

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

**California Independent System            )           Docket No. ER20-398-000  
Operator Corporation                    )**

**ANSWER OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR  
CORPORATION**

The California Independent System Operator Corporation (CAISO) submits its answer to the comments filed by Pacific Gas and Electric Company (PG&E) in the above-referenced proceeding.<sup>1</sup> This proceeding concerns the CAISO's filing of the Congestion Revenue Rights Exchange Agreement (CRR Exchange Agreement) between the CAISO and the Transmission Agency of Northern California (TANC). PG&E requests that the Commission find that the CRR Exchange Agreement is just and reasonable and accept it for a two-year period "without precedent," subject to certain recommendations that PG&E makes. PG&E is the only entity that suggests that the Commission impose any conditions on its acceptance of the CRR Exchange Agreement.<sup>2</sup> PG&E fails to acknowledge that Commission precedent already supports acceptance of the CRR Exchange Agreement. For the reasons explained below, the Commission should accept the CRR Exchange Agreement as submitted by the CAISO without the conditions suggested by PG&E.

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<sup>1</sup> The CAISO submits this answer pursuant to Rule 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213.

<sup>2</sup> The Balancing Authority of Northern California filed supporting comments requesting that the Commission accept the CRR Exchange Agreement as submitted by the CAISO, and TANC, Modesto Irrigation District, Powerex Corp., and Southern California Edison Company filed motions to intervene.

## I. Background

The CAISO submitted the CRR Exchange Agreement on November 18, 2019. As explained in that filing, the CRR Exchange Agreement will allow TANC to elect on a month-to-month basis to make transmission capacity (TANC Capacity) it owns on the California-Oregon Transmission Project (COTP<sup>3</sup>) available to CAISO market participants that want to schedule transactions on the COTP. In exchange for releasing the transmission capacity, TANC will receive “option” congestion revenue rights (CRRs) that will provide it with revenue based on the difference between the prices at the sink and the source locations. The CAISO also explained that in 2013 the Commission had accepted a similar contractual arrangement between the CAISO and PacifiCorp (PacifiCorp Agreement) regarding transmission capacity that PacifiCorp owns on the PACI.<sup>4</sup> The CAISO requested that the Commission accept the CRR Exchange Agreement effective February 1, 2020.

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<sup>3</sup> The COTP and the Pacific AC Intertie (PACI) constitute the California Oregon Intertie (COI).

<sup>4</sup> The Commission accepted the PacifiCorp Agreement, which was an Amended Operating Agreement, in *California Independent System Operator Corporation*, 142 FERC ¶ 61,246 (2013) (PacifiCorp Order). Any differences between the PacifiCorp Agreement and the CRR Exchange Agreement are not material, nor did PG&E cite any such differences in its comments on the CRR Exchange Agreement. Nonetheless, the CAISO notes that one difference is that the CRR Exchange Agreement permits monthly elections and the PacifiCorp Agreement allows for quarterly elections. Regardless if the election is quarterly or monthly, TANC and PacifiCorp must commit to the capacity being released for the entire period. With respect to TANC, the primary reason the CAISO agreed to monthly elections is that the CAISO determined that its administrative process now supports monthly elections. Another difference is that CRR Exchange Agreement concerns capacity on the COTP, not the PACI, though both the COTP and the PACI are part of the COI and subject to the same coordinated operating agreements. None of these differences support different treatment of the CRR Exchange Agreement.

**II. Answer**

**A. The CRR Exchange Agreement Will Implement the Same Type of Arrangement as the Commission-Approved PacifiCorp Agreement**

The CRR Exchange Agreement with TANC will implement the same type of arrangement as the PacifiCorp Agreement, which the Commission accepted for filing in 2013. As is true for the TANC agreement, the PacifiCorp Agreement allows the transmission capacity owner (PacifiCorp) to voluntarily elect to release transmission capacity it owns for use by CAISO market participants; in exchange for releasing the transmission capacity, PacifiCorp receives option CRRs.<sup>5</sup>

PG&E supported the approval of the PacifiCorp Agreement without reservation and without requesting that the Commission accept it subject to any conditions or recommendations.<sup>6</sup> However, in the comments it filed in the instant proceeding, PG&E fails to even mention the PacifiCorp Agreement, much less its unqualified support for that agreement or the Commission's acceptance of that agreement.

