

145 FERC ¶ 61,036
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 No. ER13-2178-000

ORDER ON MARKET EFFICIENCY ENHANCEMENT AGREEMENT

(Issued October 15, 2013)

1. On August 16, 2013, the California Independent System Operator Corporation (CAISO) submitted a proposed market efficiency enhancement agreement (MEEA) negotiated between CAISO and the Sacramento Municipal Utility District (SMUD). This order accepts the MEEA, effective October 16, 2013, as requested.

I. Background

2. In 2008, the Commission accepted proposed revisions to CAISO's tariff creating a mechanism for pricing imports and exports of power between CAISO and certain external balancing authority areas.¹ The CAISO proposal, known as the Integrated Balancing Authority Area (IBAA)² mechanism, applied proxy locational marginal prices (LMP) to interchange transactions between CAISO and a single balancing authority area composed of SMUD and the Turlock Irrigation District (Turlock). According to CAISO, the IBAA mechanism was necessary because CAISO lacked the information necessary to calculate correct LMPs for interchange transactions.

¹ *Cal. Independ. Sys. Operator Corp.*, 124 FERC ¶ 61,271 (2008) (IBAA Order), *aff'd* *Transmission Agency of Northern California v. FERC*, 628 F.3d 538 (D.C. Cir. 2010). See also *Cal. Independ. Sys. Operator Corp.*, 132 FERC ¶ 61,153 (2010) (accepting CAISO's proposed MEEA tariff language).

² IBAA is a balancing authority area that has been determined to have one or more direct interconnections with the CAISO balancing authority area, such that power flows within the IBAA significantly affect power flows within the CAISO balancing authority area, and whose network topology is therefore modeled in further detail in CAISO's full network model beyond the simple radial modeling of interconnections. CAISO Tariff Appendix A.

3. The IBAA proposal combined SMUD and Turlock into a single IBAA for purposes of the full network model and created a single hub approach whereby one default proxy price would be selected for all connection points. All imports into the CAISO system from the IBAA would be priced as if they originated at the Captain Jack substation. All exports from the CAISO system to the IBAA would be priced at a hypothetical SMUD hub. CAISO argued that this single hub approach was justified by the limited type and amount of information CAISO expected to receive from the IBAAAs.

4. Alternatively, CAISO's IBAA proposal allowed any IBAA entity to enter into an MEEA with CAISO to receive a more accurate pricing structure upon providing CAISO with information allowing CAISO to verify the location and operation of the resources used to carry out interchange transactions between the CAISO-controlled grid and the IBAA. Under an MEEA, the party to the proposed interchange transaction would be required to submit confidential market information to CAISO regarding the resources that support specific interchange transactions in exchange for resource-specific pricing. The transaction would then be priced based on the location of the resource used to supply the sale, rather than the location assumed under the default IBAA price.

5. In the IBAA Order, the Commission found that CAISO's IBAA proposal was an appropriate means of addressing the impact and an appropriate way to value interchange transactions on its markets where little information is available.³ The Commission also found that the MEEA option allowed entities subject to the IBAA mechanism to receive a more favorable pricing structure by providing the information necessary for CAISO to more accurately model interchange transactions.⁴

6. On September 10, 2012, SMUD formally notified CAISO of its desire to negotiate an MEEA. On August 16, 2013, CAISO filed the negotiated MEEA⁵ with the Commission.

³ IBAA Order, 124 FERC ¶ 61,271 at PP 4-5.

⁴ In a subsequent compliance filing, the Commission found that examples of the data necessary to verify the location and operation of an import or export include North American Electric Reliability Corporation tags, Open Access Same-Time Information Systems transmission reservation data, day-ahead load and resource plans and power purchase agreements or contracts demonstrating , committed use of California Oregon Transmission Project transmission, marginal cost information and information on historical flows. *See Cal. Indep. Sys. Operator Corp.*, 129 FERC ¶ 61,241, at PP 50–52 (2009).

⁵ The MEEA information requirements and processes are outlined in the CAISO Tariff. *See CAISO Tariff §§ 27.5.3.2 – 27.5.3.7.*

II. CAISO Filing

7. The proposed MEEA sets forth the terms under which CAISO will price SMUD energy bids at the MEEA-specific price.⁶ The parties agreed upon the portfolio of resources eligible for MEEA pricing. The parties identified three aggregated resource locations within the SMUD system that will be used to calculate MEEA-specific pricing.⁷ Thus, these three resources will be represented in CAISO's full network model.⁸ CAISO states that it will calculate a MEEA-specific LMP that reflects the nodes where these supply resources are located based upon this modeling information.⁹

8. CAISO explains that the method for determining the presumed distribution of the covered resources will vary by season¹⁰ and time-of-use period¹¹ based on representative actual output. CAISO will update these factors at least twice per year to reflect the recent year's actual production and expected hydroelectric conditions. These seasons and time-of-use periods may be adjusted as needed either through consultation among the parties or a formal written request by one party to update the resource and modeling information.¹²

9. According to CAISO, SMUD has historically reserved all of its transmission to meet its load serving obligations. Thus, the only transmission available for purchase under SMUD's Open Access Transmission Tariff (OATT) is non-firm transmission. In addition, when SMUD imports power from the Northwest over its own transmission to make a third party sale, SMUD's OATT requires that SMUD purchase point-to-point transmission service to support that sale. Therefore, the proposed MEEA verification

⁶ CAISO Transmittal Letter at 1.

