132 FERC ¶ 61,273
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 Corporation	Docket Nos.	ER10-2056-000
		ER10-1360-000

ORDER ACCEPTING TARIFF REVISIONS AND DIRECTING COMPLIANCE FILING

(Issued September 30, 2010)

1. In this order, the Commission conditionally accepts proposed tariff revisions submitted by the California Independent System Operator Corporation (CAISO) concerning the determination and mitigation of transition costs for the CAISO's Multi-Stage Generating Resource functionality. The Commission also directs the CAISO to make a compliance filing.

I. Background

2. On May 27, 2010, the CAISO filed tariff revisions to incorporate new market rules that support the implementation of its Multi-Stage Generating Resource[1] Modeling proposal.[2] The proposal enables scheduling coordinators to offer resources that register and qualify as Multi-Stage Generating Resources, the ability to participate in the CAISO market by offering multiple resource configurations in any market interval. Under the proposal, scheduling coordinators may bid separate configurations simultaneously into the market. The CAISO also proposed an early registration and qualification process, prior to implementation of the Multi-Stage Generating Resource Modeling proposal

[1] A Multi-Stage Generating Resource refers to a generator that can operate in one of several mutually exclusive operating modes or "configurations." CAISO Tariff, Appendix A.

[2] For a more complete description of the Multi-Stage Generating Resource Modeling proposal, *see Cal. Indep. Sys. Operator Corp.*, 132 FERC ¶ 61,087 (2010) (July 2010 Order).

whereby scheduling coordinators could submit information concerning the operating characteristics of resources that intend to participate.

3. Under the CAISO's proposal, Multi-Stage Generating Resources would be allowed to recover their commitment costs (e.g., start-up and minimum load costs) through the CAISO's bid cost recovery mechanism, in the event that market revenues did not adequately compensate resource owners for those costs. In addition, the CAISO explained that its proposal allows Multi-Stage Generating Resources to recover the cost of transitioning from one configuration to another. However, the CAISO's proposal did not include tariff provisions addressing how transition costs would be determined. Rather, the CAISO indicated that additional tariff revisions would be filed upon completion of an on-going stakeholder process covering transition costs.

4. On July 30, 2010, the Commission accepted the CAISO's tariff sections addressing the pre-registration processes for Multi-Stage Generating Resources to become effective on August 2, 2010, and the tariff sections addressing post-implementation registration to become effective on October 1, 2010. The Commission concluded, however, that the functionality of the CAISO's proposal was incomplete without the submission of the transition cost methodology. Therefore, the Commission accepted and suspended, for a nominal period to become effective October 1, 2010, the remaining tariff sections, subject to refund, compliance filing and future order.[3]

II. Transition Cost Filing

5. On July 29, 2010, the CAISO filed an amendment to its tariff to incorporate a methodology for the determination and mitigation of transition costs under its Multi-Stage Generating Resource Modeling proposal. Under its proposal, Multi-Stage Generating Resources may recover costs associated with transitioning from one operational configuration to another if committed by the CAISO. Under the transition cost methodology, the CAISO will verify transition costs submitted by scheduling coordinators as part of the registration process and will apply two rules to potentially mitigate submitted transition cost values.[4] Transition costs will be registered in the CAISO's Master File for a minimum of 30 days.

6. The CAISO states that transition costs include those costs that relate directly to, or are associated with, the physical equipment needed to transition a resource to a new configuration. The CAISO explains that these costs may include fuel, but they may also include other costs such as the increased maintenance costs associated with such

[3] *Id*. P 37-38.

[4] Under the proposal, scheduling coordinators will submit and the CAISO will verify transition costs as part of the same monthly cycle currently in place for start-up and minimum load costs.

transitions. Accordingly, the proposal requires transition costs be submitted in the form of a dollar value, so that costs in addition to fuel may be captured.

7. Scheduling coordinators will submit, as part of the registration process, transition costs, transition cost index (derived by dividing the transition cost by the monthly Gas Price Index that is posted on the day the transition costs are submitted), and the fuel input value associated with starting each configuration from an offline status. Scheduling coordinators may also submit fuel input values for transitions to lower output configurations.

