

139 FERC ¶ 61,206
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Philip D. Moeller, John R. Norris,
and Cheryl A. LaFleur.

California Independent System Operator Corp. Docket Nos. ER06-615-000
ER02-1656-027
ER02-1656-029
ER02-1656-030
ER02-1656-031

ORDER GRANTING MOTION FOR EXTENSION OF TIME AND WAIVER
REQUEST

(Issued June 12, 2012)

1. On March 28, 2012, California Independent System Operator Corporation (CAISO) submitted a motion for an extension of time (Motion for Extension of Time) to implement certain Commission-ordered market enhancements, requesting that the deadline be extended from April 2012 to April 2014. Also, on March 28, 2012, CAISO submitted a motion and report on residual unit commitment (RUC) self-provision (RUC Report), requesting that the Commission find that CAISO has complied with the Commission's requirements. In addition, on February 17, 2012, CAISO submitted a motion for modification of compliance obligation, requesting the Commission to waive a previously-ordered software change (Waiver Request). As discussed below, we grant CAISO's Motion for Extension of Time and direct CAISO to implement the market enhancements by April 30, 2014, we accept CAISO's RUC Report in compliance with the Commission's requirements, and we grant CAISO's Waiver Request of the software compliance obligation.

I. Background

2. On September 26, 2006, the Commission conditionally accepted CAISO's Market Redesign and Technology Upgrade proposal (MRTU tariff).¹ The MRTU tariff

¹ *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274 (2006) (September 2006 Order), *order on reh'g*, 119 FERC ¶ 61,076, *order on reh'g*, 120 FERC ¶ 61,023 (2007), *reh'g denied*, 124 FERC ¶ 61,094 (2008), *aff'd*, *Sacramento Mun. Util. Dist. v. FERC*, 616 F.3d 520 (D.C. Cir. 2010).

introduced a revised and expanded market structure, which included, among other things, a day-ahead market, and a real-time market. The day-ahead market consists of the integrated forward market and the RUC. The integrated forward market optimizes the bids to buy and sell energy and ancillary services and clears those bids based on forecasted demand for the following day. CAISO performs the RUC process as a reliability backstop if the bids to buy in the day-ahead market do not meet CAISO's load forecast. In the real-time market, CAISO again optimizes the bids to buy and sell energy based on actual demand.

3. Although MRTU's basic market design was implemented on April 1, 2009, the Commission directed CAISO to implement additional market enhancements within three years of the implementation of MRTU (Release 2).² This order addresses several of these Commission-ordered market enhancements.

II. Responsive Pleadings

4. Answers to CAISO's Motion for Extension of Time were filed by Pacific Gas and Electric Company (PG&E), Southern California Edison (SoCal Edison), and Powerex Corporation (Powerex). California Department of Water Resources State Water Project (SWP) submitted an Answer to CAISO's Motion for Extension of Time and its RUC Report.

III. Discussion

A. CAISO's Motion for Extension of Time

5. CAISO requests an extension of time, up to and including April 2014, for the implementation of the following six market enhancements ordered by the Commission in the September 2006 order: (1) a two-tier allocation of real-time bid cost recovery uplift; (2) bid cost recovery for units running over multiple operating days; (3) multi-hour constraints in the RUC process; (4) ancillary services substitution; (5) exports of ancillary services; and (6) over-collection of transmission losses.³ CAISO states that an extension of time will allow it and stakeholders to consider the adoption of these enhancements in the context of larger market design changes CAISO is currently examining.

6. CAISO states that, since the launch of MRTU, CAISO has actively evaluated necessary market design enhancements to address California's environmental and energy policies, and through its stakeholder processes CAISO has prioritized each change based

² September 2006 Order, 116 FERC ¶ 61,274 at P 33.

³ Motion for Extension of Time at 2-3.

on estimated costs and benefits. CAISO states that there is no evident adverse impact to the market from delaying implementation of any of these enhancements.

1. Two-tier Allocation of Real-time Bid Cost Recovery Uplift

7. In the MRTU tariff, the Commission accepted a bid cost recovery uplift mechanism that ensures that resources committed by CAISO in the day-ahead market, RUC process, and real-time market are able to recover their start-up, minimum load costs, and energy and ancillary services bid cost to the extent that their market revenues are not sufficient to cover the costs.⁴ Under the MRTU tariff requirements, bid cost recovery amounts incurred in the real-time market are allocated to all load serving entities in a single-tier allocation according to measured demand.⁵ In consideration of the difficulties associated with identifying cost causation where resources are dispatched to assure grid reliability, the Commission directed CAISO to work with stakeholders to develop a proposal for two-tiered allocation of real-time bid cost recovery costs that could be included in Release 2.⁶ CAISO states that market participants did not rate this enhancement as a high priority when it was raised in stakeholder proceedings in 2008 and 2009.⁷

