

107 FERC ¶ 61,028
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;
Nora Mead Brownell, and Joseph T. Kelliher.

California Independent System Operator
Corporation

Docket No. ER03-683-001

ORDER ON REHEARING

(Issued April 16, 2004)

1. This order grants in part and denies in part the requests for rehearing of the Commission's order issued on May 30, 2003¹ accepting, subject to modification, the California Independent System Operator Corporation's (CAISO) Amendment No. 50 to its tariff. This order benefits customers by clarifying aspects of Amendment No. 50, which will result in enhanced market power mitigation measures, on an interim basis, and help provide power at just and reasonable rates.

Background

2. On March 31, 2003, the CAISO filed Amendment No. 50 to revise its method for managing intra-zonal congestion and to permit the CAISO to share generator outage information with entities operating transmission and distribution systems affected by the outage. The CAISO stated that Amendment No. 50 was necessary for two primary reasons: (1) it had no procedure for managing intra-zonal congestion in forward markets and (2) it needed a means for addressing certain local market power issues. The CAISO stated that under its existing tariff provisions it had to resolve intra-zonal congestion in real time which placed undue burdens on its real time operating staff and introduced potentially serious reliability problems. The CAISO further contended that its existing tariff provisions were insufficient to address certain local market power issues. Specifically, the CAISO stated that in the absence of a security-constrained day-ahead nodal energy market, it was especially susceptible to what it refers to as the "dec game," *i.e.*, cases where generators anticipate that a specific transmission line will be congested

¹ California Independent System Operator Corp., 103 FERC ¶ 61,265 (2003) (May 30 Order).

and schedule their unit(s) far beyond the limited local transfer capability in the forward markets, thereby forcing the CAISO to use the generators' decremental bids² in real time to mitigate the resulting congestion.

3. Furthermore, the CAISO stated that it increasingly confronts congestion caused by siting of new generating units in areas that lack adequate transmission facilities to deliver the new generation. In particular, the CAISO pointed to two new generating units under CAISO participating generator agreements located in Mexico (Mexican generating units) but connected to the CAISO grid that were scheduled to begin full commercial operation on June 1, 2003. The CAISO stated that energy from those new generating units, combined with the existing energy imported regularly from a neighboring control area, was expected to cause considerable congestion within the CAISO control area on the 500/230 kv transformer bank at San Diego Gas & Electric's Miguel substation.

4. The CAISO also stated that Amendment No. 50 was an interim solution until the implementation of Locational Marginal Pricing or some other long-term comprehensive management solution.

5. In the May 30 Order, the Commission accepted the CAISO's proposed Amendment No. 50 but directed the CAISO to make several modifications. The Commission approved the CAISO's proposal to use proxy bids to manage intra-zonal congestion and mitigate local market power but limited its application to decremental bids. Moreover, the Commission directed the CAISO to use reference prices instead of cost-based proxies for decremental bids which were to be administered by an independent entity and applied to all generators – both thermal and non-thermal. In addition, the CAISO's proposal to publish generating limits was rejected.

Requests for Rehearing

6. Timely requests for rehearing were filed by Energia Azteca X, S. de R.L. de C.V., Energia de Baja California, S. de R.L. de C.V. and Coral Power, L.L.C. (collectively, Coral), the California Department of Water Resources State Water Project (California DWR), the Transmission Agency of Northern California (TANC), the City of Santa

² Dec bids reflect the price at which a generator will purchase energy from the CAISO rather than produce it to fulfill its scheduled energy obligation. Dec bids are used by the CAISO to relieve congestion when the CAISO faces a transmission constraint. When the CAISO faces intrazonal congestion it redispatches the system based on "inc" (incremental) and "dec" (decremental) bids submitted by generators to increase or decrease the output of their units.

Clara, California, doing business as Silicon Valley Power (Santa Clara), and the Metropolitan Water District of Southern California (Metropolitan).³

Discussion

a. Reference Bid Methodology

7. Coral contends that the Commission erred in the May 30 Order by failing to prescribe how the decremental bid methodology should be developed and administered by the independent entity. Coral contends that without proper guidelines a reference price may be developed that will not allow generators adequate cost recovery.