The Commission should accept the CRR Exchange Agreement because this agreement is supported by the same reasoning supporting the Commission's acceptance of the PacifiCorp Agreement. As the Commission found in relevant part in the PacifiCorp Order:

CAISO has explained that this proposal will allow PacifiCorp and PacifiCorp's customers to utilize their transmission rights to deliver power directly to the CAISO, which will result in increased market efficiency by allowing CAISO market participants to schedule transactions on the PacifiCorp Share and by allowing CAISO to address congestion more efficiently and reliably. Thus, we reject [the] assertion that CAISO is unfairly providing benefits to

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<sup>5</sup> PacifiCorp Order at P 6.

<sup>6</sup> See *id.* at P 11.

PacifiCorp because, as discussed above, this proposal will benefit all parties transacting on the Pacific AC Intertie by making additional capacity available for day-ahead scheduling. We further note that the [PacifiCorp] Agreement will have no adverse effect on congestion revenues received by other congestion revenue rights holders. For these reasons, we accept the [PacifiCorp] Agreement for filing.<sup>7</sup>

The CAISO has explained that the CRR Exchange Agreement will provide the same types of benefits as those the Commission recognized in the discussion quoted above.<sup>8</sup> This is to be expected, since the CRR Exchange Agreement will implement the same type of arrangement as the PacifiCorp Agreement. Precedent supports acceptance of the CRR Exchange Agreement because it is similar to previously approved agreements.<sup>9</sup>

**B. The Commission Should Not Adopt PG&E's Proposed Conditions**

All parties in this proceeding submitting substantive comments agree that the CRR Exchange Agreement is just and reasonable. PG&E concedes that the CRR Exchange Agreement, as submitted by the CAISO, is just and reasonable, and that "PG&E agrees with the CAISO that there likely will be benefits" resulting

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<sup>7</sup> *Id.* at P 21. The Commission also encouraged the CAISO to extend the same type of arrangement to others, including TANC, albeit through a stakeholder process (*id.* at P 22), which is effectively what the CAISO proposes to do here in the CRR Exchange Agreement.

<sup>8</sup> See transmittal letter for CRR Exchange Agreement at 4.

<sup>9</sup> See, e.g., *Cal. Indep. Sys. Operator Corp.*, 155 FERC ¶ 61,311, at P 12 (2016) ("We find that the terms of the [proposed] Implementation Agreement are just and reasonable and not unduly discriminatory or preferential. . . . Moreover, as noted by CAISO, the Implementation Agreement is consistent with similar agreements between CAISO and other balancing authorities that have been accepted by the Commission."); *NSTAR Elec Co.*, 151 FERC ¶ 61,161, at P 12 (2015) (accepting terms and conditions of a proposed NSTAR-HQUS Transfer Agreement that were "similar to those found in transfer agreements between NSTAR and HQUS that the Commission has previously approved").

from implementation of the CRR Exchange Agreement.<sup>10</sup> However, PG&E argues that the Commission should accept the CRR Exchange Agreement for only two years “without precedent” and direct the CAISO to provide additional information, analysis, and monitoring before the Commission can extend the effectiveness of the CRR Exchange Agreement beyond that two-year period, in order to ensure that it “remains just and reasonable”.<sup>11</sup> The Commission should reject PG&E’s proposed conditions.

**1. PG&E’s Proposed Two-Year Conditional Acceptance Fails to Satisfy the Federal Power Act and Commission Precedent, and Adopting It Could Undo the CRR Exchange Agreement**

PG&E argues that the CRR Exchange Agreement will be just and reasonable for two years after it is implemented but that it may not remain just and reasonable thereafter. But PG&E fails to cite any order – and the CAISO is unaware of any – in which the Commission found that the justness and reasonableness of a comparable agreement has an expiration date. Instead, Section 205 of the Federal Power Act (FPA) only requires that all Commission-jurisdictional rates and charges assessed by a public utility, and all rules and regulations affecting or pertaining to such rates and charges, “be just and reasonable”.<sup>12</sup> If the Commission or a party believes that an agreement accepted by the Commission is no longer just and reasonable as a result of any change in circumstances, the remedy the FPA affords is for the Commission to

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<sup>10</sup> PG&E at 2-3.

<sup>11</sup> *Id.*

<sup>12</sup> 16 U.S.C. § 824d(a) (emphasis added).

initiate a proceeding or for the party to file a complaint pursuant FPA Section 206.<sup>13</sup>

PG&E's argument that the CRR Exchange Agreement with TANC should only receive a time-limited approval subject to various conditions cannot be reconciled by the fact that the Commission approved a comparable CRR option agreement with PacifiCorp more than six years ago.<sup>14</sup> The Commission accepted the PacifiCorp Agreement without condition, for its full stated term of more than fourteen and a half years.<sup>15</sup> That is far longer than the two-year term for which PG&E requests the CRR Exchange Agreement to remain in effect without precedent.<sup>16</sup> There is no basis for the Commission to impose a two-year limitation on the effectiveness of the CRR Exchange Agreement, especially since PG&E has identified no issues with the implementation of the comparable CRR option agreement with PacifiCorp over the past six years.