8. Since the implementation of the MRTU tariff, CAISO notes that a number of broader issues have arisen related to CAISO's allocation of costs. CAISO states that it has launched a new stakeholder process intended to develop guiding principles for allocating market costs among market participants.⁸ Later in 2012, CAISO states that it will commence a subsequent stakeholder initiative to review existing cost allocations to ensure that they are consistent with these guiding principles. CAISO states that it will address the real-time bid cost recovery cost allocation through that process.⁹

⁴ See CAISO, eTariff, FERC Electric Tariff, OATT, § 11.8.

⁵ Motion for Extension of Time at 7 (measured demand refers to all metered demand plus exports from CAISO's balancing authority area).

⁶ *Id.* at 9 (citing September 2006 Order, 116 FERC ¶ 61,274 at P 539, *order on reh'g*, 119 FERC ¶ 61,076 at P 309).

⁷ *Id.* at 10.

⁸ <http://www.caiso.com/informed/Pages/StakeholderProcesses/CostAllocationGuidingPrinciples.aspx>

⁹ *Id.* at 11.

9. Therefore, CAISO requests an extension of time to complete its comprehensive review of cost allocation principles and develop an appropriate allocation for the real-time market bid cost recovery uplift. CAISO states that the extension of time does not adversely impact market participants and allows CAISO and stakeholders to fashion a better solution that can be consistently applied across the market.

10. SWP protests this aspect of CAISO's Motion for Extension of Time. SWP argues that the Commission should direct CAISO to address this cost allocation matter as part of CAISO's current, ongoing stakeholder process on cost allocation. SWP notes that a significant portion of the RUC bid cost recovery uplift in 2011 was due to adverse market participant behavior. Although CAISO has taken steps to address the most recently identified problems, it illustrates that price signals that result from allocating costs to those who cause them, including market participants, not just loads, are valuable in promoting accountability for one's actions. SWP maintains that the current cost socialization is not just and reasonable.

2. Bid Cost Recovery over Multiple Days

11. Under the MRTU tariff, bid cost recovery for a resource is determined by a resource's commitment during a given trading day. Thus, if a resource's minimum run time exceeds 24 hours, CAISO does not spread the cost of start-up over multiple days or account for revenues outside of the 24-hour period in which a unit was committed. In the September 2006 Order, the Commission directed CAISO to instead consider whether to include revenues and costs over the entire commitment period, which may cross over to subsequent days.¹⁰

12. CAISO states that it observed that only three percent of all day-ahead commitments for the period of 2009-2011 had multi-day operational constraints. CAISO contends that this low level of frequency does not raise any immediate concerns for stakeholders and therefore could be reprioritized in light of other significant market initiatives. CAISO also explains that it is currently considering other market enhancements to address variability on the CAISO grid and, in these stakeholder processes, it is considering questions regarding the current day-ahead market design. CAISO states that it intends to begin a new stakeholder process in 2013 to consider bid cost recovery over multiple days in the context of the changing market rules. Accordingly, CAISO requests an extension of time until April 2014.¹¹

¹⁰ *Id.* at 14 (citing September 2006 Order, 116 FERC ¶ 61,274 at P 533).

¹¹ *Id.* at 14.

3. Implementation of Multi-hour Constraints in the RUC

13. Under the MRTU tariff, the RUC process considers system resources eligible to participate in RUC on an hourly basis.¹² After consideration of a multi-hour constraint, and the necessary software changes that would accompany such a market enhancement, the Commission directed CAISO to implement this bidding parameter in Release 2.¹³

14. CAISO states that it observed that, for 2011, less than 0.5 percent of all intertie RUC schedules may be constrained by hourly blocks in real-time. Consequently, CAISO states that delay of this functionality has not raised stakeholder concern.¹⁴ CAISO also references its ongoing consideration of changes to the day-ahead market and argues that it is reasonable to delay adding this functionality until CAISO has settled on a new integrated forward market and RUC market design. Therefore, CAISO requests an extension of time until April 2014 to implement multi-hour constraints in the RUC process.

