

148 FERC ¶ 61,222  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

September 22, 2014

In Reply Refer to:  
California Independent  
System Operator Corporation  
Docket No. ER14-2484-000

California Independent System  
Operator Corporation  
250 Outcropping Way  
Folsom, California 95630

Attn: John C. Anders, Esq.

Reference: Tariff Amendments to the Energy Imbalance Market

Dear Mr. Anders:

1. On July 23, 2014, the California Independent System Operator Corporation (CAISO) filed tariff amendments under section 205 of the Federal Power Act<sup>1</sup> to address three matters prior to the implementation of the Energy Imbalance Market (EIM) on October 1, 2014. First, CAISO requests authorization to apply market power mitigation procedures under section 39.7 of CAISO's tariff to EIM transfer constraints between the PacifiCorp East and PacifiCorp West balancing authority areas, and from CAISO's balancing authority area into the PacifiCorp West balancing authority area at start-up of the EIM. Second, CAISO proposes a new provision to permit recovery of transition costs for multi-stage EIM participating resources that use a fuel source other than natural gas. Lastly, CAISO proposes to clarify that the general settlement provisions in section 11 of its tariff apply equally to EIM market participants. This order accepts CAISO's proposed tariff amendments, effective September 23, 2014, as requested.<sup>2</sup>

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<sup>1</sup> 16 U.S.C. § 824d (2012).

<sup>2</sup> On September 16, 2014, CAISO filed a motion seeking to modify the effective date of the tariff revisions pending in this proceeding in light of its decision to delay full activation of the EIM by one month. The Commission will address this motion in a separate order.

2. By way of background, on February 28, 2014, CAISO filed proposed tariff revisions to offer participation in the imbalance energy portion of its real-time market to other balancing authority areas in the Western states.<sup>3</sup> The Commission conditionally accepted the EIM Tariff Filing, subject to a compliance filing, on June 19, 2014.<sup>4</sup> Under the EIM, entities with balancing authority areas outside of CAISO may voluntarily take part in the imbalance energy portion of the CAISO locational marginal price-based real-time market alongside participants from within the CAISO balancing authority area. CAISO submitted its compliance filing to implement the directives in the June 19 Order on July 21, 2014, in Docket No. ER14-1386-001.<sup>5</sup> CAISO states that the tariff amendments filed in this proceeding complement the EIM compliance filing and clarify certain elements of the tariff in anticipation of the EIM's October 1, 2014 implementation date.<sup>6</sup>

3. In its initial EIM Tariff Filing, CAISO proposed that participants in the EIM would be subject to real-time local market power mitigation procedures similar to those currently found in section 39.7 of CAISO's tariff, but CAISO would apply these procedures separately to each participating balancing authority area.<sup>7</sup> CAISO also proposed that further information was required to determine whether real-time local market power mitigation should also be applied to scheduling constraints limiting transfers of energy into PacifiCorp balancing authority areas.<sup>8</sup> CAISO also proposed that the CAISO Board of Governors should have the authority to determine whether market power mitigation tests would be applied to scheduling constraints into different EIM Entity<sup>9</sup> balancing authority areas. In the June 19 Order, the Commission rejected the

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<sup>3</sup> Tariff Amendments to Implement an Energy Imbalance Market, Docket No. ER14-1386-000 (Feb. 28, 2014) (EIM Tariff Filing).

<sup>4</sup> *Cal. Indep. Sys. Operator Corp.*, 147 FERC ¶ 61,231 (2014) (June 19 Order).

<sup>5</sup> The compliance filing is currently pending.

<sup>6</sup> CAISO Transmittal Letter at 2.

<sup>7</sup> EIM Tariff Filing at 40. The local market power mitigation procedures involve an assessment of whether a congested transmission path is competitive, and if not, mitigating bids from resources that can relieve congestion on the path.

<sup>8</sup> *Id.* at 40-41.

