

UNITED STATES OF AMERICA 114 FERC ¶61,263  
FEDERAL ENERGY REGULATORY COMMISSION

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

California Independent System  
Operator Corporation

Docket Nos. ER04-938-003  
ER04-938-004

ORDER ON REHEARING AND COMPLIANCE FILING

(Issued March 16, 2006)

1. In this order, we grant the California Independent System Operator Corporation's (CAISO or ISO) request for rehearing of the Commission's order issued on July 26, 2005 in this proceeding on the CAISO's Amendment No. 61 revisions to its open access transmission tariff (ISO Tariff).<sup>1</sup> These revisions addressed market participants' concerns that the CAISO did not have authority to charge a unit, which was shut off to manage intra-zonal congestion, its minimum load costs and further that such a unit should only be charged its "shut down" reference price.<sup>2</sup> We also accept the CAISO's August 25, 2005 compliance filing submitted in response to the July 26 Order.

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<sup>1</sup> *California Indep. Sys. Operator Corp.*, 112 FERC ¶ 61,136 (2005) (July 26 Order).

<sup>2</sup> We note that, on April 1, 2005, in Docket No. PL05-6-000, the Commission invited all interested persons to file comments addressing, among other things, whether the discretion used by Regional Transmission Organizations, Independent System Operators, their market monitors, or their consultants in setting reference prices is an impermissible delegation of the Commission's authority. Notice Inviting Comments on the Establishment and Use of Reference Prices, 70 Fed. Reg. 17,993 (2005).

**Background**

2. On March 31, 2003, the CAISO filed Amendment No. 50 to the ISO Tariff to provide the CAISO with a revised method for managing intra-zonal congestion. Amendment No. 50 was proposed as an interim solution until the implementation of Locational Marginal Pricing or some other long-term comprehensive management solution.

3. In an order issued on May 30, 2003,<sup>3</sup> the Commission accepted the CAISO's Amendment No. 50, subject to modification. The Commission approved the CAISO's proposal to use proxy bids to manage intra-zonal congestion and mitigate local market power but limited its application to decremental bids.<sup>4</sup> The Commission directed the CAISO to use reference prices instead of cost-based proxies for decremental bids which were to be administered by an independent entity and applied to all generators – both thermal and non-thermal.<sup>5</sup>

4. On June 18, 2004, the CAISO filed Amendment No. 61 to modify ISO Tariff sections 7.2.6.1 and 7.2.6.1.1 in response to a market participant's concern that the ISO did not have authority to charge a unit, which was shut off to manage intra-zonal congestion, its minimum load costs and that such a unit should only be charged its "shut down" reference price (*i.e.*, the reference price between zero MW output and the unit's minimum operating level). On August 17, 2004, the Commission accepted, in part, and rejected, in part, the Amendment No. 61 revisions and directed the CAISO to make a compliance filing.<sup>6</sup> In the July 26 Order, the Commission granted, in part, and denied, in

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<sup>3</sup> *California Indep. Sys. Operator Corp.*, 103 FERC ¶ 61,265 (2003), *order on reh'g*, 107 FERC ¶ 61,028 (2004).

<sup>4</sup> Decremental bids reflect the highest price at which a generator is willing to purchase energy from the CAISO rather than produce it to fulfill its scheduled energy obligation. Decremental bids are used by the CAISO to relieve congestion when the CAISO faces a transmission constraint. When the CAISO faces intra-zonal congestion it redispatches the system based on "inc" (incremental) and "dec" (decremental) bids submitted by generators to increase or decrease the output of their units.

<sup>5</sup> In addition, the Commission rejected the CAISO's proposal to publish generating limits.

<sup>6</sup> *California Indep. Sys. Operator Corp.*, 108 FERC ¶ 61,193 (2004) (August 17 Order).

part, the requests for rehearing of the August 17 Order; accepted, in part, and rejected, in part, the CAISO's compliance filing submitted in response to the August 17 Order; and directed the CAISO to submit a further compliance filing.<sup>7</sup>

5. Coral Power, L.L.C., Energia Azteca X, S. de R.L. de C.V., and Energia de Baja California, S. de R.L. de C.V. (collectively, Coral/Energia) and the CAISO filed requests for rehearing of the July 26 Order. On August 25, 2005, the CAISO filed a compliance filing in response to the July 26 Order. On December 16, 2005, Coral/Energia requested that the Commission hold in abeyance a decision on Coral/Energia's request for rehearing of the July 26 Order pending a settlement of the issues raised.<sup>8</sup>

### **Notice and Pleadings**

6. Notice of the CAISO's compliance filing was published in the *Federal Register*, 70 Fed. Reg. 52,999 (2005) with protests and interventions due on September 15, 2005. None was filed.

