

111 FERC ¶ 61,235  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

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

California Independent System Operator Corporation      Docket No. ER05-718-001  
ER05-718-002

ORDER ON TARIFF FILING  
AND ON CLARIFICATION AND REHEARING

(Issued May 20, 2005)

1. In this order, the Commission accepts a tariff filing by the California Independent System Operator Corporation (CAISO) to supplement an earlier filing providing an interim solution to the problem of excessive costs incurred as a result of the manner in which import and export bids from system resources are cleared and settled. The Commission also grants clarification and denies rehearing of its acceptance of the CAISO's earlier filing. This order benefits customers by ensuring that the CAISO's charges and payments to participants are just and reasonable.

**I. Background**

**A. Amendment No. 66 to the CAISO Tariff**

2. Under the tariff provisions in effect prior to April 7, 2005, System Resources<sup>1</sup> submitting bids to sell energy to the system (increment or "inc" bids), or to "buy" energy through reducing generation (decrement or "dec" bids) would submit bids for each hour which might ultimately be higher or lower than the market clearing price for that hour. The CAISO would determine, ahead of each hour, which such external resources' bids would be taken. In order to provide an incentive for external resources to bid into the California market, the CAISO's tariff provided that each resource would receive (or pay)

---

<sup>1</sup> The CAISO tariff defines System Resources as a group of resources located outside of the CAISO control area capable of providing energy and/or ancillary services to the CAISO-controlled grid.

a price for its energy that was determined by a "bid or better" rule. That is, a resource that made an inc bid would receive either the market clearing price or its own bid, whichever was higher, and a resource that made a dec bid would pay either the market clearing price or its own bid, whichever was lower. In situations where the resource's bid, rather than the market clearing price, was the better price, the CAISO would add an uplift payment to the market clearing price to enable that resource to receive such superior treatment.

3. On March 23, 2005, the CAISO made an emergency filing (Amendment No. 66) to revise these provisions of its tariff. It stated that the combination of the pre-dispatching of import/export bids and the "bid or better" settlement rule had created an incentive for the bidding of external resources in a manner that increased the uplift costs incurred by the CAISO. It stated that this occurs because of the lack of convergence between real-time market clearing prices and the prices at which external bids are pre-dispatched, and the fact that resources have an incentive to bid large quantities of offsetting incremental and decremental energy (which to a significant extent offset one another, in which case no energy is actually received by or provided to the system), so that load is being charged significant amounts for the ensuing uplift costs without receiving any concomitant benefits. To protect customers from being charged these uplift costs,<sup>2</sup> the CAISO stated that it had begun exploring, with its market participants, several alternative long-term solutions to the problem of clearing intertie bids. As an interim solution, however, the CAISO proposed to move to a "pay as bid" rule, under which System Resources, if dispatched, would be paid their original bid price.<sup>3</sup>

---

<sup>2</sup> The CAISO estimates that, between October 1, 2004 (the date on which the "bid or better" rule went into effect), and March 22, 2005, this netting of overlapping inc and dec bids by System Resources has caused load to incur approximately \$18.5 million in uplift costs, nearly \$10.5 million for the last month alone.

<sup>3</sup> The CAISO proposed to achieve its goal by modifying certain tariff sections, as follows:

It would modify section 11.2.4.1.1.2 to specify that the CAISO will settle pre-dispatched Energy from System Resources based on each resource's Energy Bid costs, rather than the "bid or better" settlement currently in effect. The Energy Bid costs shall be calculated as set forth in sections 2.1.2 and 2.6.3 of Appendix D of the Settlements and Billing Protocol.

It would modify section 2.1.2 of Appendix D of the Settlements and Billing Protocol to specify that Hourly Pre-dispatched energy from System Resources is an explicit component of Instructed Imbalance Energy for each resource, and will be settled

(continued)

4. By order dated April 7, 2005, the Commission accepted the CAISO's filing for an interim period, effective from March 24, 2005, as requested. The Commission specified, however, that Amendment No. 66 would remain effective only until the earlier of (a) September 30, 2005, or (b) the effective date of a tariff filing providing a long-term solution filed by the CAISO and accepted by the Commission.<sup>4</sup> The Commission stated that “[i]f no proposed tariff amendment has been filed to become effective by September 30, 2005, then on October 1, 2005, the tariff provisions accepted here will sunset, and those tariff sections will revert to their current version.”<sup>5</sup>

**B. The CAISO's Filing of Amendment No. 69 (Docket No. ER05-718-001)**

5. On April 22, 2005, the CAISO filed Amendment No. 69 to its tariff. It states that, as it was preparing the necessary changes to its settlement systems to implement Amendment No. 66, it realized that the tariff revisions originally proposed were incomplete and that further tariff revisions would be necessary for full and complete implementation of Amendment No. 66.

