

145 FERC ¶ 61,135
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

California Independent System Operator
Corporation

Docket Nos. ER12-2669-001
ER12-2669-002

ORDER ON REHEARING AND CLARIFICATION AND ACCEPTING
COMPLIANCE FILING

(Issued November 18, 2013)

1. On November 19, 2012, the Commission conditionally accepted Tariff revisions filed by the California Independent System Operator Corporation (CAISO) regarding a Replacement Requirement for Resource Adequacy Maintenance Outages (Replacement Requirement) and ordered CAISO to submit a compliance filing that deletes tariff sections related to a proposed backstop capacity procurement mechanism.¹ On December 19, 2012, CAISO submitted its compliance filing (December 19, 2012 Compliance Filing). This order accepts CAISO's December 19, 2012 Compliance Filing.

2. Also on December 19, 2012, the following parties filed requests for rehearing and/or clarification of the November 19, 2012 Order: CAISO; Cities of Anaheim, Azusa, Banning, Colton, Pasadena and Riverside, California (Six Cities); the California Department of Water Resources State Water Project (SWP); Northern California Power Agency (NCPA); Pacific Gas and Electric Company (PG&E); and Southern California Edison (SoCal Edison). This order grants SoCal Edison's request for clarification of the Commission's November 19, 2012 Order and grants in part and denies in part the rehearing requests submitted by the remaining parties, as discussed herein.

I. Background and Instant Filing

3. On September 20, 2012, CAISO filed proposed revisions to its open access transmission tariff (Tariff) to implement a Replacement Requirement procedure requiring

¹ *Cal. Indep. Sys. Operator Corp.*, 141 FERC ¶ 61,135 (2012) (November 19, 2012 Order).

a load serving entity (LSE) to supply replacement capacity when its resource will be scheduled for an approved maintenance outage.² The Replacement Requirement procedure is a part of CAISO's Resource Adequacy planning process and applies to generators designated as resource adequacy resources. Under CAISO's proposal, a Replacement Requirement would be imposed if an LSE requests a maintenance outage for a generator on a day when the total available system capacity is less than the reliability margin. As part of the Replacement Requirement procedure, CAISO proposed a new backstop mechanism to procure replacement capacity when an LSE does not satisfy its Replacement Requirement and the generator does not cancel or reschedule its approved maintenance outage. The proposed backstop mechanism authorized CAISO to procure backstop capacity for a minimum commitment of one day and a maximum commitment of 30 days, as needed.³

4. In the November 19, 2012 Order, the Commission conditionally accepted CAISO's Proposal, subject to CAISO removing the proposed backstop mechanism from its Tariff in a subsequent compliance filing.⁴ The Commission found that CAISO did not show that the proposed backstop mechanism is distinguishable from the existing Capacity Procurement Mechanism (CPM) designations.⁵ Specifically, the Commission found that CAISO already had the authority to procure backstop capacity through the CPM Significant Event designation.⁶ The Commission also found that CAISO's proposed

² CAISO September 20, 2012 Replacement Requirement for Resource Adequacy Maintenance Outages at 1 (CAISO Proposal). Until the beginning of 2013, this requirement was governed by a similar rule adopted by the California Public Utilities Commission. *See id.* at 5.

³ CAISO Proposal at 14.

⁴ November 19, 2012 Order, 141 FERC ¶ 61,135 at P 1.

⁵ *See Cal. Indep. Sys. Operator Corp.*, 134 FERC ¶ 61,211 (2011) (CPM Order) (conditionally accepting the CPM proposal).

⁶ *Id.* PP 70-72. The CAISO tariff defines a Significant Event as "A substantial event, or combination of events, that is determined by the CAISO to either result in a material difference from what was assumed in the resource adequacy program for purposes of determining the [r]esource [a]dequacy [c]apacity requirements, or produce a material change in system conditions or in CAISO [c]ontrolled [g]rid operations, that causes, or threatens to cause, a failure to meet [r]eliability [c]riteria absent the recurring use of a non-[r]esource [a]dequacy [r]esource(s) on a prospective basis." *See* CAISO Fifth Replacement Tariff, Appendix A; CAISO CPM Proposal, Docket No. ER11-2256-000, at 12-13 (filed Dec. 1, 2010).

pricing of Replacement Requirement backstop capacity had not been shown to be just and reasonable.⁷

5. On December 19, 2012, CAISO submitted a compliance filing pursuant to the Commission's November 19, 2012 Order. In its compliance filing, CAISO deletes the tariff revisions that established its proposed backstop mechanism to procure replacement capacity.

II. Requests for Rehearing and Clarification

6. On rehearing, CAISO, NCPA, PG&E, Six Cities, and SWP argue that the Commission's direction that CAISO use the Significant Event designation to procure capacity when an LSE fails to fulfill its Replacement Requirement is unjust and unreasonable.⁸ The parties explain that the Significant Event designation allocates the cost of CAISO's procurement of backstop capacity to all LSEs in the affected transmission access control area, rather than the individual LSE causing the expenditure, which they argue, is not consistent with cost-causation principles.