⁷ While SMUD may use resources not covered by the MEEA to submit bids, such bids will be settled consistent with the IBAA default tariff pricing. *Id.* at 3.

⁸ *Id.* at 2 (citing Section 4.1 and Schedules 1 and 2 of the proposed MEEA).

⁹ *Id.* at 2 (citing Section 4.2 of the proposed MEEA).

¹⁰ Initially, the seasons used in the distribution factors will be January through May and June through December. *Id.* at 2.

¹¹ Time-of-use periods will follow standard definitions established for the Western Electric Coordinating Council region. *Id.* at 2-3.

¹² *Id.* at 3.

procedures assume that the energy that SMUD delivers using non-firm transmission is being used to support a third party sale.¹³

10. According to CAISO, the proposed MEEA sets forth a validation procedure that exceeds the requirements established in the CAISO tariff.¹⁴ The proposed MEEA identifies three transaction types where it may not be appropriate to settle the transaction at the MEEA-specific price.¹⁵ These transactions include:

- (1) Any transaction where SMUD's metered generation is less than the sale to CAISO; or
- (2) Any transaction where there is an import to SMUD from the Northwest, or from an entity within the IBAA footprint, tagged using "non-firm" transmission and simultaneously there is a MEEA sale to CAISO without a corresponding SMUD system transfer to another entity within the IBAA footprint, export to CAISO scheduled as an IBAA transaction, or to the Northwest; or
- (3) Any hour where the combined day-ahead and active-day transactions for SMUD's gross MEEA sales exceed the net of SMUD's total sales less SMUD's total imports on non-firm transmission.

11. The occurrence of any of these described transactions may trigger the need for additional verification through a meet and confer process between CAISO and SMUD. If the parties are unable to agree regarding whether the transaction should be subject to MEEA-specific pricing, CAISO may conduct an audit or institute dispute resolution.¹⁶ If two or more transactions are ineligible for MEEA-specific pricing in any quarter, up to a maximum of four per year, the parties shall meet to consider changes to the validation process. If the parties are unable to agree within 60 calendar days, CAISO can terminate the MEEA.¹⁷

12. CAISO states that the information provided by SMUD in support of the MEEA will be treated confidentially and used only for the purpose identified in the proposed

¹³ *Id.* at 4.

¹⁴ *Id.* See CAISO Tariff, Section 27.5.3.2.2 for the tariff imposed validation procedures.

¹⁵ See Section 5.1.1 of the proposed MEEA.

¹⁶ CAISO Transmittal Letter at 4.

¹⁷ *Id.* at 5. If the parties agree that a transaction is not eligible for the MEEA-specific price, that transaction will be priced at the IBAA default price.

MEEA. However, CAISO retains the right to audit SMUD for the limited purpose of verifying that the available resources met the requirements for MEEA-specific pricing.¹⁸

13. The proposed MEEA will remain in effect for two years from the effective date or until terminated. If the parties agree, they may extend the term of the proposed MEEA for two years by entering into a written agreement extending the term. The proposed MEEA may be extended twice, for a total term of six years. Under the proposed MEEA, extensions do not require amendment of the agreement or filing with the Commission. Any extensions beyond the potential six-year term requires amendment of the MEEA and a filing with the Commission.¹⁹

14. Finally, CAISO requests that the proposed MEEA be made effective on October 16, 2013.

III. Notice, Interventions, and Responsive Pleadings

15. Notice of CAISO's filing was published in the *Federal Register*, 78 Fed. Reg. 52,765 (2013), with interventions and comments due on or before September 6, 2013.

16. Timely motions to intervene were filed by the City of Redding, California, California Department of Water Resources State Water Project, Transmission Agency of Northern California, and Pacific Gas and Electric Company. Timely motions to intervene and comments were filed by SMUD, Northern California Power Agency (NCPA), Modesto Irrigation District (Modesto), and the Cities of Santa Clara and Palo Alto, California (Cities). Southern California Edison Company (SoCal Edison) filed a motion to intervene out of time and comments. On September 16, 2013, CAISO filed a motion for leave to answer and an answer.

17. SMUD asserts that the Commission should approve the filing. According to SMUD, the proposed MEEA enables SMUD to obtain resource-specific prices for their resources sold into the CAISO market under a process which is not burdensome to SMUD but assures CAISO that SMUD is not simply reselling Northwest resources into the CAISO market at MEEA prices.²⁰

18. SMUD notes that the MEEA process is largely reliant on self-certification by the MEEA entity with subsequent validation by CAISO. SMUD contends that the parties have established a framework involving ongoing data exchange, along with a process to meet and confer which is less formal than an audit. According to SMUD, while this

¹⁸ *Id.*

¹⁹ *Id.* at 6.