4. Flexibility for Ancillary Services Substitution

15. The MRTU tariff does not allow scheduling coordinators to substitute ancillary services (i.e., for a greater amount of a lower quality ancillary service) for reasons other than an outage. In the September 2006 Order, the Commission recognized CAISO's commitment to provide scheduling coordinators with the ability to substitute ancillary services for reasons other than an outage as part of Release 2.¹⁵

16. CAISO states it has not developed a proposal to allow for ancillary service substitution for reasons other than an outage due to its attention to other enhancements to ancillary services to make procurement more efficient. However, CAISO states that over the next 24 months it will explore ancillary services substitution for reasons other than an outage in its stakeholder processes associated with its renewable integration market, and product review. CAISO therefore requests that the Commission grant an extension of time, up to and including April 2014.¹⁶

¹² *Id.* at 15 (citing CAISO, eTariff, FERC Electric Tariff, OATT, § 31.5.1.1).

¹³ *Id.* at 16-17 (citing September 2006 Order, 116 FERC ¶ 61,274 at P 143, *order on reh'g*, 119 FERC ¶ 61,076 at P 56).

¹⁴ *Id.* at 17-18.

¹⁵ *Id.* at 18 (citing September 2006 Order, 116 FERC ¶ 61,274 at P 301, *order on reh'g*, 119 FERC ¶ 61,076 at P 87).

¹⁶ *Id.* at 20.

5. Exports of Ancillary Services

17. The MRTU tariff does not permit export bids for ancillary services. The Commission directed CAISO to develop software to support exports of ancillary services in the future through stakeholder processes and to propose necessary tariff changes to implement this feature no later than Release 2.¹⁷

18. CAISO states that it is examining numerous market enhancements to facilitate the integration of variable energy resources in the most efficient means possible. CAISO states that the export of ancillary services may be valuable to balance variable energy resources. CAISO commits to examining the benefits of developing this functionality and commits to file a report with the Commission by April 2013. CAISO states that, if it identifies sufficient benefits from this functionality, it will initiate a stakeholder process with the aim to implement the functionality in the spring of 2014. CAISO therefore requests an extension of time up to and including April 2014 to propose necessary tariff changes to implement export bids for ancillary services.

6. Transmission Losses Over Collection

19. In the September 2006 Order, the Commission directed CAISO to initiate a stakeholder process to address additional issues related to the integration of variable energy resources into Release 2, including transmission line loss over collection issues.¹⁸

20. CAISO notes that it initiated a stakeholder process on July 8, 2010 to consider market changes to accommodate the entry of numerous variable energy resources, and that it will be submitting a tariff amendment to address these changes in 2012. CAISO states that, following the implementation of these changes, it will be better placed to evaluate transmission line loss over collection issues, and accordingly, CAISO requests an extension of time to April 2014.¹⁹

B. RUC Report

21. As discussed above, under the MRTU tariff, CAISO runs a RUC process to commit additional capacity as a reliability backstop to meet its reliability requirements.²⁰ CAISO explains that the ability to self-provide RUC would consist of a mechanism that

¹⁷ *Id.* at 20 (citing September 2006 Order, 116 FERC ¶ 61,274 at P 355).

¹⁸ *Id.* at 22 (citing September 2006 Order, 116 FERC ¶ 61,274 at P 1402).

¹⁹ *Id.* at 22-23.

²⁰ *See* September 2006 Order, 116 FERC ¶ 61,274 at P 129.

enables internal CAISO load to avoid RUC costs if it can be shown that sufficient resources are committed to meet their load. Although the Commission accepted CAISO's reasoning that RUC self-provision was not a priority for the initial MRTU release, the Commission directed CAISO to continue to work with market participants on the issue and to provide reasons for the inclusion or exclusion of RUC self-provision no later than Release 2.²¹

22. CAISO states stakeholders have not rated this item a priority.²² CAISO's report states that, it observed that from February 1, 2009 through the end of February 1, 2010, the RUC capacity committed and costs associated with that capacity were very low. CAISO concludes that, based on its experience, there is no urgency for the inclusion of this feature. CAISO requests that the Commission find that CAISO has met the requirements of the September 2006 Order, and requests that the Commission explicitly find that CAISO may submit a tariff amendment at a later time to incorporate such functionality into its market. CAISO states that it has commenced numerous stakeholder processes, and it is possible that CAISO and stakeholders may find a greater need for RUC self-scheduling in the future.²³

C. Waiver Request

23. CAISO requests that the Commission relieve it from the September 2006 Order's obligation to implement an interface between CAISO's outage reporting web-enabled interface, referred to as "SLIC," and the system that accepts and validates bids, referred to as "SIBR."²⁴ CAISO explains that the cost of an interface would outweigh any benefits, as CAISO will replace SLIC with a new outage management and reporting system in the latter part of 2013. CAISO further states that all market participants have acknowledged that a SLIC-to-SIBR interface is unnecessary because they have access to the outage information necessary to inform their bidding practices.

