196 FERC ¶ 61,238
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Laura V. Swett, Chairman;
David Rosner, Lindsay S. See,
Judy W. Chang, and David LaCerte.

California Independent System Operator Corporation Docket No. ER26-3305-000

ORDER ACCEPTING TARIFF REVISIONS

(Issued September 25, 2026)

1. On July 28, 2026, the California Independent System Operator Corporation (CAISO) filed, pursuant to section 205 of the Federal Power Act[1] and Part 35 of the Commission's regulations,[2] proposed revisions to its Open Access Transmission Tariff (Tariff) to give CAISO the authority to model the expected impact of loop flow in the year-ahead congestion revenue rights (CRR) process. In this order, we accept CAISO's proposed Tariff revisions, effective July 29, 2026, as requested.[3]

I. Background

2. CAISO explains that CRRs are financial hedging instruments that CAISO issues to its market participants. CAISO states that a CRR grants the holder part of the congestion revenue collected in the day-ahead market between the source and sink for the time covered by the CRR multiplied by the megawatt (MW) quantity of the CRR. CAISO notes that the Commission has consistently emphasized the importance of hedging instruments, such as CRRs, in providing open access to the transmission grid, managing exposure to congestion costs, and promoting competitive electricity markets.[4]

3. CAISO releases CRRs on a year-ahead and month-ahead basis through both allocation and auction processes. The allocation process provides a portion of CRRs at no cost to load-serving entities (LSE) and the auctions allow market participants to bid to

[1] 16 U.S.C. § 824d.

[2] 18 C.F.R. pt. 35 (2025).

[3] See Appendix for tariff records accepted in this order.

[4] CAISO Transmittal at 2 (citing *Cal. Indep. Sys. Operator Corp.*, 149 FERC ¶ 61,093, at P 2 (2014)).

obtain the remaining CRRs. CAISO explains that the annual CRR process makes 65% of total system capacity available and reserves 35% of system capacity for the monthly CRR process. CAISO notes that, in the allocation process, each LSE can only request CRRs up to their historical load serving obligation, thereby restricting the total volume of CRRs awarded to the LSEs. The auction process, CAISO states, has no defined volume limit of CRRs, instead, the auction is limited by the simultaneous feasibility test.[5]

4. CAISO explains that, prior to 2019, CRR holders were paid the difference in the marginal cost of congestion between the source and sink of the CRR and that these payments were funded by revenue from the CRR auction and congestion rents from the day-ahead market. CAISO states that, if there was insufficient revenue, it charged load to cover the shortfall. CAISO explains that since 2019 it no longer guarantees full funding at a CRR's notional value, and CRRs are settled based on the revenue collected from auctions and market congestion. CAISO explains that, if revenue is insufficient, CRR holders receive proportional cuts based on a constraint-by-constraint approach, with each CRR broken down into how the energy would flow if the CRR represented a physical injection of energy rather than a financial product. CAISO states that, if it does not collect sufficient congestion revenue in the day-ahead market for a constraint to fund each CRR with modeled flow on that constraint, then it assigns that shortfall pro rata for all CRRs with flow modeled on that constraint.[6]

5. CAISO explains that it began a stakeholder initiative in 2017 to consider CRR efficiency and to consider potential rule changes that could enhance efficiency, resulting in multiple revisions to the CRR process being approved by the Commission. CAISO states that it has observed improvements in CRR efficiency in response to these revisions. However, CAISO asserts that three factors stand in the way of even greater efficiency: (1) model differences between the CRR process and day-ahead market; (2) day-ahead market shift factor threshold; and (3) loop flows from neighboring balancing authority areas.[7] With respect to loop flows, CAISO notes that loop flows from neighboring balancing authority areas use CAISO transmission capacity without contributing to day-ahead market congestion rents. CAISO explains that if such loop flows are not accounted for adequately in the simultaneous feasibility test for the allocation and

[5] *Id.* at 3. The simultaneous feasibility test ensures that allocated and auctioned CRRs do not exceed relevant transmission constraints. California Independent System Operator Corporation, CAISO eTariff, § 36.4.1 (3.0.0), § 36.4.1.3.

[6] CAISO Transmittal at 2-3.

[7] *Id.* at 5.

auction, then CAISO may release more CRRs than are actually feasible given loop flows.[8]

II. Proposed Tariff Revisions

6. CAISO proposes to amend its Tariff to more effectively address loop flows in its annual CRR process. CAISO explains that section 36.4.1.2 of its Tariff directs CAISO to consider a variety of factors in establishing the Monthly Available CRR Capacity, including an adjustment for possible unscheduled flow at the interties. CAISO states that section 36.4.1.1, which addresses the annual CRR process, does not mention the impact of unscheduled flow at interties as a factor for the CAISO to consider in the annual CRR process.[9]

7. CAISO argues that there is no longer a compelling reason to treat anticipated loop flows in the annual CRR process and the monthly CRR process differently after 17 years of forecasting experience. CAISO states that it is better positioned than it was in 2009 to forecast loop flows in the year-ahead timeframe. CAISO adds that it believes that amending the Tariff to allow it to account for expected loop flows in the annual CRR process will help it more closely tailor the CRRs issued from the annual process to match the realities of the day-ahead market.[10] Additionally, CAISO explains that the proposed revisions are expected to reduce the frequency of allocating CRRs on transmission paths that have less than expected congestion collected in the day-ahead market because some of that path's capacity is taken up by loop flows.[11]

8. CAISO requests that the Commission waive its 60-day notice requirements, pursuant to section 35.11 of the Commission's regulations,[12] and that the Commission make the Tariff revisions effective July 29, 2026. CAISO argues that this would permit the annual process to proceed on schedule using a CRR full network model that incorporates loop flow modeling.[13] CAISO states that the annual CRR process began on July 22, 2026, with the publication of the initial CRR full network model, and CAISO will publish the final model on August 26, 2026. CAISO also states that Tier 1 results

[8] *Id.* at 6.