²⁰ SMUD Comments at 4.

process goes beyond what is required by the CAISO tariff, this ongoing exchange will enhance CAISO's confidence in SMUD's self-certifications and minimize the likelihood of disputes between the parties.²¹

19. Modesto, Cities and NCPA do not object to the proposed MEEA. However, Cities and Modesto emphasize the non-precedential nature of the proposed MEEA and requests that the Commission confirm that this agreement does not establish any precedent with regard to the scope and nature of information and verification provisions that may be appropriate for other agreements in the future.²²

20. SoCal Edison also does not oppose CAISO's request for approval of the MEEA. However, SoCal Edison states that it is concerned about the potential for SMUD to arbitrage the MEEA-specific price and the IBAA price.²³ SoCal Edison requests that the Commission order CAISO to monitor these prices and that CAISO agree to modify the MEEA if arbitrage should occur in the future.

21. In its answer, CAISO contends that the additional measures requested by SoCal Edison are unnecessary. According to CAISO, SMUD should not be able to arbitrage between prices of buying versus selling to CAISO at its MEEA-specific price because these prices are the same.²⁴ CAISO also asserts that if SMUD were to attempt to arbitrage prices by buying from CAISO at the MEEA price and then selling to third parties at the Captain Jack substation, CAISO should be able to observe such actions and respond.²⁵

22. CAISO states that it intends to monitor market behavior associated with MEEA transactions as part of its overall market monitoring program. While CAISO staff will perform the verification and validation processes set forth in the MEEA, these activities will not supersede the role of the CAISO's market monitor. CAISO asserts that this monitoring function will be capable of observing any market behaviors associated with the MEEA. According to CAISO, this combination of CAISO staff verification activities

²¹ *Id.* at 5.

²² See Cities Comments at 5-6 and Modesto Comments at 6-7.

²³ SoCal Edison Comments at 3. SoCal Edison concedes that the potential for price arbitrage is not currently a problem. *Id.*

²⁴ CAISO Answer at 2.

²⁵ *Id.*

and the market monitor are sufficient and, therefore, a specific Commission directive regarding monitoring of MEEA prices is unnecessary.²⁶

23. Finally, CAISO notes that the MEEA includes provisions to facilitate modification of the agreement if the parties identify pricing issues. According to CAISO, these provisions are sufficient to address SoCal Edison's suggestion that CAISO commit to modifying the agreement and no further directive is necessary.²⁷

IV. Discussion

Procedural Matters

24. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2013), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(d) (2013), the Commission will grant the late-filed motion to intervene submitted by SoCal Edison, given SoCal Edison's interest in the proceeding, the early stage of the proceeding, and the absence of undue prejudice or delay.

25. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2)(2013), prohibits the filing of an answer unless otherwise ordered by the decisional authority. We will accept CAISO's answer because it has provided information that assisted us in our decision-making process.

Commission Determination

26. We find that the terms and conditions of the MEEA are just and reasonable and that the MEEA is in the public interest. Specifically, we find that the MEEA presents an opportunity to more accurately price SMUD's resources, as well as enable CAISO to more accurately model interchange transactions for the full network model. We further find that the MEEA strikes an appropriate balance between SMUD's need to maintain the confidentiality of its information and CAISO's need for the information necessary to calculate the appropriate LMP for specific interchange transactions. Therefore, we accept the MEEA as filed.

27. With regard to the parties' expansion of the validation process, we note that one purpose in establishing individually negotiated MEEAs is to allow parties to craft an agreement that takes into account individual circumstances. Differences in terms and conditions are justified where they are predicated upon differences in fact. Both SMUD

²⁶ *Id.* at 3.

²⁷ *Id.* (citing Sections 4.1.2 and 5.1.2 of the MEEA).

and CAISO have demonstrated that SMUD's transmission availability and service available for sale is greatly limited.²⁸ We find that these limitations warrant creating a validation process which takes these factors into account.

28. Similarly, Cities and Modesto's concerns regarding the non-precedential effect of the MEEA are misplaced. We have accepted the MEEA in its entirety, including section 11.11 which expressly states that this MEEA is not intended to have precedential effect. Moreover, as noted above, the MEEA tariff provisions are designed to encourage individualized agreements. Thus, our acceptance of this MEEA shall have no precedential effect on the terms and conditions which may be negotiated by other parties in the future.

29. However, we reject SoCal Edison's suggestion that we order CAISO to specifically monitor these prices and that CAISO agree to modify the MEEA if arbitrage should occur in the future. We find that the combination of the CAISO staff performing the verification and validation processes set forth in the MEEA in conjunction with the market monitoring program CAISO currently uses offers sufficient protection against any possible market abuses by SMUD.

The Commission orders:

The MEEA is hereby accepted, as discussed in the body of this order.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

²⁸ See CAISO Transmittal Letter at 4 and SMUD Comments at 5-6.