Commission determination

8. In rejecting the CAISO's proposed cost-based proxy and replacing it with a decremental reference price, the Commission sought to create a situation where market participants would be properly compensated while not being allowed to profit from gaming strategies. With these objectives in mind, the Commission directed in the May 30 Order that an independent entity develop the decremental reference price methodology. The methodology developed by the independent entity will be subject to Commission review and approval.⁴ Accordingly, we will deny Coral's request for rehearing of this issue.

b. System Resources

9. Coral states that the dispatch of units under Amendment No. 50 is different for different types of units and, therefore, unduly discriminates between units that are potential causes of congestion. Coral maintains that prior to Amendment No. 50, Generators,⁵ System Resources (imports)⁶ and Dispatchable Loads⁷ would all submit

³ Metropolitan states that it supports and adopts by reference the specific arguments advanced by the California DWR.

⁴ The CAISO has filed the methodology in Docket No. ER03-683-003.

⁵ Generators are the sellers of energy or ancillary services produced by generating units (which, by definition, are located within the CAISO control area). See CAISO Tariff Appendix A, Master Definitions Supplement.

⁶ System Resources are resources located outside of the CAISO control area that are capable of providing Energy and/or Ancillary Services to the CAISO-controlled grid. See CAISO Tariff Appendix A, Master Definitions Supplement.

adjustment bids, which the CAISO would use, together with imbalance energy bids, to manage intra-zonal congestion in real time. However, Coral argues, under Amendment No. 50, the CAISO will pre-dispatch Generating Units before real time operation but will continue to use adjustment bids in real time to adjust System Resources and Dispatchable Loads for intra-zonal congestion management. Coral also argues that a different pricing method will be applied to the resources that are decremented. Coral states that, in the CAISO's transmittal letter, the CAISO acknowledged that its proposal contained two separate and distinct methods for dealing with intra-zonal congestion.

Commission Determination

10. Coral argues that the CAISO's proposal for managing congestion under Amendment 50 creates both different dispatch and pricing methods for units based on their status as imports, in-control-area generation, or dispatchable load, and therefore unduly discriminates between those resources. However, as the CAISO has explained⁸ and the Commission has acknowledged,⁹ there remain inherent difficulties in calculating reference prices for System Resources (imports) and Dispatchable Loads because these resources are non-resource-specific. Because the data required to adequately determine appropriate reference levels for such resources is not readily available, the CAISO cannot treat them the same as Generators within the control area for which it can calculate a reference price. As the CAISO has stated, this difference requires separate and distinct methods for dealing with intra-zonal congestion and payments. In order to apply the dec-bid mitigation approved in Amendment 50, the CAISO applies an AMP-like procedure to those units for which it can determine an AMP reference price, i.e., Generators within the control area. This results in the different dispatch treatment to which Coral objects. However, we find that until the CAISO can demonstrate that it is able to calculate reference prices for System Resources, different treatment of those resources is justified by the partial alleviation of the intra-zonal congestion management problem. We therefore find that the mitigation measures proposed in Amendment No. 50 are sufficient to serve as an interim congestion management measure, but again urge the CAISO to work expeditiously towards the ultimate solution to this problem, which --besides the building of needed transmission in the area-- is the congestion management system of the CAISO's MD02 market redesign.

⁷ Dispatchable Loads are loads that are subject to an adjustment bid. See CAISO Tariff Appendix A, Master Definitions Supplement.

⁸ In its transmittal the CAISO explained that System Resources and Dispatchable Loads would not be mitigated since these units, unlike Generating Units, do not have a known cost basis from which to create a mitigated bid.

⁹ See California Independent System Operator Corp., et al., 105 FERC 61,316 at P 4 (2003).

c. Creation of New Zones

11. Santa Clara contends that the Commission erred in the May 30 Order by encouraging the CAISO to create new zones to alleviate intra-zonal congestion because, were it to be applied to the San Francisco Bay area, the creation of a new zone would have a punitive effect on many municipal electric systems in that area. Instead, Santa Clara states, the Commission should limit its urging of the creation of new zones to the specific concerns raised by the CAISO regarding the Mexican generating units that were scheduled to begin operation on June 1, 2003.