8. Under the proposal, a Multi-Stage Generating Resource's costs for transitioning to a higher output configuration will be determined on a daily basis by multiplying the resource's registered transition cost index by that day's Gas Price Index. Similarly, the costs for transitioning to a lower output configuration will be determined daily by multiplying the submitted fuel input value by the Gas Price Index. The CAISO states that indexing transition costs to the Gas Price Index is appropriate because the majority of transition costs are related to fuel. It adds that while indexing transition costs in this way may not be perfectly precise, because some transition costs are not related to fuel, the Gas Price Index provides a known and measurable value to capture such fluctuations.

9. To ensure against any adverse economic bidding behavior, the CAISO proposes to apply two validation rules.[5] For a registered resource's transitions to higher output configurations, the CAISO confines the sum of all the transitions costs for that resource to between 100 and 125 percent of its direct start-up cost or configuration proxy start-up value[6] plus ten percent for that configuration.[7]

10. In addition, for transitions to higher output configurations the CAISO will verify that the sum of the transition costs is between 100 percent and 125 percent of the costs of transitioning directly from the lower to the higher configuration. The CAISO states that this rule ensures that any incremental steps to the target configuration are at least as costly as the direct transition to that configuration.

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[5] See proposed tariff section 30.4.2.

[6] The proxy cost option is based on the relevant cost information of the particular resource which will be provided to the CAISO by the scheduling coordinator for a unit and maintained in the Master File. Proxy cost values for Multi-Stage Generating Resources will be calculated for each specific configuration. See proposed tariff section 30.4.1.1.

[7] When a registered configuration for a resource has been identified as one that is capable of direct start-up, the CAISO uses zero dollars as the lower bounds for the total of the transition costs.

11. The CAISO states that it is not proposing to mitigate downward transition costs because they are generally very small compared to upward transition costs. The CAISO states that downward transition costs will be reviewed upon submission and will be subject to the existing mandate that scheduling coordinators submit factually accurate information on operating characteristics.

12. The CAISO adds that under its proposal, transition costs will be eligible for bid cost recovery for only those settlement intervals in which the resource reaches the minimum output of its target configuration for an upward transition or the maximum output of the target configuration for a downward transition. Also, under the proposal, the CAISO will apply a tolerance band in determining whether a resource has transitioned to a new configuration.

III. Notice of Filing and Responsive Pleadings

13. Notice of the CAISO's filing was published in the *Federal Register*, 75 Fed. Reg. 48,962 (2010), with comments, protests, or interventions due on or before August 19, 2010. Timely motions to intervene were filed by California Department of Water Resources State Water Project, Northern California Power Agency, Pacific Gas and Electric Company, City of Santa Clara, California and the M-S-R Public Power Agency, Modesto Irrigation District, Dynegy Morro Bay, LLC, Dynegy Moss Landing, LLC, Dynegy South Bay, LLC, and Dynegy Oakland, LLC (collectively, Dynegy) and the Cities of Anaheim, Azusa, Banning, Colton, Pasadena and Riverside, California. Southern California Edison (SoCal Edison) filed a timely motion to intervene and comments. San Diego Gas and Electric Company (SDG&E) filed a late motion to intervene and comments. On September 3, 2010, the CAISO filed an answer to the comments.

IV. Discussion

A. Procedural Matters

14. 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.

15. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R § 385.214(d) (2010), the Commission will grant SDG&E's late-filed motion to intervene given its interest in the proceeding, the early stage of the proceeding, and the absence of undue prejudice or delay.

16. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2010), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept the CAISO's answer filed in this proceeding because it provided information that assisted us in our decision-making process.

B. Substantive Matters

Protests and Comments

17. SoCal Edison supports the CAISO's transition cost design, but requests that the CAISO be required to revise its design within one year after implementation to account for non-fuel related transition costs. SDG&E argues that the CAISO's proposed methodology has not been shown to be just and reasonable and requests that the Commission's acceptance of the transition costs proposal be conditioned on the CAISO amending the proposal within six months to separately account for non-fuel and fuel-related transition costs. Parties contend that transition costs may be inaccurate because, under the CAISO's proposal, non-fuel related transition costs are adjusted based on the natural gas price.