<sup>9</sup> An EIM Entity is a Balancing Authority that represents one or more EIM Transmission Service Providers and that enters into an EIM Entity Agreement with the CAISO to enable the operation of the Real-Time Market in its Balancing Authority Area.

proposal to provide the Board of Governors with this authority, but specified that CAISO may file with the Commission to implement real-time local market power mitigation procedures on scheduling constraints limiting transfers of energy into PacifiCorp's balancing authority areas if it believes, and can demonstrate, that such mitigation is warranted after CAISO's Department of Market Monitoring completes its assessment of structural market power in PacifiCorp's balancing authority areas.<sup>10</sup>

4. CAISO states that the Department of Market Monitoring has since published an assessment<sup>11</sup> that recommends that market power mitigation procedures be applied when scheduling constraints into either of PacifiCorp's balancing authority areas are identified.<sup>12</sup> According to the Department of Market Monitoring, applying market power mitigation tests and procedures when these scheduling limits are reached, would mitigate potential market power that may exist on a broader level due to a high concentration of ownership of supply resources through an EIM Entity balancing authority area.<sup>13</sup>

5. CAISO states that its Market Surveillance Committee, as well as its stakeholders, also support the recommendation to include PacifiCorp EIM transfer constraints in the local market power mitigation procedures.<sup>14</sup> CAISO argues that this finding is appropriate because participation by resources is voluntary with no must-offer obligations and the depth of market bids will be uncertain at the start of the EIM. In addition, CAISO states that transmission capacity to support EIM transfers is voluntarily provided on an hourly basis and the incremental EIM transfer limits into an EIM balancing authority area can be restricted when the EIM Entity fails the flexible ramping test included in the hourly resource sufficiency evaluation.<sup>15</sup>

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<sup>10</sup> June 19 Order, 147 FERC ¶ 61,231 at P 220.

<sup>11</sup> CAISO Department of Market Monitoring, *Assessment of Potential Market Power in Energy Imbalance Market* (Updated June 30, 2014) (EIM Market Power Assessment). The EIM Market Power Assessment is included as Attachment C to the Transmittal Letter and available on CAISO's website at [http://www.caiso.com/Documents/Assessment\\_PotentialMarketPower\\_EnergyImbalanceMarket.pdf](http://www.caiso.com/Documents/Assessment_PotentialMarketPower_EnergyImbalanceMarket.pdf).

<sup>12</sup> CAISO Transmittal Letter at 3.

<sup>13</sup> See EIM Market Power Assessment at 1.

<sup>14</sup> CAISO Transmittal Letter at 3.

<sup>15</sup> *Id.* at 3-4.

6. Accordingly, CAISO requests authorization to apply market power mitigation procedures to EIM transfer constraints between the PacifiCorp East and PacifiCorp West balancing authority areas, and from CAISO's balancing authority area into the PacifiCorp West balancing authority area at start-up of the EIM.<sup>16</sup> CAISO maintains that it will continue to evaluate its approach to address market power mitigation of EIM transfer constraints. CAISO notes that, in the future, a more dynamic approach could provide additional flexibility and allow administration of market power mitigation of EIM transfer constraints across a larger area with a greater number of participants, but states that it has not fully developed a proposal for a more dynamic approach at this time. CAISO asserts that it plans to commence a new stakeholder initiative to consider historical energy imbalances and the EIM transfer capability made available each hour to dynamically subject the EIM transfer constraints to the market power mitigation process, and hopes to propose a more dynamic approach concurrent with the planned October 1, 2015 implementation of NV Energy, Inc.'s participation in the EIM.<sup>17</sup>

7. Next, CAISO explains that multi-stage generating units, such as combined-cycle units with interconnected gas and steam turbines, operate in several different configurations that consist of various combinations of gas and steam turbines.<sup>18</sup> According to CAISO, the current tariff only considers transition costs—i.e., costs incurred when a multi-stage generation resource moves from one configuration to another—for gas-fueled multi-stage generation resources. CAISO states that during preparation for implementation of the EIM, it determined that certain EIM participating resources plan to use multi-stage generation modeling for non-gas resources. Therefore, CAISO proposes to modify section 29.30 of its tariff to allow for the calculation of transition costs using a fuel source other than natural gas.<sup>19</sup> CAISO also proposes that multi-stage EIM participating resources with a fuel source other than natural gas negotiate a transition cost with CAISO, in consultation with the Department of Market Monitoring.

8. Lastly, CAISO explains that in the EIM Tariff Filing, it proposed to include all charges that it will bill to EIM market participants in section 29.11 of its tariff.<sup>20</sup> CAISO explains that it intended to settle these charges according to the procedures and timelines

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<sup>16</sup> *Id.* at 4.

<sup>17</sup> *Id.*

<sup>18</sup> *Id.* at 4-5.

<sup>19</sup> *Id.* at 5.

