

143 FERC ¶ 61,276  
FEDERAL ENERGY REGULATORY COMMISSION  
WASHINGTON, D.C. 20426

June 27, 2013

In Reply Refer To:  
California Independent System  
Operator Corporation, Inc.  
Docket No. ER13-707-000

California Independent System  
Operator Corporation, Inc.  
250 Outcropping Way  
Folsom, CA 95630

Attention: Andrew Ulmer  
Director, Federal Regulatory Affairs

Reference: Tariff Amendment for Ancillary Services Payment Rescission Rules

Dear Mr. Ulmer:

1. On January 4, 2013, California Independent System Operator Corporation (CAISO) submitted a filing to amend its tariff to rescind capacity payments associated with awarded or self-provided ancillary services capacity that CAISO determines is not available before real-time due to a resource constraint. As discussed below, we accept for filing the proposed tariff amendments, effective October 1, 2013, as requested.
2. Since implementation of its nodal market design in 2009, CAISO has worked to increase the efficiency of CAISO's ancillary services markets.<sup>1</sup> Among other things, CAISO has enhanced the procurement of ancillary services by accounting for resources'

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<sup>1</sup> CAISO procures four ancillary services through its markets: regulation up, spinning, non-spinning reserve, and regulation down. CAISO attempts to procure 100 percent of its ancillary services requirements in the day-ahead market based on the CAISO's day-ahead demand forecast net of self-provided ancillary services. CAISO January 4, 2013 Filing at 2 (CAISO Filing).

operational ramp rates in order to provide greater assurance that ancillary services awarded to a resource in the day-ahead market will be deliverable in real-time.<sup>2</sup> During the development of the procurement enhancements, CAISO identified a gap in how CAISO market systems settle ancillary service capacity awards that CAISO disqualifies or are canceled before the operation of the real-time market.<sup>3</sup> Specifically, ancillary service capacity awarded or self-supplied in the day-ahead market can be canceled when system conditions change due to, among other things, generation outages that occur after the close of the day-ahead market. Because the awarded ancillary service capacity is unavailable to be included in the real-time market pre-dispatch process, the CAISO market optimization procures additional ancillary services to replace day-ahead ancillary service awards that were canceled.

3. Under the existing CAISO tariff, resources with ancillary service capacity awards determined to be unavailable *after* the real-time pre-dispatch process have their day-ahead capacity payments rescinded. However, the current ancillary service payment rescission rules do not extend to awarded ancillary service capacity that becomes unavailable after the close of the day-ahead market but before commencement of real-time market operations.<sup>4</sup> As a result, CAISO states that a resource with ancillary services capacity awarded at the close of the day-ahead market can still receive a capacity payment even if the resource experiences a unit failure between the day-ahead market closing and the real-time pre-dispatch process and is actually not able to serve the market in real-time.

4. CAISO states that revisions to its tariff are needed to ensure that resources will be compensated only when the resource can provide ancillary service capacity to the market. CAISO proposes to amend its tariff to rescind payments to day-ahead ancillary service capacity that cannot provide the service and is disqualified before real-time because of a resource-related constraint.<sup>5</sup> However, under CAISO's proposal, if a resource's capacity is disqualified prior to the real-time market as a result of an internal transmission constraint and not as a result of the resource's ability to perform, the resource will continue to receive its day-ahead ancillary service capacity payment.<sup>6</sup> CAISO contends

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

<sup>3</sup> *Id.*

<sup>4</sup> *Id.* at 2.

<sup>5</sup> CAISO also proposes to add tariff section 8.10.8.7 to describe the application of payment rescission rules to ancillary service capacity that CAISO disqualifies before real-time. *Id.* at 8.