Commission Determination

12. In the May 30 Order, the Commission acknowledged the CAISO's concerns regarding the operational and market impacts associated with the Mexican generation problem. Nevertheless, the Commission found that the CAISO's tariff contemplates this type of problem occurring and provides for a method to address it, i.e., creation of a new zone. The theory underlying the CAISO's tariff with respect to congestion is that there should be little or no congestion within a zone. If significant congestion within a zone occurs, it is an indication that zones should be reconfigured as to eliminate such congestion. We will deny Santa Clara's request for rehearing of this issue.

d. Metered Subsystems

13. Santa Clara states that the May 30 Order failed to address its concerns about the effect of Amendment No. 50 on Metered Subsystems (MSS), such as Santa Clara. Santa Clara states that under the MSS Agreement between the CAISO and Santa Clara, the CAISO has an obligation to consider the impact of CAISO Tariff Amendments on MSS. However, Santa Clara states, the CAISO failed to fully discuss or resolve the impact of Amendment No. 50 with Santa Clara. Santa Clara argues that Amendment No. 50 may violate or contradict the CAISO's obligations under the terms of the MSS Agreement, because its congestion management proposal may unintentionally control Santa Clara generation.

Commission Determination

14. The Commission's acceptance of the CASIO's Amendment No. 50 was not intended to allow the CAISO to violate any provision contained in the MSS Agreement. We will grant rehearing on this issue and require the CAISO to explain why its proposal does not contradict or violate its MSS Agreement with Santa Clara.

e. MD02 Should be Slowed

15. Santa Clara states that the Commission erred in urging the CAISO not to delay implementation of a full-network congestion management model with locational pricing. Santa Clara argues that the CAISO's MD02 proposal and the process for its implementation were intended to be concurrent and to conform to the Commission's Standard Market Design (SMD) proposal. Santa Clara further contends that since the SMD proposal process has been slowed, the Commission should recognize that the CAISO's MD02 proposal should be similarly slowed.

Commission Determination

16. The Commission will deny Santa Clara's request. California's electricity markets have been found to be fundamentally flawed and the CAISO's MD02 effort is an attempt to correct these flaws. The Commission never intended to tie the timing of these badly-needed market design corrections to the timing of the SMD proposal. Furthermore, the implementation of MD02 has already suffered several delays and the Commission sees no reason why the CAISO's MD02 process should be further delayed and remains steadfast in its support of the CAISO to forge ahead with implementation of its market design.

f. Dedicated-Purpose Hydroelectric Resources

17. The California DWR and Metropolitan argue that the Commission erred in the May 30 Order by accepting the portion of Amendment No. 50 that permits the CAISO to dispatch dedicated-purpose hydroelectric resources,¹⁰ including those owned and operated by nonjurisdictional facilities, that have not been bid into the CAISO's markets. The California DWR and Metropolitan argue that this contravenes prior Commission precedent establishing that dedicated-purpose hydroelectric resources must not be subject to CAISO must-offer requirements because of their primary water management responsibilities as well as statutory and regulatory constraints.¹¹ The California DWR and Metropolitan explain that their dispatchable pump load and generation serve water management purposes (including flood control, water deliveries, environmental and recreational needs) and assert that only to the extent consistent with these primary mandates can their hydroelectric resources assist the CAISO in grid management. Therefore, the California DWR and Metropolitan conclude, their water obligations would

¹⁰ Dedicated-purpose hydroelectric resources are resources whose primary purpose is water management, not grid support.

¹¹ Citing San Diego Gas & Electric Co. v. Sellers, 95 FERC ¶ 61,115 at 61,357 (San Diego).

be at risk if the CAISO were given the dispatch authority over hydroelectric resources contemplated in Amendment No. 50.

