148 FERC ¶ 61,239
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. ER14-2536-000

ORDER ACCEPTING TARIFF AMENDMENTS

(Issued September 29, 2014)

1. On July 30, 2014, the California Independent System Operator Corporation (CAISO) filed tariff amendments revising its settlement rules to align the allocation of its contingency reserve costs with certain new contingency reserve procurement requirements scheduled to take effect on October 1, 2014.[1] CAISO also proposes several changes related to the new contingency reserves procurement requirements and the proposed cost allocation methodology. This order accepts CAISO's proposed tariff amendments, effective October 1, 2014, as requested.

I. Background

2. CAISO administers both day-ahead and real-time wholesale electric energy markets. A primary objective of CAISO's markets is to ensure that there is sufficient supply of energy to satisfy demand in the region while maintaining the reliability of the transmission system operated by CAISO. These markets simultaneously optimize the procurement of energy and ancillary services and allocate the use of transmission capacity on CAISO's grid based on locational marginal pricing at both internal nodes (i.e., locations within CAISO's balancing authority area) and the interties (i.e., locations for imports to and exports from CAISO's balancing authority area).[2]

3. CAISO procures four types of ancillary services through its markets: spinning reserve, non-spinning reserve, regulation up, and regulation down. Scheduling

[1] CAISO July 30, 2014 Transmittal Letter (CAISO Transmittal Letter).

[2] *Id.* at 3.

coordinators that serve load or exports incur an ancillary services obligation to meet a portion of the total ancillary services costs. Scheduling coordinators may offer ancillary services into CAISO's market either through economic bids or submissions to self-provide ancillary services (i.e., self-schedule).[3]

4. CAISO's tariff requires it to procure sufficient ancillary services to meet the reliability standards established by the North American Electric Reliability Corporation (NERC) and the Western Electric Coordinating Council (WECC).[4] CAISO currently procures contingency reserves – i.e., the combination of spinning reserves and non-spinning reserves – based on BAL-STD-002, WECC's regional reliability standard, which expires on September 30, 2014.[5] BAL-STD-002 requires balancing authorities and reserve sharing groups to procure total operating reserves to meet the greater of:

> a. The loss of generating capacity from a forced outage of generation or transmission equipment that would result from the most severe single contingency; or
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> b. The sum of five percent of the load responsibility served by hydropower generation and seven percent of the load responsibility served by thermal generation.[6]

5. CAISO calculates the total cost of each type of contingency reserve (i.e., spinning or non-spinning reserves) for each hour and allocates them to scheduling coordinators pro rata based on their reserves obligation, i.e., load and exports, less a portion of the hydroelectric and thermal generation resources used to serve their load.[7]

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[3] *Id.*

[4] CAISO, eTariff, FERC Electric Tariff, OATT, § 8.1 (CAISO Tariff) ("The CAISO shall be responsible for ensuring that there are sufficient Ancillary Services available to maintain the reliability of the CAISO Controlled Grid consistent with NERC and WECC reliability standards and any requirements of the NRC.").

[5] CAISO Transmittal Letter at 2.

[6] *Id.* at 4.

[7] CAISO Tariff §§ 11.10.3.2 and 11.10.4.2 (5.0).

II. CAISO's Filing

6. CAISO states that it is proposing tariff amendments to revise its settlement rules to align the allocation of its contingency reserve costs with the new contingency reserve procurement requirements pursuant to WECC's new regional reliability standard, BAL-002-WECC-2, which goes into effect on October 1, 2014.[8] CAISO contends that such revisions are necessary to ensure that its cost allocation follows cost causation principles. CAISO explains that under this new contingency reserve standard, balancing authorities and reserve sharing groups must procure contingency reserves to meet the greater of:

a. The loss of the most severe single contingency; or

b. The sum of three percent of hourly integrated load (generation minus station service minus net actual interchange) and three percent of hourly integrated generation (generation minus station power service).[9]

7. CAISO explains that under BAL-002-WECC-2, CAISO will continue to procure reserves to meet its load and exports and account for its total procurement costs. Using a formula, CAISO will then allocate its total procurement costs for contingency reserves to scheduling coordinators. However, CAISO indicates that because the new procurement requirements do not distinguish between hydro and thermal generation, the cost allocation formula will no longer distinguish a scheduling coordinator's obligation based upon these types of supply.[10] CAISO contends that under this new cost allocation formula, the share of the total contingency reserves that each scheduling coordinator causes CAISO to procure matches the share of the total contingency reserve costs for the hour allocated to each scheduling coordinator.[11]

8. CAISO explains that BAL-002-WECC-2 creates a default rule that the source balancing authority is responsible for procuring contingency reserves associated with

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[8] *Regional Reliability Standard BAL-002-WECC-2 – Contingency Reserve*, Order No. 789, 145 FERC ¶ 61,141 (2013).

[9] CAISO Transmittal Letter at 6.

[10] *Id*. at 7-9.

