



April 9, 2019

The Honorable Kimberly D. Bose  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, DC 20426

**Re: California Independent System Operator Corporation  
Docket No. ER19-\_\_\_\_-000**

**Tariff Amendment to Exempt Certain Resource Adequacy  
Resources from Bid Generation**

**Request for Expedited Consideration and Waiver of 60-Day  
Notice Requirement**

Dear Secretary Bose:

The California Independent System Operator Corporation (CAISO) proposes to amend section 40.6.8 of the CAISO tariff to exempt Combined Heat and Power Resources, Conditionally Available Resources, and Non-Dispatchable Resources from the CAISO's bid generation rules where such resources provide Resource Adequacy Capacity but do not submit bids in accordance with either section 40.6.1 or section 40.6.2 of the CAISO tariff.<sup>1</sup> These types of resources historically have been exempt from bid insertion based on their resource limitations. The limitations no longer qualify as an eligible use limit and are not eligible for an opportunity cost. The resources' limitations, however, still exist and thus the resources should remain exempt from the bid generation rules.

The CAISO recently submitted a multi-part tariff amendment to make these and other clarifications to the Commission-approved commitment cost enhancements phase 3 (CCE3) tariff amendments. One element of that filing was to amend section 40.6.8 to clarify that the CAISO would not insert generated bids for the three above-noted resource types. The Commission's order on the tariff clarification filing accepted the majority of the proposed amendments but rejected one element on substantive grounds. The Commission also rejected the proposed amendments to section 40.6.8 on the rationale they were not severable

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<sup>1</sup> The CAISO submits this filing pursuant to section 205 of the Federal Power Act, 16 U.S.C. § 824d, and Part 35 of the Commission's Regulations, 18 C.F.R. Part 35.

from the substantively rejected element, which related to the CAISO's proposal to clarify how wind and solar resources are treated under the Resource Adequacy Availability Incentive Mechanism (RAAIM).<sup>2</sup>

In its transmittal letter, the CAISO identified the parts of its filing that were severable and those that were interdependent. The CAISO realizes now that its description of the severable issues was ambiguous and created a misimpression as to what elements could be implemented independently of the others. The bid generation exemption is interdependent and non-severable (at both a policy design and implementation level) from the aspects of the filing that the Commission accepted, but it is severable from the CAISO's proposal to clarify the RAAIM exemption for wind and solar resources. Because of this interdependency the CAISO submits this filing that re-proposes amendments to section 40.6.8 that no stakeholder objected to at the Commission and that the Commission took no issue with in its recent order.

The CAISO requests expedited consideration of the proposed amendment under the procedures described in the Commission's Guidance Order on Expedited Tariff Revisions for Regional Transmission Organizations and Independent System Operators.<sup>3</sup> The CAISO respectfully requests that the Commission act on an accelerated basis, with an expedited comment date on this filing of no later than April 15, 2019. The CAISO also requests that the Commission issue an order by April 19, 2019, accepting the tariff revisions in this filing to be effective April 10, 2019. The CCE3 initiative has been implemented. Commission approval as soon as possible with as early an effective date as possible will provide the CAISO and its market participants needed certainty regarding the full scope of how the CCE3 initiative impacts Resource Adequacy Resources. The CAISO also requests that the Commission waive the 60-day notice requirement in order to accommodate the requested effective date.<sup>4</sup>

## I. Background

The CAISO filed the tariff amendments needed to implement the CCE3 initiative in March 2018.<sup>5</sup> After an initial implementation delay, the CCE3 tariff

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<sup>2</sup> *Cal. Indep. Sys. Operator Corp.*, Transmittal Letter, FERC Docket No. ER19-951 (Jan. 31, 2019) (January 31 Filing); *Cal. Indep. Sys. Operator Corp.*, 167 FERC ¶ 61,001 (2019) (April 1 Order).

<sup>3</sup> Guidance Order on Expedited Tariff Revisions for Regional Transmission Organizations and Independent System Operators, 111 FERC ¶ 61,009 (2005) ("Guidance Order").

<sup>4</sup> Specifically, the CAISO requests waiver of the Commission's 60-day notice requirement set forth in Section 35.3 of the Commission's regulations, 18 C.F.R. § 35.3, pursuant to Section 35.11 of the Commission's regulations, 18 C.F.R. § 35.11.