Commission Determination

18. In citing to San Diego, the California DWR and Metropolitan imply that the must-offer requirement is analogous to the provisions proposed in Amendment No. 50. We disagree. The provisions of Amendment No. 50 are not analogous to the must-offer requirement. As the Commission stated in San Diego, the purpose of the must-offer obligation is to ensure that all units that are able to run but are not already scheduled to run are in fact made available to the CAISO in the real-time market.¹² However, because the Commission recognized that hydro-electric resources have multi-purpose limitations (e.g. irrigation, recreation, and power production), we excluded them from the must-offer requirements.¹³ In contrast, the provisions of Amendment No. 50 are meant to provide the CAISO with the necessary tools to better manage intra-zonal congestion. The Commission agrees with the CAISO that if a hydroelectric unit is the only unit that can effectively mitigate intra-zonal congestion, the CAISO must be able to dispatch hydroelectric resources. The CAISO has committed to consider the effects of curtailing the output of a hydroelectric resource just as it proposed to consider the effects of other externalities such as energy limitations or environmental concerns.¹⁴ We accept the CAISO's commitment to ensure that its use of these resources is consistent with its obligations and recognizes the nature of these units. Therefore, we will deny rehearing of this issue.

g. Information Sharing

19. TANC argues that the Commission erred in the May 30 Order by removing the language "other entities engaged in the operation and maintenance of the electric supply system," because in doing so, the Commission excluded information sharing with TANC or the other owners and operators of the California Oregon Transmission Project.

Commission Determination

20. We will grant rehearing and direct the CAISO to amend section 20.3.4 to clarify that it may share generating unit outage information with other Transmission Operators who have executed the Western Electricity Coordinating Council Confidentiality

¹² See 95 FERC ¶ 61,115 at 61,357.

¹³ Id.

¹⁴ See CAISO March 31, 2003 Transmittal Letter at 15.

Agreement for Electric System Data in order to allow the CAISO to properly share relevant information with municipal and governmental transmission operators.

h. Suspension of Amendment No. 50

21. Coral states that the Commission erred by accepting Amendment No. 50 without suspending it for the full five-month period provided by section 205 of the Federal Power Act. Coral argues that by not suspending the implementation of the May 30 Order, the Commission did not afford protesters and other market participants a meaningful opportunity to participate in the development of the reference prices before they are implemented.

Commission Determination

22. The Commission has considerable discretion in determining the length of the suspension period, based upon its evaluation of the circumstances of a particular case.¹⁵ In any event, the Commission appropriately exercised its discretion here. If the Commission had approved a modified version of Amendment No. 50 and suspended it for the full five months, the remedy the CAISO was seeking would not have been implemented in time for the critical summer months. In the May 30 Order, the Commission stated that all parties would be afforded an opportunity to evaluate and comment on the proposed methodology once the CAISO submitted a compliance filing. The Commission believes that interested parties have and continue to have adequate ability to voice their concerns in this proceeding and will deny Coral's request to suspend Amendment No. 50 for a five-month period.

i. Sunset Date

23. Coral states that, at a minimum, the Commission should establish a December 31, 2003 sunset date for Amendment No. 50, on which date either the results of the MD02 process will have been filed and made effective, or the pre-Amendment No. 50 status quo for managing intra-zonal congestion will revert back into place.

Commission Determination

24. In the May 30 Order, we agreed with intervenors that the CAISO's pre-Amendment No. 50 method for dealing with congestion management was inefficient and perhaps inadequate,¹⁶ and moreover, that the implementation of the CAISO's MD02

¹⁵ See, e.g., *Southern Company Services, Inc.*, 99 FERC ¶ 61,204 at P 21 (2002).

¹⁶ May 30 Order, 103 FERC ¶ 61,265 at P 44.

proposal was the ultimate solution. Accordingly, we approved the CAISO's Amendment No. 50, as an interim measure until MD02 could be implemented, and noted that Amendment No. 50, as modified, could not and should not be a substitute for the ultimate goal of a rational market-based congestion management system.¹⁷ The Commission believes that it would not be prudent to set a sunset date for this interim tool. Therefore, the Commission rejects Coral's request for a sunset date for the interim measures approved in the May 30 Order.

The Commission orders:

(A) The Commission grants in part and denies in part the requests for rehearing, as discussed in the body of this order.

(B) The CAISO is directed to file a compliance filing within 30 days of the date of this order reflecting the modifications discussed in the body of this order.

By the Commission. Commissioner Kelly not participating.

(S E A L)

Magalie R. Salas,
Secretary.

¹⁷ May 30 Order, 103 FERC ¶ 61,265 at P 44.