Comments at 3; Powerex Comments at 6.

²⁶ Powerex Comments at 7.

²⁷ TANC Protest at 7.

TANC, CAISO and PacifiCorp negotiated the alternative treatment of transmission ownership rights for the Pacific AC Intertie, and CAISO presented the proposal during a conference call with certain market participants. This process, TANC argues, did not provide for adequate two-way discussion on the proposal.²⁸ TANC states that it is particularly concerned with CAISO's lack of a firm commitment to undertake a stakeholder process that will provide other market participants with option congestion revenue rights, and TANC asserts that CAISO should make its intentions clear for the record.²⁹ TANC also argues that if CAISO is unwilling to provide a commitment to propose a tariff amendment to implement option congestion revenue rights in the CAISO market, then the Commission should condition its approval of the Amended Operating Agreement on CAISO's timely commencement of a stakeholder process in this proceeding and require CAISO to submit an update to the Commission every 90 days on the status of the stakeholder process.³⁰

Powerex Clarification Requests

15. In its supporting comments, Powerex asks CAISO to confirm certain aspects regarding the implementation of PacifiCorp's option congestion revenue rights. Specifically, Powerex requests confirmation regarding: (1) whether transmission customers will only be charged once for transmission losses between Malin and Round Mountain in accordance with the settlement; (2) whether the congestion revenue rights term will be elected on a quarterly basis in advance of the monthly congestion revenue rights process for the first month of the relevant quarter; and (3) whether CAISO will accept elections for congestion revenue rights on or before February 15, 2013 for the second quarter of 2013, subject to Commission approval.³¹

CAISO Answer

16. In response to TANC, CAISO confirms that it is committed to conduct a stakeholder process on the potential CAISO tariff-based conversion of other transmission ownership rights to option congestion revenue rights.³² CAISO explains that each year it conducts an extensive stakeholder process to prioritize and plan market design initiatives. CAISO claims that the 2013 stakeholder process is complete and the conversion of

²⁸ *Id.* at 8.

²⁹ *Id.* at 8-9.

³⁰ *Id.*

³¹ Powerex Comments at 7-9.

³² CAISO Answer at 4.

transmission ownership rights to option congestion revenue rights was not identified as a market design enhancement.³³ Therefore, CAISO states that it will conduct the stakeholder process on this issue once the stakeholder processes that are currently underway for priority initiatives are complete, and at that time, it will have more resources to focus on this effort.³⁴

17. Additionally, CAISO contends that TANC's request that the Commission require it to provide updates in this proceeding every 90 days is neither justified nor appropriate. CAISO contends that TANC has not demonstrated that either the Amended Operating Agreement or CAISO's tariff are unjust or unreasonable.

18. In response to Powerex, CAISO confirms that PacifiCorp transmission customers that purchase service on PacifiCorp's transmission system between Malin and Round Mountain and properly schedule their transmission ownership rights in the CAISO market will continue to receive credits for marginal losses, eliminating the risk of being charged twice for transmission losses.³⁵ Conversely, CAISO explains that a PacifiCorp transmission customer that chooses to convert its rights into option congestion revenue rights under the Amended Operating Agreement exchanges the benefits of holding a transmission ownership right for the different benefits of holding a congestion revenue right. Thus, CAISO states that in this case, any schedules by the transmission customer between Malin and Round Mountain after such a conversion using any additional available transfer capacity from the option congestion revenue rights will be subject to all CAISO market charges, including charges for transmission losses.³⁶

19. CAISO also confirms that option congestion revenue rights available under the Amended Operating Agreement will have a quarterly term and should be elected on a quarterly basis. Finally, CAISO confirms that on February 15, 2013, it received elections from PacifiCorp customers for option congestion revenue rights for the second quarter of 2013. CAISO states that it intends to honor these elections if the Commission approves the Amended Operating Agreement.³⁷

³³ *Id.* at 4.

³⁴ *Id.* at 5.

³⁵ CAISO Answer at 6. CAISO states that transmission ownership rights in the CAISO market shall continue to be treated in accordance with section 17.2 of the Amended Operating Agreement. We believe this to be a typographical error and that CAISO meant to refer to Schedule 3, section 17.3.3.

³⁶ *Id.* at 6-7.

³⁷ *Id.*

IV. Discussion

A. Procedural Matters

20. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2012), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2012) 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.

B. Commission Determination

21. We find CAISO's proposal to provide PacifiCorp and its customers with the opportunity to exchange its transmission ownership rights for option congestion revenue rights for PacifiCorp's Share of capacity on the Pacific AC Intertie is a reasonable approach for resolving the specific disagreement among the parties regarding certain transactions that occurred in Spring 2012 that adversely affected Western's system. We therefore agree with CAISO that the Amended Operating Agreement will address an immediate need to accommodate PacifiCorp's customers and avoid potential disputes between CAISO and PacifiCorp, while broader stakeholder consideration of this matter continues.³⁸ CAISO has explained that this proposal will allow PacifiCorp and PacifiCorp's customers to utilize their transmission rights to deliver power directly to CAISO, which will result in increased market efficiency by allowing CAISO market participants to schedule transactions on the PacifiCorp Share and by allowing CAISO to address congestion more efficiently and reliably. Thus, we reject TANC's assertion that CAISO is unfairly providing benefits to PacifiCorp because, as discussed above, this proposal will benefit all parties transacting on the Pacific AC Intertie by making additional capacity available for day-ahead scheduling. We further note that the Amended Operating Agreement will have no adverse affect on congestion revenues received by other congestion revenue rights holders.³⁹ For these reasons, we accept the Amended Operating Agreement for filing.

22. In regard to TANC's suggestion that the Commission should condition its approval of the Amended Operation Agreement and require CAISO to provide an update every 90 days regarding the status of a stakeholder process, we find that such a condition is unnecessary at this time. As CAISO stated in its answer, it does commit to initiating a

³⁸ CAISO Filing at 8.

³⁹ Additionally, we find that CAISO has provided sufficient clarification to address Powerex's concerns.

stakeholder process to allow other market participants similar option congestion revenue rights as those that will be afforded to PacifiCorp under the Amended Operating Agreement. We accept CAISO's commitment and strongly encourage CAISO to initiate a stakeholder process on this issue as soon as it is feasible. Additionally, we will not require CAISO to submit an update every 90 days until the stakeholder process regarding option congestion revenue rights is initiated, because it is premature to require such a requirement at this time.

23. In addition, the Commission concurrently addresses, in separate orders, PacifiCorp's certificate of concurrence and tariff record adopting the agreement submitted in the instant proceeding (filed in Docket No. ER13-799-000) and PacifiCorp's tariff revisions to Attachment S (Provisions Relating to Transmission Service Between Malin and Round Mountain)⁴⁰ under its Open Access Transmission Tariff (OATT) (filed in Docket No. ER13-811-000).⁴¹

The Commission orders:

We hereby accept the Amended Operating Agreement, effective April 1, 2013, as requested.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

⁴⁰ This filing addresses scheduling practices and charges for services on PacifiCorp's segment of the Pacific AC Intertie.

⁴¹ *PacifiCorp*, Docket No. ER13-799-000 (Mar. 29, 2013) (unpublished letter order); *PacifiCorp*, Docket No. ER13-811-000 (Mar. 29, 2013) (unpublished letter order).