7. CAISO asserts that it can readily identify the LSE causing the expenditure and that allocating the expenditure directly to that LSE will discourage it from disregarding its Replacement Requirement.⁹ Further, SWP states that the Commission's directive creates an incentive for LSEs to let CAISO replace capacity using the Significant Event designation so that other LSEs will share in the cost.¹⁰ Accordingly, CAISO and other parties assert that the only reasonable application of cost-causation principles is to allocate procurement costs for backstop capacity to the LSE that causes the incurrence of

⁷ November 19, 2012 Order, 141 FERC ¶ 61,135 at P 73 (The Commission determined that “[s]ince the inception of backstop capacity procurement in California, determining an appropriate backstop capacity compensation has been a careful balancing act that has considered both \$/kW-year and the minimum designation term,” and found that CAISO's proposal “results in a very different compensation scheme than what was contemplated and approved for the CPM.”).

⁸ CAISO Request for Rehearing at 6 (CAISO Rehearing Request); PG&E Request for Rehearing at 2 (PG&E Rehearing Request); NCPA Request for Rehearing at 6-7 (NCPA Rehearing Request); Six Cities Request for Rehearing at 5-6 (Six Cities Rehearing Request).

⁹ *Id.* at 8.

¹⁰ SWP Rehearing Request at 5-6.

the costs by failing to meet its obligation to provide replacement capacity.¹¹ To resolve the allocation issue, CAISO requests that the Commission allow CAISO to adopt one of two options.

8. First, CAISO suggests that the Commission could direct CAISO to modify the cost allocation component of the Significant Event designation to permit the costs to be allocated to the entity that caused the expenditure to be incurred. Alternatively, CAISO suggests that the Commission could direct CAISO to use the existing CPM designations that address insufficiencies in an LSE's monthly resource adequacy plan. CAISO notes that the costs of such designations are allocated to each scheduling coordinator of an LSE based on the ratio of the amount of deficient capacity to the sum of the deficiencies in the transmission access control area or in aggregate, according to the nature of the shortage. CAISO argues that these options are consistent with cost-causation principles.¹²

9. SWP and NCPA argue that the Commission incorrectly concluded that CAISO's proposed backstop mechanism is not distinguishable from the CPM Significant Event designation.¹³ They assert that the two are distinguishable because they allocate costs differently, as described above. In addition, NCPA contends that the minimum duration term of one day, as put forward in CAISO's Proposal, would provide for a just and reasonable rate. According to NCPA, the scope and the compensation scheme for the backstop mechanism were narrowly tailored, and they can be distinguished from those for a CPM Significant Event. NCPA argues that, under the resource adequacy Replacement Requirement, LSEs would likely procure replacement capacity for the duration of a maintenance outage (i.e., less than one month), and to ensure comparable treatment the resource adequacy backstop mechanism must designate capacity for the same duration. Thus, NCPA seeks rehearing of the November 19, 2012 Order and requests that the Commission find that the resource adequacy backstop mechanism's narrowly tailored compensation scheme is just and reasonable and accept the mechanism as it was initially proposed.¹⁴

10. SoCal Edison seeks clarification regarding whether the Commission specifically ordered CAISO to use solely CPM Significant Event authority to procure resource adequacy replacement capacity in the November 19, 2012 Order, or if it proposed the

¹¹ *Id.*; CAISO Rehearing Request at 9. *See also* PG&E Rehearing Request at 2-3; NCPA Rehearing Request at 7.

¹² CAISO Rehearing Request at 7-9.

¹³ SWP Rehearing Request at 3; NCPA Rehearing Request at 4, 6-7.

¹⁴ NCPA Rehearing Request at 2-3, 7-10.

CPM Significant Event service as one of many options available to CAISO. If the Commission proposes to limit CAISO to using the CPM Significant Event authority when procuring resource adequacy replacement capacity, then SoCal Edison seeks rehearing and contends that the Commission erred because under CAISO's existing Tariff, other more appropriate service designations are available.¹⁵

11. Specifically, SoCal Edison contends that under the existing Tariff, CAISO has the authority to implement the backstop mechanism. SoCal Edison explains that section 43.2.3 of the Tariff allows CAISO to designate CPM Capacity that proportionally allocates to each LSE the portion of its deficiency to the aggregate deficiency. SoCal Edison argues that CAISO should be allowed to use this designation instead of the CPM Significant Event designation, since the latter allocates resource adequacy replacement costs to all scheduling coordinators for LSEs in the affected transmission access control area, resulting in an approach that is unjust and unreasonable.¹⁶

12. SoCal Edison also requests that CAISO include in its compliance filing a method for accounting when the amount of CPM procured exceeds the related deficiency. SoCal Edison suggests that CAISO implement a two-tier allocation method in instances when, due to operational constraints, it procures more capacity than is necessary. SoCal Edison contends that in such cases the cost incurred to address the deficiency should be allocated to the entity serving the load that was deficient and the cost incurred due to operational constraints should be allocated to all load serving entities that benefit from the additional reliability provided.¹⁷

III. Notice of Filing and Responsive Pleadings

13. Notice of CAISO's December 19, 2012 Compliance Filing was published in the *Federal Register*, 77 Fed. Reg. 77,072 (2012), with motions to intervene, comments, and protests due on or before January 10, 2013.