Moreover, a Commission directive imposing a two-year expiration date or other conditions on the CRR Exchange Agreement may result in the CAISO and

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<sup>13</sup> 16 U.S.C. § 824e.

<sup>14</sup> Indeed, PG&E's argument that the CRR Exchange Agreement with TANC should be accepted "without precedent" ignores the fact that the Commission's approval of the PacifiCorp Agreement already establishes a precedent on such a CRR option agreement.

<sup>15</sup> The Commission accepted the PacifiCorp Agreement effective April 1, 2013, as requested by the CAISO. PacifiCorp Order at P 1 and Ordering Paragraph. Section 3.1 of the PacifiCorp Agreement states that it will continue in effect until December 31, 2027, unless the parties agree by an amendment to extend its term or until may be terminated pursuant to Section 3.2 of the PacifiCorp Agreement.

<sup>16</sup> Section 3.1 of the CRR Exchange Agreement does not set forth an end-date for its effectiveness. However, Section 3.2 of the CRR Exchange Agreement states that it may be terminated at the earliest of: (a) January 1, 2025; (b) upon two years' advance written notice by a party; (c) three months after mutual agreement of the parties; or (d) the termination of either the Owners Coordinated Operation Agreement (OCA) or the California-Oregon Intertie Path Operating Agreement (COI-POA).

TANC not agreeing to implement it at all. Section 3.1 of the CRR Exchange Agreement states that it is “expressly conditioned upon FERC acceptance, without any material change or new condition.” Section 3.1 goes on to state that if the Commission orders “any material modification or condition” that is unacceptable to either the CAISO or to TANC, the parties will use their best efforts to negotiate mutually acceptable revisions to the CRR Exchange Agreement to address the modification or condition. However, there is no guarantee that the parties would be able to negotiate such revisions. Consequently, if the Commission were to impose the conditions proposed by PG&E, the CRR Exchange Agreement might fall through, and the CAISO’s customers would not receive benefits comparable to those identified in the PacifiCorp Order – namely, TANC Capacity would be unavailable to “result in increased market efficiency by allowing CAISO market participants to schedule transactions on the [TANC Capacity] and by allowing CAISO to address congestion more efficiently and reliably,” nor would it be able to “benefit all parties transacting on the [COTP] by making additional capacity available for day-ahead scheduling”.<sup>17</sup>

**2. PG&E Fails to Show that the Voluntary Transmission Offering Under the CRR Exchange Agreement Requires Additional Analysis or that Additional Monitoring and Reporting Is Needed**

PG&E argues that the Commission should require the CAISO to undertake additional analysis related to the provisions in the CRR Exchange

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<sup>17</sup> See PacifiCorp Order at P 21.

Agreement that allow TANC to offer its transmission capacity on a voluntary basis. PG&E also asserts that the Commission should require the CAISO to conduct annual monitoring and reporting on the impacts of these types of CRR exchange agreements.<sup>18</sup> The Commission should not require the CAISO to undertake any such measures.

In the PacifiCorp Order, the Commission “reject[ed the] assertion that CAISO is unfairly providing benefits to PacifiCorp because . . . this proposal will benefit all parties transacting on the Pacific AC Intertie by making additional capacity available for day-ahead scheduling”.<sup>19</sup> The same will be true for the CRR Exchange Agreement. Like PacifiCorp, TANC will have a financial incentive to make its transmission capacity available during months when congestion is most likely to materialize. This is because congestion revenue is the only mechanism TANC (like PacifiCorp) has to be compensated for capacity made available to CAISO market participants. At the same time, this is exactly when market participants benefit the most from additional capacity being made available. Thus, TANC’s financial incentive is directly and correctly correlated with the benefits its release of transmission capacity will provide to market participants. Having transmission capacity on the parallel path to the Pacific Northwest that the market can optimize will increase the opportunity for flow in both directions – southbound when there is excess generation in the Pacific

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<sup>18</sup> PG&E at 3-4, 6.

<sup>19</sup> PacifiCorp Order at P 21.

Northwest and northbound when the CAISO is in oversupply conditions. This is a more efficient use of the available transmission.