18. SoCal Edison recommends that the Commission require the CAISO to modify its transition cost design to allow the resource to submit a two-part transition cost dollar value: one part that represents fuel costs and a second part that represents non-fuel costs. Under the two part design, the CAISO would still adjust the transition cost based on the daily gas price, but only for the fuel component; the non-fuel component would remain unchanged from day to day. SDG&E argues that a reasonable methodology for determining transition costs should recognize both non-fuel and fuel related transition costs in order to produce accurate bid cost irrespective of gas price level.

19. Additionally, SoCal Edison states that the CAISO should use the term "Minimum Load" rather than "Minimum Load amount" when referring to the operating level at which transition costs will be applied for a given settlement interval since "Minimum Load amount" is not a defined term. SoCal Edison states that the CAISO agreed to this change when contacted during the stakeholder process and that the inclusion of the term "Minimum Load amount" appears to be an error. Also, SoCal Edison suggests that the term "Transition Cost Index" is confusing and should be replaced with something more descriptive such as "Daily Transition Cost Multiplier."

CAISO Answer

20. The CAISO maintains that the Commission should approve the instant proposal without modification and without conditioning its approval on the implementation of a two-part transition cost approach in the future. The CAISO states that SoCal Edison and SDG&E have not demonstrated that the two-part approach is just and reasonable. Moreover, the CAISO argues that its proposal is just and reasonable without modification and represents the endpoint of an extensive stakeholder progress. The CAISO adds that the Commission should not dictate an alternative methodology without it being vetted through a stakeholder process.

21. The CAISO submits that its proposed transition costs methodology provides a reasonable compensation approach without the imposition of additional administrative

complexity. The CAISO contends that SoCal Edison and SDG&E create the impression that the CAISO proposal should be evaluated solely on its indexing aspects when indexing is only one component of the overall proposal. The CAISO states that the difficulty of determining non-fuel costs led to the proposed methodology, where the CAISO does not require scheduling coordinators to submit itemized costs. The CAISO adds the cost of fuel is the primary driver of transition costs, and neither SoCal Edison nor SDG&E have demonstrated that the bulk of transition costs are not fuel related.

22. The CAISO contends that SoCal Edison's and SDG&E's proposals to implement two-part transition cost indexing raises questions that cannot be answered at this time. The CAISO states that implementing a two-part transition cost methodology would require a ratio of non-fuel costs to fuel costs to be developed so that one portion of the costs would not be indexed to the natural gas price. The CAISO argues that it is unclear whether there should be a single ratio of non-fuel costs to fuel costs for all resources or whether each resource should submit its own ratio. The CAISO claims that, if a single ratio is to be used, it is unclear what ratio should be used to accurately describe the mix of non-fuel costs to fuel costs for all resources. If two part indexing proposal were to require each resource to submit its own ratio of non-fuel costs to fuel costs, the CAISO states that it is unclear how such ratios would be validated by the CAISO. Given these concerns, the CAISO emphasizes that there is a lack of sufficient evidence to conclude that a two-part approach would be preferable to the CAISO's single part approach.

23. The CAISO further argues that the concerns regarding the possible under or over valuation of transition costs by SoCal Edison and SDG&E can be addressed under the current proposal without modification. The CAISO notes that if a scheduling coordinator finds that their costs are undervalued, because indexing affects them negatively, the scheduling coordinator may adjust the transition costs for the next month. The CAISO notes that because it does not require specific accounting of transition costs, sufficient flexibility exists for scheduling coordinators to modify their costs on a month to month basis.

24. The CAISO states that the Commission should accept its proposal, and reject SoCal Edison's and SDG&E's request for the imposition of a two-part approach at a specified later time and allow the market participants and the CAISO sufficient time to evaluate the performance of the CAISO's proposed methodology.

25. With regard to language changes proposed by SoCal Edison, the CAISO states that its use of the term "Minimum Load amount" was a drafting error. The CAISO states that it will correct this language in a compliance filing. With regard to SoCal Edison's proposal to change the term "Transition Cost Index" to "Daily Transition Cost Multiplier," the CAISO states that it is willing to modify the term, but does not believe the word "Daily" is necessary. The CAISO states that it will modify the term in a subsequent compliance filing, if so ordered by the Commission.