<sup>20</sup> *Id.*

set forth in section 11 of the tariff, just as it does with respect to all other market participant transactions.<sup>21</sup> CAISO states that the tariff language approved in the June 19 Order refers only to the assessment of charges and not the associated payments and collections. CAISO states that it is concerned that some party may in the future argue that CAISO is not entitled to apply section 11 offset and other procedures necessary to support settlement equality among all market participants to EIM charges. CAISO maintains that an EIM market participant bankruptcy proceeding represents one scenario where it would be important to have certainty that all of the generally applicable settlement provisions of section 11 apply equally to EIM transactions.<sup>22</sup> CAISO states that no matter how remote the possibility, it and its market participants should not be exposed to the risk that EIM market transactions could be settled differently than other market transactions.<sup>23</sup> Therefore, CAISO proposes to add additional language to section 29.11 to clarify that the payment and collection of charges from EIM participants are subject to the provisions of sections 11.

9. Notice of CAISO's filing was published in the *Federal Register*, 79 Fed. Reg. 44,167 (2014), with protests and interventions due on or before August 13, 2014. Timely motions to intervene were submitted by the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California; NRG Power Marketing LLC and GenOn Energy Management, LLC; Modesto Irrigation District; Goshen Phase II LLC; the Transmission Agency of Northern California; Imperial Irrigation District; the City of Santa Clara, California and the M-S-R Public Power Agency; and California Department of Water Resources State Water Project. Southern California Edison Company (SoCal Edison) and Pacific Gas and Electric Company (PG&E) submitted timely motions to intervene and comments. On August 14, 2014, the City of Redding, California filed a motion to intervene out-of-time in this proceeding. On September 19, 2014, PacifiCorp filed a motion to intervene out-of-time in this proceeding.

10. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R § 385.214 (2014), the timely, unopposed motions to intervene serve to make the movants parties to the proceeding. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(d) (2014), the Commission will grant the late-filed motions to intervene of the City of Redding and PacifiCorp given their interests in the proceeding, the early stage of the proceeding, and the absence of undue prejudice or delay.

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<sup>21</sup> See CAISO Tariff, section 29.11(i).

<sup>22</sup> *Id.* at 5-6.

<sup>23</sup> *Id.* at 6.

11. In their respective comments, SoCal Edison and PG&E each support CAISO's request to apply the market power mitigation procedures to EIM transfer constraints between the PacifiCorp East and West balancing authority areas and from CAISO's balancing authority area into the PacifiCorp West balancing authority area at the start-up of the EIM.<sup>24</sup> PG&E also states that it supports the continued assessment of the structural competitiveness of the PacifiCorp balancing authority areas based on actual EIM data as it becomes available, and the development of a more dynamic approach for assessing the structural competitiveness of balancing authority areas that plan to participate in the EIM.<sup>25</sup>

12. Based upon a review of the filing, we find that CAISO's proposed tariff amendments are just and reasonable and not unduly discriminatory, and therefore accept them, to become effective September 23, 2014, as requested. The inclusion of the calculation for transition costs for multi-stage units using a fuel source other than natural gas and the proposed clarification to the settlement provisions in section 29.11 address gaps in CAISO's EIM tariff provisions and provide additional clarity.

13. We also agree with CAISO and the Department of Market Monitoring's arguments that applying real-time local market power mitigation procedures on scheduling constraints limiting transfers of energy into and between PacifiCorp's balancing authority areas would be appropriate. However, we note that CAISO's compliance filing to the June 19 Order, currently pending in Docket No. ER14-1386-001, includes proposed revisions to section 29.39(d)(2) of its tariff to implement real-time local market power mitigation procedures on scheduling constraints in the EIM if "FERC accepts a filing by the CAISO to implement such [mitigation]." Therefore, we find that CAISO may include PacifiCorp EIM transfer constraints in the local market power mitigation procedures under section 39.7 of its tariff, subject to the Commission order on the compliance filing in Docket No. ER14-1386-001. If the Commission accepts CAISO's proposed revisions to section 29.39(d)(2), CAISO must include PacifiCorp EIM transfer constraints in the local market power mitigation procedures under section 39.7 of its tariff. So that the Commission and stakeholders are informed that this has occurred, CAISO must file an informational report within 30 days of including the PacifiCorp EIM transfer constraints in the local market power mitigation procedures.<sup>26</sup> We further encourage CAISO to work closely with its stakeholders through the planned stakeholder

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<sup>24</sup> SoCal Edison Comments at 3; PG&E Comments at 2.

<sup>25</sup> PG&E Comments at 4.

<sup>26</sup> This report is for informational purposes only and will not be noticed, nor require Commission action.

initiative to explore a more dynamic approach to market power mitigation of EIM transfer constraints.

By direction of the Commission.

Kimberly D. Bose,  
Secretary.