PG&E and other market participants already have access to data that will allow them to track TANC's release of transmission capacity. Information on the released transmission capacity will be available on the Open Access Same-Time Information System (OASIS), as will the congestion prices for the released transmission capacity and the awarded day-ahead schedules. The CAISO will also publish monthly information regarding the transmission capacity made available under the CRR Exchange Agreement with TANC, as well as for transmission capacity made available under the PacifiCorp Agreement, as part of its normal market performance reports. This reported information will include the number of hours when the COTP and PACI schedules exceeded the PACI and COTP capacity without TANC's released transmission capacity, which will presumably show that there were fewer hours of COI congestion than would have occurred without the released transmission capacity.<sup>20</sup> In addition, the CAISO will evaluate the COI congestion patterns after approximately two years to explore whether the market congestion has improved since implementation of the CRR Exchange Agreement.

In any event, the CAISO has seen no evidence that the PacifiCorp Agreement has had any adverse impact on CAISO market participants in the more than six and a half years it has been in effect. There is no reason to expect

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<sup>20</sup> See *id.* ("CAISO has explained that this proposal . . . will result in increased market efficiency by allowing CAISO market participants to schedule transactions on the PacifiCorp Share and by allowing CAISO to address congestion more efficiently and reliably").

that the similar CRR Exchange Agreement will have any such impact either.<sup>21</sup> Again, if PG&E (or any other party) comes to believe that the CRR Exchange Agreement is having an adverse impact after it goes into effect, the proper remedy is to file an FPA Section 206 complaint at that time.<sup>22</sup>

### **3. PG&E's Claims Related to the Modeling of Transmission for CRRs Are Erroneous and Beyond the Scope of This Proceeding**

PG&E claims that the CAISO models transmission for purposes of allocating option CRRs using a simplified model that represents transmission facilities located outside of the CAISO balancing authority area solely as radial facilities and not as looped (*i.e.*, networked) facilities. PG&E also claims that, if another entity were to express an interest in the future in developing a similar CRR exchange agreement for facilities within the looped CAISO network, the CAISO should provide more information on how it would not give that entity priority access to other parts of the system to form CRR options.<sup>23</sup>

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<sup>21</sup> PG&E cites a Commission order as purportedly “describing concerns with similar incentives in another context within the CAISO”. PG&E at 3 n.3 (citing *Cal. Indep. Sys. Operator Corp.*, 168 FERC ¶ 61,213, at P 23 (2019)). However, that order addressed a CAISO tariff amendment to facilitate participation of resources in the western energy imbalance energy market by modifying the local market power mitigation process and cost-based bids used in the energy imbalance market. 168 FERC ¶ 61,213, at P 1. PG&E provides no evidence that the order is relevant to this proceeding on the CRR Exchange Agreement.

<sup>22</sup> PG&E also argues that the Commission should direct the CAISO to open a stakeholder process to review the market results and policy implications of CRR exchange agreements. PG&E at 3. There is no need for a stakeholder process. As explained in the filing of the CRR Exchange Agreement in this proceeding, the CAISO found there was no need for a stakeholder process regarding CRR exchange agreements because TANC was the only entity that expressed an interest in entering into such an agreement. However, the CAISO would be willing to work with any similarly situated entity that expresses that interest in the future. Transmittal letter for filing of the CRR Exchange Agreement at 4.

<sup>23</sup> PG&E at 4-6.

The Commission should disregard PG&E's claims. The CRR modeling includes radial injection into the Captain Jack scheduling point reflecting the increased scheduling capability and then the external physical transmission network between the Captain Jack and Tracy scheduling points. As such, the modeling of the CRR options being provided to TANC will be consistent with the process for how the CAISO models the CRR options that PacifiCorp receives under the PacifiCorp Agreement, and is designed to both increase the scheduling capability of the system and improve the efficient use of the underlying physical transmission.<sup>24</sup>

Further, PG&E's discussion about a hypothetical future CRR exchange agreement with another entity is beyond the scope of this proceeding. If and when such an entity and the CAISO were to enter into a CRR exchange agreement, the CAISO would need to file it for Commission approval and PG&E would have an opportunity to comment on it at that time. However, it is premature for PG&E to raise this issue in the instant proceeding.

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<sup>24</sup> Although looped network modeling may result in revenue from congestion on transmission lines other than the modeled path, this is the case with all CRRs.

### III. Conclusion

For the foregoing reasons, the CAISO requests that the Commission accept the CRR Exchange Agreement as filed, without condition.

Respectfully submitted,

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Dated: December 19, 2019

## CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for the above-referenced proceeding, pursuant to the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Washington, DC this 19<sup>th</sup> day of December, 2019.

/s/ Daniel Klein  
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