

133 FERC ¶ 61,113  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

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

California Independent System Operator Corp.                      Docket Nos. ER10-500-000  
ER10-500-001  
ER10-500-002  
ER10-2293-000

ORDER ON COMPLIANCE, MOTION FOR CLARIFICATION OR IN THE  
ALTERNATIVE REHEARING, AND MOTION FOR EXTENSION OF TIME

(Issued November 1, 2010)

1. On August 23, 2010, the California Independent System Operator Corporation (CAISO) filed tariff revisions related to its Scarcity Reserve Pricing Mechanism (Scarcity Pricing Mechanism), as directed by the Commission's June 29, 2010 order<sup>1</sup> (compliance filing). As discussed below, we find that the compliance filing fully complies with the directives set forth in the Scarcity Pricing Order, as such an additional Commission order is not required to satisfy the conditions set forth in the Scarcity Pricing Order that suspended the effectiveness of the tariff revisions for five months, subject to a compliance filing and further Commission order.<sup>2</sup> Additionally, we grant CAISO's motion for an extension of time to implement scarcity pricing<sup>3</sup> and find that CAISO's motion for clarification or in the alternative rehearing<sup>4</sup> is moot.

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<sup>1</sup> *Cal. Indep. Sys. Operator Corp.*, 131 FERC ¶ 61,280 (2010) (Scarcity Pricing Order).

<sup>2</sup> *Id.* P 1.

<sup>3</sup> CAISO August 23, 2010 Motion for Extension of Time to Implement Scarcity Pricing, Docket Nos. ER10-500-000 and ER10-500-001 (Motion to Extend Time to Implement Scarcity Pricing).

<sup>4</sup> CAISO July 29, 2010 Motion for Clarification or in the Alternative Rehearing, Docket No. ER10-500-002 (Motion for Clarification).

## I. Background

2. In September 2006, the Commission directed CAISO to “develop a reserve shortage scarcity pricing mechanism that applies administratively-determined graduated prices to various levels of reserve shortage” within 12 months following the start of the Market Redesign Technology Upgrade (MRTU).<sup>5</sup> In Order No. 719, the Commission established reforms to remove barriers to demand response by requiring regional transmission organizations and independent system operators to reform their market rules in such a way that prices during operating reserve shortages more accurately reflect the value of energy during such shortages.<sup>6</sup>

3. On December 24, 2009, in Docket No. ER10-500-000, CAISO filed its Scarcity Pricing Mechanism with the Commission to comply with the MRTU Rehearing Order and Order No. 719.<sup>7</sup> Among other things, CAISO proposed to apply lower scarcity prices to the sub-regions than to the expanded system region. On March 31, 2010, the Commission issued a deficiency letter in response to CAISO’s filing. On April 30, 2010, CAISO filed its response to the deficiency letter that included proposed tariff revisions.

4. On June 29, 2010, the Commission accepted the Scarcity Pricing Mechanism and suspended its proposed effectiveness for five months, to become effective November 29, 2010, subject to a compliance filing and further Commission order.<sup>8</sup> In the Scarcity Pricing Order, the Commission found that CAISO had not shown its proposal to value sub-regional ancillary services and energy less than expanded system region reserves in shortage conditions to be just and reasonable.<sup>9</sup> Thus, the Commission directed CAISO to submit a compliance filing within 60 days that either justifies such disparate treatment or

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<sup>5</sup> *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274, at P 1078-79 (2006), *order on reh’g*, 119 FERC ¶ 61,076 (2007) (MRTU Rehearing Order), *order on reh’g and denying motion to reopen record*, 120 FERC ¶ 61,271 (2007).

<sup>6</sup> *Wholesale Competition in Regions with Organized Electric Markets*, Order No. 719, FERC Stats. & Regs. ¶ 31,281 (2008), *order on reh’g*, Order No. 719-A, 74 Fed. Reg. 37,776 (July 29, 2009), FERC Stats. & Regs. ¶ 31,292 (2009), *reh’g denied*, Order No. 719-B, 129 FERC ¶ 61,252 (2009).

<sup>7</sup> CAISO December 24, 2009 Tariff Amendment to Implement Scarcity Reserve Pricing in Docket No. ER10-500-000.

<sup>8</sup> Scarcity Pricing Order, 131 FERC ¶ 61,280 at P 1.

<sup>9</sup> *Id.* P 37-45

makes the sub-regional and expanded system region values consistent.<sup>10</sup> In addition, the Commission directed CAISO to modify its tariff to include a table reflecting scarcity demand curve values.<sup>11</sup> The Commission further required CAISO to change the timeframe in which it will conduct a review of its Scarcity Pricing Mechanism to include annual reviews for the first three years that scarcity pricing is in place, with the exception that it not be required to review scarcity pricing in any year in which scarcity pricing is not triggered.<sup>12</sup>

5. On July 29, 2010, in Docket No. ER10-500-002, CAISO filed the Motion for Clarification. On August 23, 2010, in Docket No. ER10-2293-000, CAISO submitted the compliance filing. On August 23, 2010, in Docket Nos. ER10-500-001 and ER10-500-000, CAISO also filed the Motion to Extend Time to Implement Scarcity Pricing, requesting that the Scarcity Pricing Mechanism become effective on December 14, 2010, instead of November 29, 2010, as directed by the Commission.<sup>13</sup>

## **II. Notice and Responsive Pleadings**

6. Notice of the compliance filing was published in the *Federal Register*, 75 Fed. Reg. 53,293 (2010), with interventions and comments due on or before September 13, 2010. Motions to intervene were filed by the City of Santa Clara California and the M-S-R Public Power Agency, jointly, and Powerex Corp.