<sup>5</sup> The CAISO filed its CCE3 tariff changes on March 23, 2018, in Docket No. ER18-1169. The

changes went into effect on April 1, 2019. The key feature of CCE3 is to allow: (1) Use-Limited Resources with eligible use limits to establish opportunity costs associated with those limits; and (2) the CAISO market to optimize dispatch considering those opportunity costs. The CAISO historically defined Use-Limited Resources as resources “that, due to design considerations, environmental restrictions on operations, cyclical requirements, such as the need to recharge or refill, or other non-economic reasons, is unable to operate continuously.” The CCE3 filing changed the definition of the term to include only resources whose limitations translate into limits that affect the number of start-ups, run hours, or total MWhs that could be used to calculate an opportunity cost. Both before and after CCE3, a key benefit of registering a resource as a Use-Limited Resource was that it was exempt from bid generation when it provided Resource Adequacy Capacity.

As the April 1, 2019, CCE3 implementation date approached, the CAISO came to understand that the initial tariff filing required incremental amendments to address gaps created by the interaction between CCE3 and other recent initiatives. One gap was to address the treatment of resources that would no longer qualify as Use-Limited Resources under the revised definition. These resources still have limitations that justify exemption from the bid generation tariff rules due to the inability to be available on a 24/7 basis. Given these limitations, it would be inappropriate for the CASIO to generate bids that the resource cannot feasibly meet.

The CAISO addressed the identified gaps through a tariff clarifications filing submitted on January 31 Filing. The CAISO addressed the Use-Limited Resource gap through three main tariff changes: (1) creating new defined terms to describe a Conditionally Available Resource and a Non-Dispatchable Resource;<sup>6</sup> (2) amending tariff section 40.6.4 to describe the bidding obligations for Combined Heat and Power Resources, Conditionally Available Resources, and Non-Dispatchable Resources when such resources provide Resource Adequacy Capacity; and (3) amending tariff section 40.6.8(e) to exempt those three resource types from Generated Bids where they fail to meet their bidding obligations in section 40.6.4.

A wholly separate aspect of the January 31 Filing sought to reconcile the terminology used to refer to resources that produce electricity from renewable resources. The CAISO tariff has three primary defined terms for renewable

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Commission approved the core element of the CCE3 on June 21, 2018. *Cal. Indep. Sys. Operator Corp.*, 163 FERC ¶ 61,211 (2018).

<sup>6</sup> A Conditionally Available Resource is defined in Appendix A of the CAISO tariff as: “A resource that has one or more regulatory or operational limits that are not eligible Use Limits pursuant to Section 30.4.1.1.6.1.2 and that faces frequent and recurring periods of unavailability because of those limitations. A resource can be both a Conditionally Available Resource and a Use-Limited Resource if it has eligible Use Limits and also meets the definition of a Conditionally Available Resource.” A Non-Dispatchable Resource is defined as: “A resource that cannot be increased or curtailed at the direction of the CAISO in the Real-Time Dispatch to Supply or consume Energy, such as certain Qualifying Facilities.”

resources—Variable Energy Resource, Eligible Intermittent Resource, and Participating Intermittent Resource. The January 31 Filing proposed revisions to sections 40.6.8(e) and 40.9.2(b)(1) to describe more accurately the nature of the bid generation and RAIM exemptions, respectively, these two tariff sections confer on certain renewable resources.

No party filed comments in response to the amendments the CAISO proposed to address the Use-Limited Resource gap. One party, however, objected to the renewable resource terminology clarifications. In its March 8, 2019, answer to comments and protest, the CAISO explained that the bid generation and RAIM exemption changes that were the subject of opposition were “severable and not interdependent or interrelated with the rest of the changes proposed in the January 31 Tariff Amendment . . . .”<sup>7</sup>