[11] *Id.* at 11. CAISO provides illustrative examples of how the new cost allocation methodology applies in four scenarios. *Id.* at 8-11.

dynamic schedules.[12] CAISO contends that balancing authorities can, however, transfer the reserve obligation for dynamic schedules contractually. CAISO explains that under its existing tariff, it accepts responsibility for procuring contingency reserves to support dynamically scheduled imports.[13] CAISO indicates that it is proposing changes to the language of its dynamic scheduling protocol in Appendix M of its tariff to clarify this practice under WECC's new standard and for purposes of its contingency reserve cost allocation rules. CAISO is also proposing language in tariff sections 11.10.3.2 and 11.10.4.2 as part of its cost allocation formula to acknowledge this practice.[14]

9. CAISO explains that the purpose of these revisions is to recognize for cost allocation purposes that dynamically scheduled imports into CAISO are similar to internal resources. Accordingly, CAISO will include dynamically scheduled imports in its calculation of integrated generation for purposes of procuring contingency reserves under WECC Reliability Standard BAL-002-WECC-2. Like internal resources, CAISO can dispatch dynamically scheduled imports every five minutes. For contingency reserve procurement and cost allocation purposes, CAISO also treats resources that use a pseudo-tie arrangement to import into the CAISO balancing authority area as if they were internal resources. Conversely, CAISO treats resources within the CAISO balancing authority that use a pseudo-tie arrangement to export to another balancing authority area as external resources.[15]

10. CAISO further explains that under the Energy Imbalance Market (EIM), scheduled to start October 1, 2014, transfers of energy between balancing authorities will use dynamic e-Tags.[16] However, CAISO states, the EIM tariff provisions accepted by the Commission do not define EIM transfers as dynamic imports or exports. Under the EIM design, the source balancing authority remains responsible for procuring contingency reserves associated with energy subject to EIM transfers. As a result, CAISO is not

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[12] CAISO refers to Attachment A to WECC Reliability Standard BAL-002-WECC-2. Dynamic transfers are imports or exports that can be dispatched every five minutes. CAISO states that under its new fifteen-minute market, implemented May 1, 2014, static imports and exports can be scheduled on a fifteen-minute or hourly basis. CAISO Transmittal Letter at n.15.

[13] CAISO Tariff, Appendix M, § 1.5.4.

[14] CAISO Transmittal Letter at 12.

[15] *Id.* at 12-13.

[16] *Id.* at 13.

proposing to extend the cost allocation rule for dynamic imports and exports to EIM transfers. Instead, for the purposes of contingency reserve cost allocation, CAISO proposes to add a new subsection to section 29.11 to its tariff to treat EIM transfers similarly to static imports and exports. As a result, the EIM entity scheduling coordinator is charged or paid for contingency reserves procured as a result of the EIM transfer, depending on the direction of their EIM transfer.[17]

11. CAISO also proposes a number of other tariff revisions. CAISO explains that it currently provides a credit to scheduling coordinators that self-provide more contingency reserves than are necessary to cover their pro rata allocation of such costs. CAISO proposes to change this practice so that the credit does not exceed the scheduling coordinator's obligation. Rather, scheduling coordinators may bid any excess contingency reserves into the ancillary services market.[18] CAISO also proposes to clarify its current practice of allowing self-provided ancillary services to substitute for other ancillary services, consistent with the substitution principles set forth in its current tariff.[19]

12. In addition, CAISO proposes to clarify that it will not support a new e-Tag capacity type for recallable energy.[20] According to CAISO, WECC introduced this new capacity type to facilitate the new contingency reserves standard as it applies to reserve sharing groups. CAISO contends that it does not participate in reserve sharing groups and configuring CAISO's systems to accept this new type of e-Tag would impose costs and create unnecessary implementation complexity.

13. CAISO requests that the proposed tariff amendments take effect on October 1, 2014, to coincide with the effective date of BAL-002-WECC-2.

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[17] For example, an EIM transfer into the CAISO balancing authority area will result in the EIM entity scheduling coordinator receiving a payment equal to the three percent of the hourly MW transfer into CAISO multiplied by the ancillary service product rate. On the other hand, an EIM transfer out of the CAISO balancing authority area will result in a charge to the EIM entity scheduling coordinator for three percent of the hourly MW transfer out of the CAISO multiplied by the ancillary service product rate.

[18] CAISO Transmittal Letter at 2-3, 14-15.

[19] *Id*. at 3, 15-16.

[20] *Id.* at 16.

III. Notice and Responsive Pleadings

14. Notice of CAISO's July 30, 2014 filing was published in the *Federal Register*, 79 Fed. Reg. 45,793 (2014), with protests and interventions due on or before August 20, 2014. The California Department of Water Resources State Water Project, Modesto Irrigation District, Northern California Power Agency, NRG Companies,[21] Pacific Gas and Electric Company, Six Cities,[22] Southern California Edison Company and the City of Santa Clara, California, filed timely motions to intervene. Powerex Corp. (Powerex) filed a timely motion to intervene and comments supporting CAISO's tariff amendments.

15. Powerex generally supports CAISO's proposed amendments to its tariff.[23] Specifically, Powerex states that CAISO's proposed revisions are consistent with cost causation principles and will promote efficient market price signals. Accordingly, Powerex advocates that the Commission find that CAISO's proposed revisions are just and reasonable.[24]

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 (2014), the timely, unopposed motions to intervene serves to make the entities that filed them a party to this proceeding.

B. Substantive Matters

17. We will accept CAISO's proposed tariff amendments for filing, to become effective October 1, 2014, as requested. We find that the proposed tariff amendments revising sections 11.10.3.2 and 11.10.4.2 of the tariff appropriately align CAISO's cost allocation rules with the WECC's new regional reliability standards, approved by the Commission and effective as of October 1, 2014. The remaining tariff amendments help

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[21] NRG Companies states that for the purposes of the instant filing, it is comprised of NRG Power Marketing LLC and GenOn Energy Management, LLC.

[22] Six Cities is comprised of the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California.

[23] Powerex Corp. August 20, 2014 Comments at 4.

[24] *Id.* at 5-6.

clarify CAISO's approach for related transactions, such as allowing a scheduling coordinator to schedule reserves up to the amount necessary to meet its load obligation. For these reasons, we find that the proposed tariff amendments are just and reasonable.[25]

The Commission orders:

CAISO's proposed tariff amendments are hereby accepted for filing, to become effective October 1, 2014, as requested, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

[25] We further note in accepting these amendments that one of the intervenors supports the proposed amendments and none contests them.