<sup>6</sup> *Id.* at 4.

that this exception treats disqualified ancillary service capacity in a manner consistent with capacity that CAISO determines is unavailable after the operating hour. In addition, CAISO states that the exception is appropriate because the resource's inability to provide its capacity to the market due to a transmission constraint is outside the resource's control.<sup>7</sup>

5. CAISO proposes to extend this exception to dynamically scheduled resources and pseudo-tie resources. CAISO explains that under proposed section 8.10.8.7, for dynamically scheduled resources or pseudo-tie resources, CAISO shall treat a reduction in the transmission capability at an intertie that is registered in CAISO's outage management system between the day-ahead market and real-time unit commitment as a transmission constraint, not a resource-related constraint. In addition, CAISO explains that these resources will not face rescission of ancillary service capacity payments because an internal transmission constraint beyond their control causes CAISO to disqualify their awarded or self-provided capacity. CAISO further states that this provision ensures that dynamically scheduled resources and pseudo-tie resources receive similar treatment to internal resources.<sup>8</sup> Related to this section, CAISO also proposes conforming revisions to section 11.10.9.1.

6. CAISO proposes to add language in tariff section 8.3.1 to clarify CAISO's existing practice of procuring incremental ancillary services after the close of the day-ahead market based in part on a determination of whether ancillary service capacity awarded or self-provided in the day-ahead market becomes unavailable as a result of a resource constraint or transmission constraint.<sup>9</sup> CAISO further states that the revisions in 8.3.1 also provide that a resource constraint may include, but is not limited to, a resource outage or ramp rate constraints.

7. Finally, CAISO proposes revisions to section 11.10.9 to clarify that if the weighted average of ancillary service marginal price from the day-ahead market, hour-ahead scheduling process and real-time market is less than or equal to zero, the payment rescission provisions do not apply. CAISO states the revisions reflect CAISO's existing payment rescission practices.<sup>10</sup>

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<sup>7</sup> *Id.*

<sup>8</sup> *Id.* at 9.

<sup>9</sup> *Id.* at 8.

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

8. CAISO requests that the Commission act on its filing no later than June 28, 2013 and make the tariff revisions contained in its filing effective as of October 1, 2013, subject to two weeks prior notice to the Commission as to the actual effective date. CAISO explains that the Commission action by late June will provide CAISO and market participants with certainty regarding the proposed rule changes in advance of completing and testing upgrades to market systems and settlement charge codes.<sup>11</sup>

9. Notice of CAISO's tariff filing was published in the *Federal Register*, 78 Fed. Reg. 2382 (2013), with interventions and protests due on or before January 25, 2013. Timely motions to intervene were filed by Powerex Corp., J.P. Morgan Ventures Energy Corp., Exelon Corporation, The Cities of Anaheim, Azusa, Banning, Colton, Pasadena and Riverside, California (collectively, Six Cities), NRG Companies, the California Department of Water Resources State Water Project (State Water Project), Pacific Gas and Electric Company, Northern California Power Agency and the City of Santa Clara, California and the M-S-R Public Power Agency. Six Cities and State Water Project submitted comments in support of the proposed tariff amendments.

10. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2013), the notices of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

11. Although it supports the instant proposal, State Water Project also expressed concerns with the cost allocation methodology for ancillary services produced in real-time. State Water Project believes that costs should be fairly allocated to other market participants, such as resources owners, transmission owners, and importers according to the cost causation principle. State Water Project states that load-serving entities often have no control over factors that create the need for real-time ancillary services procurement. State Water Project states that it looks forward to discussing these issues at a future CAISO stakeholder process. We will not address State Water Project's concerns regarding the cost allocation methodology for ancillary services produced in real-time, as this issue is not before us and thus is outside the scope of this proceeding.

12. We find CAISO's proposed tariff revisions to be just and reasonable. The proposed tariff amendments will eliminate payments for ancillary services awarded or scheduled for self-provision in the day-ahead market that become unavailable prior to the real-time market, unless the ancillary service becomes unavailable due to a transmission constraint outside the resource's control. We find this revision reasonable because it provides consistent settlement for the rescission of ancillary service capacity awarded in both the day-ahead and real-time markets. We also find that the proposed revisions will ensure that market participants are not paying for ancillary services if the capacity is

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

unavailable to the market. We, therefore, accept for filing CAISO's proposed tariff revisions, effective October 1, 2013, as requested.<sup>12</sup>

By direction of the Commission.

Kimberly D. Bose,  
Secretary.

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<sup>12</sup> We do not make this effective date subject to a reporting requirement by CAISO regarding its progress towards implementation, as CAISO requested. If CAISO finds that it is unable to implement its proposal by its requested effective date, it should make a filing with the Commission pursuant to the Federal Power Act.