In the April 1 Order the Commission rejected the proposed amendment to section 40.9.2(b)(1) on substantive grounds.<sup>8</sup> Citing the CAISO’s statements in its Answer as to severability, the Commission also rejected all proposed amendments in section 40.6.8(e); it did not address the substantive merits of these amendments. In stating in the March 8 Answer that the “bid generation and RAIM exemption changes are . . . severable,” the CAISO was referring specifically to the changes in those sections that related to renewable resource terminology. The CAISO did not mean to state that all of the proposed amendments in section 40.6.8(e) were severable from “the rest of the changes proposed in the January 31 Tariff Amendment.” The Use-Limited Resource gap amendments in section 40.6.8(e) were a core element of the overall January 31 Filing. There is no question to the CAISO that exempting Combined Heat and Power Resources, Conditionally Available Resources, or Non-Dispatchable Resources from bid generation under section 40.6.8 is a necessary element of going live with the CCE3 filing and is interdependent and unseverable (at both a policy design and implementation level) from the aspects of the filing that the Commission accepted. The January 31 Filing explained that it was important for these resources to “continue to be exempt from the bid generation rules even after they no longer meet the new definition of use-limited resources under CCE3.”<sup>9</sup> Because of the interdependency with the core of the CCE3 project, since April 1, 2019, the CAISO has not yet made the system or business process changes necessary to begin automated bid generation for resources registered in the three noted categories.

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<sup>7</sup> *Cal. Indep. Sys. Operator Corp.*, Answer to Comments and Protest, at 14, FERC Docket No. ER19-951 (Mar. 8, 2019) (March 8 Answer).

<sup>8</sup> April 1 Order at P 39.

<sup>9</sup> January 31 Filing, at 15.

## II. Proposed Tariff Revisions

Through this filing, the CAISO proposes to amend its tariff so Combined Heat and Power Resources, Conditionally Available Resources, and Non-Dispatchable Resources from the CAISO's bid generation rules where such resources provide Resource Adequacy Capacity but do not submit bids in accordance with either section 40.6.1 or section 40.6.2 of the CAISO tariff. Specifically, the CAISO proposes these modifications to section 40.6.8(e) of its tariff:

**Exemptions.** Notwithstanding any of the provisions of Section 40.6.8, for the following resource types providing Resource Adequacy Capacity, the CAISO ~~only will not insert~~ any Bid in the Day-Ahead Market or Real-Time Market ~~required under this Section 40 for Resource Adequacy Capacity of a where the generally applicable bidding rules in Section 30 call for bid insertion:~~ Use-Limited Resource, Non-Generator Resource, Variable Energy Resource, Hydroelectric Generating Unit, Proxy Demand Resource, Reliability Demand Response Resource, Participating Load, including Pumping Load, Combined Heat and Power Resource, Conditionally Available Resource, Non-Dispatchable Resource, and ~~or~~ resources providing Regulatory Must-Take Generation ~~unless the resource submits an Energy Bid and fails to submit an Ancillary Service Bid or unless the generally applicable bidding rules in Section 30 apply.~~

This is the identical language that the CAISO proposed in its January 31 Filing except that the CAISO does not propose to use the term Eligible Intermittent Resource in place of Variable Energy Resource.

This amendment is just and reasonable because it will avoid the complications the CAISO and its market participants would face were the CAISO to routinely generate infeasible bids. The resources that fall into the three covered categories historically have been exempt from bid generation because they are not capable of participating in the CAISO markets on a 24/7 basis. Because of the tariff amendments needed to implement the core CCE3 policy, these resources no longer meet the definition of a Use-Limited Resource. Without some other exemption they would be subject to the CAISO's general bid generation processes. That is not an appropriate outcome, nor was it an intended result of the CCE3 policy initiative. Once the CAISO systems generate a bid, regardless of its feasibility, the market may award that bid a schedule. In the operational timeframe, the CAISO may then have to dispatch other units at the last-minute, which can create higher prices and pose reliability risks. This is an adverse outcome the CAISO seeks to avoid through this filing.

Notably, this tariff amendment will pose no impact for the overall Resource Adequacy program and will not affect RAAIM. As explained in the January 31

Filing,<sup>10</sup> the bid generation issue stands separate from the application of RAAIM. Nothing about this tariff amendment would affect a resource's exposure to RAAIM charges or eligibility for RAAIM incentive payments.

### **III. Effective Date, Request for Expedited Treatment, and Waiver of 60-day Notice Period**

To afford the CAISO and its market participants with certainty regarding the full scope of how the CCE3 initiative impacts Resource Adequacy Resources, the CAISO respectfully requests expedited treatment of this amendment under the Guidance Order, including a shortened comment period.