IV. Discussion

14. We grant parties' requests for rehearing of the Commission's November 19, 2012 Order in part. The parties' requests primarily concern the allocation of Replacement Requirement costs that CAISO incurs when an LSE fails to meet its resource adequacy Replacement Requirement. The November 19, 2012 Order authorized CAISO to use the CPM Significant Event designation to account for the allocation of these costs. However,

¹⁵ SoCal Edison Rehearing Request at 2.

¹⁶ *Id.* at 2-3.

¹⁷ *Id.* at 3-4.

upon further consideration, we agree with CAISO and others that a CPM designation that allows CAISO to designate CPM capacity in response to a failure by a scheduling coordinator to show sufficient resource adequacy capacity is more appropriate than the CPM Significant Event designation. In requiring load serving entities to provide replacement capacity as part of their monthly resource adequacy plan, a failure to provide adequate replacement capacity would be correctly considered a failure by the scheduling coordinator to provide adequate resource adequacy capacity in its monthly plan. Moreover, we agree with CAISO that the use of this designation would result in the more appropriate allocation of costs, since the costs would be allocated to the scheduling coordinator for the LSE that caused the deficiency. We also agree with NCPA, PG&E, and Six Cities that the cost allocation methodology for CPM Significant Event designation may be problematic when used to address backstop procurement of replacement resource adequacy capacity.

15. In response to SoCal Edison's request for clarification and several rehearing requests, the Commission clarifies that we did not intend to restrict CAISO to using the CPM Significant Events designation to procure adequate replacement capacity. As explained above, we erred in identifying the CPM Significant Event designation as the most appropriate designation for the failure to provide adequate replacement capacity. We agree with SoCal Edison that section 43.2.3 would be an appropriate CPM designation for addressing the failure of an LSE to meet its Replacement Requirement and be responsible for the costs to procure the deficiency.

16. We reject NCPA's assertion that a term of less than 30 days is more appropriate for procuring backstop capacity for maintenance outages, and we deny rehearing on this issue. NCPA argues that a minimum term of only 1 day is appropriate because the duration needed for replacement capacity services may be less than one month. Since CAISO already has backstop authority through the CPM, we find NCPA's argument to be a collateral attack on the CPM Order's determination that, for all designations (including those provided for in section 42.2.3), a 30 day minimum term is just and reasonable. This determination was reached as a result of balancing multiple considerations and interests.¹⁸ NCPA's argument only addresses one aspect of these considerations, and NCPA does not provide any evidence for its assertions that the term of contracts needed to address replacement during maintenance outages will be for less than 30 days. Moreover, NCPA does not address the Commission's conclusion in the November 19, 2012 Order that a designation of less than 30 days combined with the CPM price has not been shown to be adequate compensation for backstop capacity, and thus has not been shown to be just and reasonable.¹⁹

¹⁸ CPM Order, 134 FERC ¶ 61,211 at PP 188-199.

¹⁹ November 19, 2012 Order, 141 FERC ¶ 61,135 at P 73.

17. We decline to direct CAISO to develop a two-tiered payment cost as SoCal Edison requests. This request is beyond the scope of this proceeding. SoCal Edison did not raise this issue during the underlying proceeding; thus, CAISO and the other parties have not had an opportunity to comment on SoCal Edison's proposal. Moreover, in the proceeding authorizing the CPM designation, the Commission found the CPM procurement mechanism to be just and reasonable without such a payment structure.²⁰

18. Finally, we accept CAISO's December 19, 2012 Compliance Filing. In the November 19, 2012 Order, we directed CAISO to remove the Tariff provisions implementing its proposed backstop mechanism. The December 19, 2012 Compliance Filing removes the relevant provisions from CAISO's Tariff, and it modifies certain provisions to provide that backstop capacity will be procured through existing CPM designations in compliance with the November 19, 2012 Order. The revisions in CAISO's compliance filing resulting from the November 19, 2012 Order reflect that CAISO will use the existing CPM to procure backstop capacity for its Replacement Requirement and does not specify a particular designation that CAISO is required to employ in procuring this capacity. As such, no modification to CAISO's compliance filing is necessary to implement the findings discussed above on rehearing and clarification.

The Commission orders:

(A) The requests for rehearing and clarification of the November 19, 2012 Order are hereby granted in part and denied in part, as discussed in the body of this order.

(B) CAISO's December 19, 2012 Compliance Filing is hereby accepted.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

²⁰ CPM Order, 134 FERC ¶ 61,211 at PP 55-59.