6. The CAISO states that the tariff revisions filed in Amendment No. 66 correctly implement the “pay as bid” interim solution to the problem of excessive uplift payments for pre-dispatched energy transactions associated with bid prices below the prevailing

---

as set forth in tariff section 11.2.4.1.1, based on each System Resource's Energy bid costs or the resource-specific price.

It would modify section 2.6.3 of Appendix D of the Settlements and Billing Protocol to provide that System Resources that deliver hourly pre-dispatched incremental or decremental Instructed Imbalance Energy will be paid their Energy bid costs for each Settlement Interval. In addition, an uplift payment will be made for each Settlement Interval when settlement as set forth in section 2.1.2 of Appendix D is insufficient for recovery of a System Resource's bid costs. That uplift payment will be determined based on the minimum of zero or the difference between the resource-specific settlement amount and the bid cost settlement amount, pursuant to the equation contained in this section.

Finally, the CAISO proposed to make minor conforming changes to sections 2.5.23.1 (Pricing Imbalance Energy - General Principles) and 2.5.22.6.1 (Resource Constraints), in order to reflect the “pay as bid” solution.

<sup>4</sup> *California Independent System Operator Corporation*, 111 FERC ¶ 61,008 (2005) (April 7 Order).

<sup>5</sup> *Id.* at P 15.

\$250/MWh Maximum Bid Level and above the prevailing Bid Floor of -\$30/MWh. It also states, however, that further tariff revisions to the relevant settlement equations are necessary to ensure the correct settlement treatment for pre-dispatched energy under conditions where bid prices are either in excess of the Resource-Specific Settlement Interval Ex Post Price or the Maximum Bid Level, or below the Bid Floor. The CAISO further notes that these revised settlement equations achieve congruency with the existing tariff language in section 11.2.4 pertaining to Imbalance Energy.

7. The CAISO proposes the following additional modifications limited to sections D 2.1.2 and D 2.6.3 in Appendix D of the Settlements and Billing Protocol:

(1) The equation in D 2.1.2 contains only those bid costs that are below the Maximum Bid Level, which is consistent with Tariff section 11.2.4.2.2.1. A revision to D 2.1.2 is necessary, however, to ensure that any pre-dispatched bids for Energy above the Maximum Bid Level are first settled using the Resource-Specific Settlement Interval Ex Post Price, as set forth in Tariff section 11.2.4.1.1. Therefore, to facilitate proper allocation for those bid costs in excess of the Maximum Bid Level, D 2.1.2 has been modified so that uplift payments are calculated consistent with D 2.6.5 and pursuant to Tariff section 11.2.4.2.2.1, for the difference between any bid costs above the Maximum Bid Level and the resource-specific settlement amount calculated in D 2.1.2. Absent this revision to D 2.1.2, bid costs that are in excess of the Maximum Bid Level would not be properly settled for the amount of pre-dispatched Energy using the Resource-Specific Settlement Interval Ex Post Price.

(2) The equations in both D 2.1.2 and D 2.6.3 have been further refined to include both bid costs and settlement amounts equal to zero. This modification is necessary to ensure that any bid costs for incremental Energy that are in excess of the resource-specific settlement amount are accounted for consistent with Tariff section 11.2.4.2.2.

(3) Consistent with Tariff section 28.1.3, the equations located in D 2.1.2 and D 2.6.3 have been limited to the Bid Floor when bid prices for pre-dispatched Energy are below the Bid Floor.

8. The CAISO further states that, because the changes proposed in Amendment No. 69 consist solely of modifications necessary to fully implement Amendment No. 66 as approved by the Commission in the April 7 Order, it requests that the Commission waive the 60-day notice requirement prescribed by section 205(d) of the FPA and make these modifications effective as of the date March 24, 2005, the effective date of Amendment No. 66.

**C. The CAISO's Request for Clarification and Rehearing (Docket No. ER05-718-002)**

9. On May 9, 2005, the CAISO filed a request for clarification and rehearing of the Commission's April 7 Order. It asks the Commission to clarify that the CAISO is not precluded from proposing, as its preferred "long-term solution" to the problem of clearing overlapping intertie bids, retention of the current "pay as bid" payment methodology.

10. The CAISO also seeks rehearing of the Commission's requirement that the CAISO implement a "long-term solution" to the problem of settling intertie bids by September 30, 2005, and requiring the CAISO to reinstate the "bid or better" methodology for settling intertie transactions unless such a solution is filed to become effective by September 30, 2005. The CAISO asks the Commission to indicate that the CAISO will be afforded additional time, if necessary, to file and implement a longer term solution to the problem and that, if such additional time is, in fact, necessary, the provisions of Amendment No. 66 will not sunset on October 1, 2005.