In the Guidance Order, the Commission stated that a request by an RTO or ISO for expedited treatment of a tariff revision should clearly demonstrate that a rule change is required due to a flaw, why action is necessary in the market, and that the proposed tariff revision will correct the flaw. A proposed tariff amendment qualifies for expedited treatment if the flaw meets these criteria:

- (1) it creates material adverse impacts to the market (due to the unanticipated workings of the tariff or unanticipated actions by market participants);
- (2) it requires prompt action to prospectively revise the tariff to remove the ability to cause such material adverse impacts; and
- (3) it is susceptible to a clear-cut revision or interim tariff revision or market rule.<sup>11</sup>

The proposed tariff amendment meets these criteria and qualifies for expedited treatment as it would grant the CAISO authority to implement the CCE3 initiative consistent with its intended design and would avoid the CAISO having to generate infeasible bids for certain resources providing Resource Adequacy Capacity.

The flaw this filing addresses is that the CAISO would have to generate bids when the covered resources are unavailable because of physical or regulatory limitations. This creates potential market distortions because the market may award an energy schedule to the infeasible generated bids. In the operational timeframe, the CAISO may then have to dispatch other units at the last-minute, which can create higher prices and pose reliability risks. This potential outcome would be a *materially adverse market impact*. The existence

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<sup>10</sup> January 31 Filing, at 9 n.40.

<sup>11</sup> Guidance Order at P 2.



of this possibility justifies *prompt action* through a prospective tariff amendment. This filing poses a *clear-cut revision* to section 40.6.8(e) that will remediate the flaw completely.

The CAISO respectfully requests that the Commission establish an expedited comment date no later than April 15, 2019, and issue an order accepting this filing by April 19, 2019, with an effective date of April 10, 2019.<sup>12</sup>

#### **IV. Communications**

Under Rule 203(b)(3),<sup>13</sup> the CAISO respectfully requests that all correspondence and other communications about this filing be served upon:

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#### **V. Service**

The CAISO has served copies of this filing on the California Public Utilities Commission, the California Energy Commission, and all parties with scheduling coordinator agreements under the CAISO tariff. In addition, the CAISO has posted a copy of the filing on the CAISO website.

#### **VI. Contents of Filing**

Besides this transmittal letter, this filing includes these attachments:

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|--------------|--|
| Attachment A | Clean CAISO tariff sheets incorporating this tariff amendment; and |
| Attachment B | Red-lined document showing the revisions in this tariff amendment. |

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<sup>12</sup> The Guidance Order contemplates expedited comment periods. Guidance Order at P 4.

<sup>13</sup> 18 C.F.R. § 385.203(b)(3).

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## **VII. Conclusion**

For the reasons set forth in this filing, the CAISO respectfully requests that the Commission issue an expedited order by April 19, 2019, accepting the tariff revisions in this filing effective April 10, 2019.

Respectfully submitted,

**/s/ David S. Zlotlow**

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**Attachment A – Clean Tariff**

**Amendment to Exempt Certain Resource Adequacy Resources from Bid Generation**

**California Independent System Operator Corporation**

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#### 40.6.8 Use of Generated Bids

- (a) **Day-Ahead Market.** Prior to completion of the Day-Ahead Market, the CAISO will determine if Resource Adequacy Capacity subject to the requirements of Section 40.6.1 and for which the CAISO has not received notification of an Outage has not been reflected in a Bid and will insert a Generated Bid for such capacity into the CAISO Day-Ahead Market.
- (b) **Real-Time Market.** Prior to running the Real-Time Market, the CAISO will determine if Resource Adequacy Capacity subject to the requirements of Section 40.6.2 and for which the CAISO has not received notification of an Outage has not been reflected in a Bid and will insert a Generated Bid for such capacity into the Real-Time Market.
- (c) **Partial Bids for RA Capacity.** If a Scheduling Coordinator for an RA Resource submits a partial bid for the resource's RA Capacity, the CAISO will insert a Generated Bid only for the remaining RA Capacity. In addition, the CAISO will determine if all dispatchable Resource Adequacy Capacity from Short Start Units, not otherwise selected in the IFM or RUC, is reflected in a Bid into the Real-Time Market and will insert a Generated Bid for any remaining dispatchable Resource Adequacy Capacity for which the CAISO has not received notification of an Outage.
- (d) **Calculation of Generated Bids.** A Generated Bid for Energy will be calculated pursuant to Sections 30.7.3.4 and 30.7.3.5. A Generated Bid for Ancillary Services will equal zero dollars (\$0/MW-hour).
- (e) **Exemptions.** Notwithstanding any of the provisions of Section 40.6.8, for the following resource types providing Resource Adequacy Capacity, the CAISO only inserts a Bid in the Day-Ahead Market or Real-Time Market where the generally applicable bidding rules in Section 30 call for bid insertion: Use-Limited Resource, Non-Generator Resource, Variable Energy Resource, Hydroelectric Generating Unit, Proxy Demand Resource, Reliability Demand Response Resource, Participating Load, including Pumping Load, Combined Heat and Power Resource, Conditionally Available Resource, Non-