D. Answers

24. PG&E, Powerex, and SoCal Edison submitted answers in support of CAISO's Motion for Extension of Time. These parties state that stakeholders are busy with

²¹ RUC Report at 1 (citing September 2006 Order, 116 FERC ¶ 61,274 at P 172).

²² *Id.* at 4-5.

²³ *Id.* at 6-7.

²⁴ Waiver Request at 1-4 (citing September 2006 Order, 116 FERC ¶ 61,274 at P 244).

on-going processes, and additional time is needed to evaluate the six Commission-ordered market enhancements.

25. SWP submitted an answer to both CAISO's Motion for Extension of Time to Implement Commission Mandated Market Enhancements and its Report and Motion on RUC self-provision. In addition to protesting the extension of time for real-time bid cost recovery uplift, discussed above, SWP also requests that the Commission require CAISO to undertake long-awaited MRTU enhancements to permit Participating Load to assist the grid when able to do so. SWP states that, notwithstanding assertions of CAISO and the Commission that MRTU's barriers to demand response by Participating Load "would best be addressed in the ongoing demand response stakeholder process" pursuant to Order No. 719, this has yet to occur.²⁵ SWP further asserts that the same attention and consideration provided to innovative resources and new technologies should be deployed to, at a minimum, restore pre-MRTU bidding, scheduling and related options to Participating Load.²⁶ SWP also highlights the benefits of pumped load and its role as an asset to CAISO markets.

IV. Commission Determination

A. Motion for Extension of Time

26. We grant the Motion for Extension of Time. We acknowledge that CAISO and stakeholders are currently engaged in stakeholder proceedings, and intend to initiate further proceedings in the future to address the complexity of CAISO's markets and processes in light of the changing nature of CAISO's generation mix. These current and imminent stakeholder processes may result in market changes that overlap with the six Commission-ordered market enhancements. Therefore, we find that CAISO has shown good cause for an extension of time, up to and including April 2014, to implement the six Commission-ordered market enhancements.

27. We reject SWP's protest of the extension of time for the two-tier cost allocation of RUC uplift costs. Throughout the MRTU orders, the Commission has allowed CAISO and stakeholders to prioritize certain market enhancements so that changes are implemented efficiently. CAISO has explained that it has begun an initial stakeholder process to develop guiding cost allocation principles, and it commits to initiate a

²⁵ SWP Answer at 4 (citing *Cal. Indep. Sys. Operator Corp.*, 126 FERC ¶ 61,147, at P 101 (2009); *Wholesale Competition in Regions with Organized Electric Markets* (Order No. 719), 125 FERC ¶ 61,071 (2008), *order on reh'g*, 128 FERC ¶ 61,059 (2009)).

²⁶ SWP Answer at 4-5.

subsequent stakeholder initiative to evaluate existing cost allocations to ensure they are consistent with the guiding principles. We accept CAISO's commitment to evaluate the cost allocation of real-time bid cost recovery uplift and file modifications with the Commission by April 30, 2014. If CAISO finds, through its stakeholder process, that additional revisions are necessary to its cost allocation of bid cost recovery uplift, we find that CAISO should file such changes with the Commission by April 30, 2014.

28. We also accept CAISO's commitment to examine the benefits of developing ancillary service export functionality and file a report with the Commission by April 2013 concerning the status of its efforts and, if it identifies sufficient benefits from this functionality, to initiate a stakeholder process with the aim to implement the functionality in the spring of 2014.

B. RUC Report

29. We find that CAISO has satisfied the requirement of the September 2006 Order by working with market participants on the issue of RUC self-provision and providing the Commission with reasons for the exclusion of RUC self-provision. This finding does not affect CAISO's rights under section 205 of the Federal Power Act to make future tariff filings.²⁷

30. SWP argued that the Commission should require that CAISO undertake market enhancements to permit Participating Load to assist the grid when able to do so, in particular in providing demand response. We decline to address the issues raised by SWP because they do not concern whether good cause exists to accept the RUC Report in satisfaction of CAISO's compliance obligation; and therefore, they are beyond the scope of this proceeding.

C. Waiver Request

31. We grant CAISO's Waiver Request of the obligation to implement an interface between its outage reporting system and bid management system (SLIC and SIBR, respectively). CAISO has shown good cause why the interface is unnecessary, and CAISO's Waiver Request is uncontested.

²⁷ 16 U.S.C. §824d (2006).

The Commission orders:

(A) CAISO's Motion for Extension of Time is hereby granted, as discussed in the body of this order.

(B) CAISO's RUC Report is hereby accepted, as discussed in the body of this order.

(C) CAISO's Waiver Request is hereby granted, as discussed in the body of this order.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.