11. The CAISO states that it seeks this relief because it has recently determined that the options which may theoretically be superior to the current method (and thus appropriate to serve as the longer-term solution) cannot be implemented by October 1, 2005, and that, specifically, the CAISO's probable preferred solution could not be put in place until March 2006.<sup>6</sup> The CAISO asserts that it would be detrimental to its customers for the CAISO to be forced to revert to the former "bid or better" methodology on October 1, 2005 (a settlement methodology that has already been found not to be just and reasonable). The CAISO states that data collected since the implementation of Amendment No. 66 shows that the change from "bid or better" to "pay as bid" has resulted in a dramatic decrease in the uplift costs to customers, which suggests that

---

<sup>6</sup> In its "Technical Paper on California CAISO Proposals for Improving Phase 1B Intertie Settlements," the CAISO identified four possible "longer term options" for addressing the problem of high uplift charges being incurred under the "bid or better" settlement methodology, and that of those four options, the CAISO preferred Option 1, a "single pre-dispatch price auction" methodology for settling of import transactions, under which all incremental and decremental bids from System Resources dispatched by the CAISO would be settled at a single pre-dispatch market clearing price that reflects the average of the four 15-minute prices calculated by the CAISO's software. The CAISO states that its personnel have investigated the feasibility and timeframe for implementing these options, and believe that full implementation could not occur for six to eight months, in part because the implementation process could not begin until the conclusion of the stakeholder process and receipt of Commission approval. CAISO request for clarification and rehearing at 5-6.

reverting to the “bid or better” settlement methodology would once again lead to increased, and unwarranted, costs to customers. On the other hand, the CAISO states, it does not believe that the Commission would wish to foreclose potential options favored by the CAISO and its stakeholders merely because those options cannot be implemented by October 1, 2005. It further states that such mechanical application of the October 1 date would not serve CAISO Market Participants or customers.

## II. Discussion

### A. Procedural matters

12. The CAISO’s April 22 Filing was noticed in the *Federal Register*, with protests, comments and motions for intervention due on May 6, 2005.<sup>7</sup> Timely motions to intervene were submitted by the California Electricity Oversight Board, the Cities of Anaheim, Azusa, Banning, Colton, and Riverside (Cities of Anaheim), and Powerex Corporation. Pursuant to Rule 214 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2004), the unopposed motions to intervene of the entities listed above serve to make them parties to the proceeding.<sup>8</sup>

### B. Analysis

#### 1. CAISO Tariff Filing

13. The Commission will accept the CAISO’s filing of Amendment No. 69. The CAISO has convincingly argued that the tariff provisions contained in Amendment No. 69 are necessary to achieve full implementation of Amendment No. 66. No party has protested Amendment No. 69 or contradicted the CAISO’s assertion of the necessity of enacting it.

14. Because Amendment No. 69 is in essence the correction of the CAISO’s failure to include these provisions in Amendment No. 66, the Commission will waive the 60-day notice and make these modifications effective as of the effective date of Amendment No. 66, March 24, 2005.

---

<sup>7</sup> 70 Fed. Reg. 23146 (2005).

<sup>8</sup> Additionally, the Commission will here accept the motion to intervene out of time, made in Docket No. ER05-718-000 but applicable to all subdockets, of the California Public Utilities Commission (California Commission).

## 2. CAISO Request for Clarification and Rehearing

15. The Commission grants the CAISO's request for clarification. We clarify that the CAISO is not precluded from proposing, as its preferred "long-term solution" to the problem of clearing overlapping intertie bids, retention of the current "pay as bid" payment methodology. When the CAISO makes that filing, the Commission will consider it on its own merits.

16. The Commission denies the CAISO's request for rehearing. When we granted the CAISO's filing of Amendment No. 66 on an expedited basis, we did so on the basis of the CAISO's commitment that "[b]ecause of the need for expedited Commission action on this matter, the CAISO has already begun a process to inform its Market Participants of the nature of the problem, and to solicit feedback concerning proposed solutions" and that it had already gone through a significant stakeholder process and anticipated recommending a long-term solution to its Board of Governors by April 28, 2005.<sup>9</sup> The CAISO's stakeholders were not fully involved in the decision to implement Amendment No. 66, which the CAISO represented as necessary to avoid imminent harm to customers,<sup>10</sup> and the Commission granted that relief in reliance, in part, on the CAISO's commitment that it would shortly conduct a full stakeholder process and be able to shortly file a solution that was developed through that process, and we will hold the CAISO to that commitment.

### The Commission orders:

- (A) The CAISO's tariff filing is accepted, as discussed above, effective March 24, 2005.
- (B) The CAISO's request for clarification is granted, as discussed above.

---

<sup>9</sup> CAISO original filing, transmittal letter at 7-8.

<sup>10</sup> In its original filing on March 23, 2005, the CAISO stated that "[b]ecause of the need for expedited Commission action on this matter," the CAISO had begun a process of working with its stakeholders to develop proposed solutions to the intertie clearing problem (March 23 transmittal letter at 7-8). The CAISO did not, however, obtain a vote from its stakeholders before making its filing with the Commission.

Docket No. ER05-718-000

8

(C) The CAISO's request for rehearing is denied, as discussed above.

By the Commission.

( S E A L )

Linda Mitry,  
Deputy Secretary.