7. In addition, the following parties filed comments in support of the Motion for Clarification: (1) Public Utilities Commission of California; (2) Pacific Gas and Electric Company; (3) Western Power Trading Forum; (4) California Department of Water Resources State Water Project; and (5) Southern California Edison Company.

## **III. Discussion**

### **A. Procedural Matters**

8. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2010), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

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<sup>10</sup> *Id.* P 43.

<sup>11</sup> *Id.* P 60-61.

<sup>12</sup> *Id.* P 65-66.

<sup>13</sup> Motion to Extend Time to Implement Scarcity Pricing at 1-2.

**B. Compliance Filing and Motion to Extend Time to Implement Scarcity Pricing**

9. CAISO's compliance filing: (1) makes the demand curve values consistent for shortages in the expanded system region and a sub-region; (2) eliminates the requirement that expanded system region and sub-regional prices be added together when a shortage occurs in both; (3) includes a table showing scarcity pricing demand curve values in the tariff; (4) provides for annual review of the Scarcity Pricing Mechanism for the first three years following implementation, with the exception of any year in which scarcity pricing is not triggered; and (5) changes the effective date of the Scarcity Pricing Mechanism from November 29, 2010 to December 14, 2010.<sup>14</sup>

10. In support of its Motion to Extend Time to Implement Scarcity Pricing, CAISO states that December 14, 2010 aligns with its practice of implementing new market releases on the second Tuesday of the month.<sup>15</sup> CAISO also explains that it plans to move its control center to a new building on or about December 1, 2010. CAISO seeks to avoid implementing any market software changes near the end of November and the first week of December because they may distract from the transfer of operations to the CAISO's new control center.<sup>16</sup>

**Commission Determination**

11. We find that CAISO's compliance filing satisfactorily complies with the Commission's directives to: (1) make the sub-regional and expanded system region values consistent; (2) modify its tariff to include a table showing scarcity pricing demand curve values; and (3) conduct an annual review of the Scarcity Pricing Mechanism for the first three years following implementation, with the exception of any year in which scarcity pricing is not triggered. In light of this determination, we find that an additional order is not required to satisfy the conditions set forth in the Scarcity Pricing Order that suspended the effectiveness of the tariff revisions for five months, subject to a compliance filing and further Commission order.<sup>17</sup> Finally, we find that CAISO has shown good cause to change the effective date for the Scarcity Pricing Mechanism to December 14, 2010. Accordingly, we accept the compliance filing as being consistent

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<sup>14</sup> See CAISO August 23, 2010 Compliance Filing in Docket No. ER10-2293-000.

<sup>15</sup> Motion to Extend Time to Implement Scarcity Pricing at 1.

<sup>16</sup> *Id.* at 2.

<sup>17</sup> Scarcity Pricing Order, 131 FERC ¶ 61,280 at P 1.

with the Commission's directives in the Scarcity Pricing Order and grant the Motion to Extend Time to Implement Scarcity Pricing.

**C. Motion for Clarification**

12. In its Motion for Clarification, CAISO asserts that the Scarcity Pricing Order does not explicitly state that, if it makes the scarcity demand curve values in the expanded system region and ancillary services sub-region consistent, then it should not add these values together, as originally proposed, to calculate ancillary service marginal prices when there is a reserve shortage in both regions.<sup>18</sup> CAISO requests that the Commission make this clarification explicit.<sup>19</sup> In the alternative, if the Commission intended that the additive feature remain, CAISO seeks rehearing.<sup>20</sup> Finally, CAISO states that, in the absence of Commission direction, it will eliminate the additive feature in its compliance filing.<sup>21</sup>

**Commission Determination**

13. As discussed above, we find that the compliance filing, which makes demand curve values consistent for shortages in the expanded system region and a sub-region and does not require that the expanded system region and sub-regional prices be added together when a shortage occurs in both, is just and reasonable. In light of this determination, we find that CAISO's motion asking that we clarify that it is not required to add the expanded system region and sub-regional prices together is moot. Accordingly, we deny the motion for clarification or in the alternative rehearing.

The Commission orders:

(A) CAISO's compliance filing is hereby accepted, to become effective on December 14, 2010, as discussed in the body of this order.

(B) CAISO's Motion to Extend to Implement Scarcity Pricing is hereby granted, as discussed in the body of this order.

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<sup>18</sup> Motion for Clarification at 7.

<sup>19</sup> *Id.* at 8.

<sup>20</sup> *Id.* at 13.

<sup>21</sup> *Id.* at 11.

(C) CAISO's Motion for Clarification is hereby denied, as discussed in the body of this order.

By the Commission.

( S E A L )

Kimberly D. Bose,  
Secretary.