[9] *Id.* at 6-7.

[10] *Id.* at 7-8.

[11] *Id.* at 8-9.

[12] 18 C.F.R. § 35.11.

[13] CAISO Transmittal at 9-10.

are scheduled for posting on September 9, 2026, and to meet this schedule, the proposed Tariff revisions must be implemented no later than the Tier 1 optimization period, ending September 9, 2026.[14] CAISO asserts that delaying the annual CRR process is not feasible, as the annual process is scheduled to conclude on November 9, 2026, with publication of annual auction results.

III. Notice and Responsive Pleadings

9. Notice of CAISO's filing was published in the *Federal Register*, 91 Fed. Reg. 48851 (Aug. 3, 2026), with interventions and protests due on or before August 18, 2026. Timely motions to intervene were filed by: Constellation Energy Generation, LLC; California Department of Water Resources State Water Project; Northern California Power Agency; Boston Energy Trading and Marketing LLC; the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California; Southern California Edison Company; and the City of Santa Clara, CA d/b/a Silicon Valley Power. A timely motion to intervene and comment was filed by the CAISO Department of Market Monitoring (DMM). CAISO filed an answer on August 27, 2026 (CAISO Answer).

IV. Comments and Answers

10. DMM states that it supports CAISO's effort to improve alignment between the CRR model and the day-ahead market. DMM, however, argues that it does not expect these changes to have significant effects on auction efficiency or to reduce ratepayer losses from the CRR auction, which DMM has long viewed as a top priority.[15]

11. DMM argues that, prior to incorporating any loop flows into the annual CRR model, CAISO should conduct and provide analysis to stakeholders for review and discussion. DMM further expresses concern that CAISO may not be able to carry out analysis needed to effectively implement such modeling in time for the 2027 annual CRR auction. Additionally, DMM asks CAISO to clarify if the proposed loop flow modeling will be made in addition to or partially in place of the current holding back of 35% of estimated transmission capacity in the annual CRR process.[16]

12. In response to DMM's comments, CAISO states that it is committed to providing stakeholders visibility into how it will administer the revisions to this section, consistent with its broader practice of engaging stakeholders on Tariff implementation matters.

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[14] *Id.* at 9.

[15] DMM Comments at 1-2.

[16] *Id.* at 2.

CAISO further notes that the process of engagement has already begun with a meeting of CAISO's CRR Customer Partnership Group on August 25, 2026. CAISO asserts that it intends to provide more information and opportunities for stakeholder input before and during the CRR process through future Customer Partnership Group meetings, Business Practice Manual revision processes, CRR full network model releases, and other appropriate stakeholder forums.[17]

13. CAISO argues that it is unnecessary for the Commission to condition approval of the proposed Tariff amendment on any specific analytical or reporting requirements. CAISO asserts that its existing stakeholder processes provide a proper and flexible forum for addressing implementation issues as they arise and for making sure stakeholders remain informed regarding the administration of the Tariff provisions at issue. Finally, CAISO reiterates that the annual process will make available 65% of the determined Seasonal Available CRR Capacity.[18]

V. <u>Discussion</u>

A. <u>Procedural Matters</u>

14. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2025), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

15. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2025), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We accept CAISO's answer because it has provided information that assisted us in our decision-making process.

B. <u>Substantive Matters</u>

16. We find that CAISO's proposal to revise its Tariff to give it the authority to model the expected impact of loop flow in the year-ahead CRR process is just and reasonable

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[17] CAISO Answer at 2-3.

[18] *Id.* at 3.

and not unduly discriminatory or preferential, and we therefore accept the revisions effective July 29, 2026,[19] as requested.[20]

17. We find that inclusion of loop flows in the annual CRR process may better inform the application of the simultaneous feasibility test for the allocation and auction of CRRs, and the inclusion of loop flows can help CAISO more closely tailor the CRRs issued from the annual process to match the realities of the day-ahead market.[21] Additionally, we find that the proposed revisions are expected to reduce the frequency of allocating CRRs on transmission paths that have less than expected congestion collected in the day-ahead market.[22]

18. Regarding DMM's comments, we note that CAISO has committed to releasing the CRR full network model and providing opportunity for stakeholder review before the annual CRR process.[23] We also note that CAISO has already engaged in a stakeholder process, in which no stakeholders expressed opposition to the instant proposal.[24] Finally, we note that CAISO makes no proposal to change the 35% hold back of CRRs in the annual process. Accordingly, we find that the DMM's comments do not provide a basis for rejecting CAISO's proposal.

[19] We grant CAISO's request for waiver of the Commission's 60-day prior notice requirement for good cause shown. *See* 18 C.F.R. § 35.11.

[20] *See Cal. Indep. Sys. Operator Corp.*, 165 FERC ¶ 61,085 (2018); *Cal. Indep. Sys. Operator Corp.*, 164 FERC ¶ 61,209 (2018); *Cal. Indep. Sys. Operator Corp.*, 163 FERC ¶ 61,237 (2018).

[21] CAISO Transmittal at 6-7.

[22] *Id.* at 8-9.

[23] CAISO Answer at 3.

[24] CAISO Transmittal at 8.

The Commission orders:

CAISO's proposed Tariff revisions are hereby accepted, effective July 29, 2026, as discussed in the body of this order.

By the Commission.

(S E A L)

Debbie-Anne A. Reese,
Secretary.

Appendix – eTariff Records

California Independent System Operator Corporation

CAISO eTariff

- 36.4.1, Adjustments to the FNM in Preparing the CRR FNM (4.0.0)