Dispatchable Resource, and resources providing Regulatory Must-Take Generation.

- (f) **NRS-RA Resources.** The CAISO will submit a Generated Bid in the Day-Ahead Market or Real-Time Market for a non-Resource Specific System Resource in each RAIM assessment hour, to the extent that the resource provides Resource Adequacy Capacity subject to the requirements of Sections 40.6.1 or 40.6.2 and does not submit an outage request or Bid for the entire amount of that Resource Adequacy Capacity.

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**Attachment B – Marked Tariff**

**Amendment to Exempt Certain Resource Adequacy Resources from Bid Generation**

**California Independent System Operator Corporation**

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#### 40.6.8 Use of Generated Bids

- (a) **Day-Ahead Market.** Prior to completion of the Day-Ahead Market, the CAISO will determine if Resource Adequacy Capacity subject to the requirements of Section 40.6.1 and for which the CAISO has not received notification of an Outage has not been reflected in a Bid and will insert a Generated Bid for such capacity into the CAISO Day-Ahead Market.
- (b) **Real-Time Market.** Prior to running the Real-Time Market, the CAISO will determine if Resource Adequacy Capacity subject to the requirements of Section 40.6.2 and for which the CAISO has not received notification of an Outage has not been reflected in a Bid and will insert a Generated Bid for such capacity into the Real-Time Market.
- (c) **Partial Bids for RA Capacity.** If a Scheduling Coordinator for an RA Resource submits a partial bid for the resource's RA Capacity, the CAISO will insert a Generated Bid only for the remaining RA Capacity. In addition, the CAISO will determine if all dispatchable Resource Adequacy Capacity from Short Start Units, not otherwise selected in the IFM or RUC, is reflected in a Bid into the Real-Time Market and will insert a Generated Bid for any remaining dispatchable Resource Adequacy Capacity for which the CAISO has not received notification of an Outage.
- (d) **Calculation of Generated Bids.** A Generated Bid for Energy will be calculated pursuant to Sections 30.7.3.4 and 30.7.3.5. A Generated Bid for Ancillary Services will equal zero dollars (\$0/MW-hour).
- (e) **Exemptions.** Notwithstanding any of the provisions of Section 40.6.8, for the following resource types providing Resource Adequacy Capacity, the CAISO only will not insert any Bid in the Day-Ahead Market or Real-Time Market required under this Section 40 for Resource Adequacy Capacity of a where the generally applicable bidding rules in Section 30 call for bid insertion: Use-Limited Resource, Non-Generator Resource, Variable Energy Resource, Hydroelectric Generating Unit, Proxy Demand Resource, Reliability Demand Response Resource, Participating Load, including Pumping Load, Combined

~~Heat and Power Resource, Conditionally Available Resource, Non-Dispatchable Resource, and or-resources providing Regulatory Must-Take Generation unless the resource submits an Energy Bid and fails to submit an Ancillary Service Bid or unless the generally applicable bidding rules in Section 30 apply.~~

- (f) **NRS-RA Resources.** The CAISO will submit a Generated Bid in the Day-Ahead Market or Real-Time Market for a non-Resource Specific System Resource in each RAAIM assessment hour, to the extent that the resource provides Resource Adequacy Capacity subject to the requirements of Sections 40.6.1 or 40.6.2 and does not submit an outage request or Bid for the entire amount of that Resource Adequacy Capacity.

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