### **Discussion**

#### **A. Rehearing Request**

#### **Merit Order Methodology**

7. In the August 17 Order, the Commission agreed that the CAISO, when determining which units to shut down, should take into account the expected total cost of the shut down. The Commission explained that, by considering the total cost of a shut down, the CAISO will more accurately reflect the cost of shutting down a unit to manage intra-zonal congestion. The Commission directed the CAISO to submit revised tariff sheets to clarify that the merit order of shut downs will be based on the expected total shut down cost.

8. On rehearing, the CAISO requested clarification as to the appropriate decremental reference price (DRP) for different circumstances. In the July 26 Order, the Commission clarified, in relevant part, that:

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<sup>7</sup> July 26 Order, 112 FERC ¶ 61,136.

<sup>8</sup> On February 24, 2006, Coral/Energia informed the Commission that, by April 7, 2006, it will either withdraw its rehearing request or provide a further status report. Consequently, we will defer action on Coral/Energia's rehearing request.

[d]uring period (a) (the period when the shut down is needed to manage intra-zonal congestion), the production reduction resulting from the shut down is that associated with the unit's *minimum operating level*, and the shut-down reference price is the appropriate reference price . . . . However, for some units, a shut down direction will prevent the unit from restarting in time to meet the unit's day-ahead energy schedule in the next day due to legitimate operational limitations. As a result, the shut-down direction will reduce the amount of energy production during the next day below its *day-ahead energy schedule*. For these production reductions that occur subsequent to the period of the shut-down direction (*i.e.*, during period (b)), the [DRP] corresponding to the unit's day-ahead schedule is the appropriate reference price . . . .<sup>9</sup>

9. On rehearing, the CAISO requests that the Commission clarify the appropriate DRP to charge. The CAISO provides two examples for illustration and requests that the Commission clarify that the application of the DRPs in each example reflects the Commission's intent, and we so clarify. In both examples, a generating unit with a 6-hour minimum down time is decremented below its initial day-ahead schedule of 200 MW down to its minimum operating level ( $P_{min}$ ), and then subsequently instructed to shut down. The need for the shut down is for 3 hours; however, because of minimum down-time constraints, the unit must remain shut down for 6 hours. In the first example, the unit's day-ahead schedule is a constant 200 MW throughout the day. Thus, at the end of the 6 hour shut down, the unit is instructed to restart and resume its production rate of 200 MW. In the second example, the unit's day-ahead schedule falls to 0 MW from the start of the fifth hour after the initial shut down instruction is given, and thus, the unit is not instructed to start-up at the end of the 6-hour shut down. The examples correctly describe period (a) in our July 26 Order as the period prior to the instruction given to return to the day-ahead schedule, and period (b) as the period beginning immediately after this instruction until the unit resumes production at its day-ahead schedule.

10. The CAISO requests clarification that for all decremental energy above  $P_{min}$ , the unit owner would be charged the lower of the DRP that applies between  $P_{min}$  and the maximum unit output ( $P_{max}$ ) or the settlement interval zonal ex-post price. Further, the CAISO requests clarification that for all decremental energy below  $P_{min}$ , the unit owner would be charged the lower of the DRP that applies for the operating range between zero MW output and the unit's  $P_{min}$  and the settlement interval zonal ex-post price. We grant these clarifications. The CAISO also requests clarification that the CAISO: (i) would pay the unit for its start-up costs in instances (such as in the first example) where the unit

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<sup>9</sup> July 26 Order, 112 FERC ¶ 61,136 at P 20.

must restart to return to a non-zero day-ahead schedule after it has shut down in compliance with instructions, but (ii) would not pay for start-up costs in instances (such as in the second example) where no start-up is needed after the minimum run time constraint is concluded. We grant this clarification.

11. The CAISO is correct in its illustrations regarding the application of DRPs. The DRP for the scheduled megawatts between  $P_{min}$  and  $P_{max}$  is the reference price established in the Amendment No. 50 proceeding. The DRP for the scheduled output between zero megawatts and  $P_{min}$  is the shut down reference price established in the Amendment No. 61 proceeding.

**B. Compliance Filing**

**Hydroelectric Resources**

12. In its compliance filing, the CAISO revised ISO Tariff section 7.2.6 to indicate that it treats hydroelectric resources in the same manner as it treats Metered Subsystem resources, as directed. Accordingly, we accept the revisions to become effective on August 18, 2004.

The Commission orders:

(A) The CAISO's request for rehearing is hereby granted, as discussed in the body of this order.

(B) The CAISO's proposed compliance filing is hereby accepted, to become effective on August 18, 2004, as discussed in the body of this order.

By the Commission.

Magalie R. Salas,  
Secretary.