26. Finally, the CAISO notes that, on September 2, 2010, it announced at its market performance and planning forum that it would have to delay the implementation of the Multi-Stage Generating Resource functionality until November 15, 2010. The CAISO states that it therefore no longer requires an order on September 27, 2010, and that a Commission order by October 25, 2010 would be sufficient. The CAISO adds that it will revise those tariff sheets submitted herein to reflect the revised effective date, if so ordered by the Commission.

Commission Determination

27. The Commission finds that the transition cost proposal submitted by the CAISO is a reasonable method to provide Multi-Stage Generating Resources the opportunity to recover the costs of transitioning from one configuration to another. Moreover, we find that the CAISO's proposed rules establishing constraints for transition costs based upon their relation to other transition costs and to start-up costs is a reasonable way to ensure that scheduling coordinators do not submit transition costs that are designed to economically withhold resources.

28. We also find that the CAISO's proposal to index transition costs to the price of natural gas is a reasonable way to adjust transition costs, given that the primary cost component of those costs is fuel. Although SoCal Edison and SDG&E propose to further modify the proposal, neither seeks a delay in accepting the transition cost proposal at the outset. Instead, they request that the Commission direct the CAISO to implement their suggested enhancement within six months or one year of implementation of the Multi-Stage Generating Resource Modeling proposal. We decline to require this change. Under the CAISO's proposal, scheduling coordinators have the ability to modify their transition costs every 30 days. We find that this provision affords scheduling coordinators sufficient flexibility in the event that fuel indexing distorts the dollar value submitted, such that it does not accurately reflect a resource's true transition costs. Also, we agree with the CAISO that it should be afforded time to evaluate the performance of the proposed methodology before considering additional modifications. Accordingly, the Commission finds that the CAISO tariff revisions addressing transition costs are just and reasonable and accept those revised tariff sections for filing, effective October 1, 2010, as requested.[8]

29. We note that, with our acceptance of the CAISO's transition methodology, we conclude that the CAISO's proposal to implement Multi-Stage Generating Resource Modeling functionality is complete.[9] Accordingly, the Commission finds that with the

[8] As noted in the CAISO's answer, the CAISO cannot implement its Multi-Stage Generating Resource tariff provisions until November 15, 2010. The CAISO has filed further revisions to its Multi-Stage Generating proposal in Docket No. ER10-2577-000, which will be addressed in a separate order.

[9] See July 2010 Order, 132 FERC ¶ 61,087 at P 37.

addition of the transition cost methodology the CAISO's Multi-Stage Generating Resource Modeling proposal is just and reasonable.

30. We further note that in the CAISO's answer, the CAISO indicated that it had announced the need to delay its implementation schedule for the Multi-Stage Generating Resource functionality from October 1, 2010 to November 15, 2010. Because of this delay, the CAISO stated that it would need to amend the tariff sheets for the instant proposal. We, therefore, direct the CAISO to submit a compliance filing within 30 days of the date of this order to modify those tariff sections implementing the transition costs methodology to be consistent with the effective date for the other tariff provisions addressing the Multi-Stage Generating Proposal.

31. We note that CAISO agrees with the SoCal Edison that its use of the term "Minimum Load amount" was a drafting error and that it should use the term "Minimum Load" in its place. Similarly, the CAISO has agreed to modify the term "Transition Cost Index" to a term that more accurately describes its function as a multiplier. Thus, the Commission directs the CAISO to include both changes in a compliance filing to be made within 30 days of the date of this order.

The Commission orders:

(A) The CAISO's proposed tariff revisions incorporating its transition cost methodology are hereby accepted for filing, effective October 1, 2010, subject to conditions as discussed in the body of the order.

(B) The CAISO is hereby directed to make a compliance filing to modify those terms discussed in the body of this order and to reflect the revised effective date of the tariff sections, within 30 days of the date of this order.

By the Commission.

Kimberly D. Bose,
Secretary.

Document Content(s)