

126 FERC ¶ 61,277
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Sudeen G. Kelly, Marc Spitzer,
and Philip D. Moeller.

California Independent System Operator Corporation Docket No. ER06-615-041

ORDER ON COMPLIANCE FILING

(Issued March 26, 2009)

1. This order conditionally accepts the January 21, 2009 compliance filing (January 2009 Compliance Filing) made by the California Independent System Operator Corporation (CAISO) in the above-captioned docket, as directed by the Commission's December 19, 2008 Order Denying in Part and Granting in Part Rehearing and Conditionally Accepting Compliance Filing.¹ The December 2008 Rehearing and Compliance Order directed the CAISO to provide an exemption from the underscheduling penalty to scheduling coordinators for scheduled load in the day-ahead market that is administratively curtailed by the CAISO due to reasons beyond the scheduling coordinators' control.²

¹ *Cal. Indep. Sys. Operator Corp.*, 125 FERC ¶ 61,339 (2008) (December 2008 Rehearing and Compliance Order).

² *Id.* P 22.

I. Background

A. Underscheduling

2. In its September 2006 Market Redesign and Technology Upgrade (MRTU) order,³ the Commission directed the CAISO to implement convergence bidding⁴ within 12 months of the effective date of its MRTU, rather than postpone MRTU until the development and approval of a convergence bidding plan. Nevertheless, the Commission directed the CAISO to develop and file interim measures to mitigate the potential economic incentives for load serving entities to underschedule in the day-ahead market until a convergence bidding plan is implemented.

3. On September 28, 2007, the CAISO filed tariff revisions in this proceeding to address the underscheduling issues identified by the Commission.⁵

B. Underscheduling Proposal

4. In its September 2007 CAISO Filing, the CAISO presented an interim plan that penalized scheduling coordinators when, in any given month, a scheduling coordinator's Net Negative CAISO Demand Deviation⁶ at its applicable Load Aggregation Point, or LAP, exceeds 15 percent of the scheduling coordinator's cleared total CAISO demand as represented in its day-ahead schedule at its applicable LAP for five percent or more of the

³ *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274, at P 452 (2006) (September 2006 MRTU Order), *on reh'g*, 119 FERC ¶ 61,076, at P 118-19 (2007) (April 2007 MRTU Rehearing Order); *see also Cal. Indep. Sys. Operator Corp.*, 119 FERC ¶ 61,313 (2007).

⁴ Convergence bidding is a market feature that involves the submission of bids to buy or sell energy in the day-ahead market that will ultimately not be consumed or produced in real time, which results in the convergence of day-ahead and real-time prices. Convergence bids represent financial transactions, are submitted like other bids, and are recognized by system operators as not being physical. September 2006 MRTU Order, 116 FERC ¶ 61,274 at P 430 n.198.

⁵ CAISO's September 28, 2007 Proposed Revisions to its MRTU Tariff, Docket No. ER06-615-013 (September 2007 CAISO Filing).

⁶ *See* CAISO MRTU Tariff Fourth Replacement Tariff Volume No. II Original Sheet No. 903 (defining Net Negative CAISO Demand Deviation as "the difference between metered CAISO demand and the total CAISO demand scheduled in the day-ahead schedule, if positive").

total trading hours for that month. The five percent buffer is referred to as a “free pass.”⁷ The CAISO’s proposal would not penalize scheduling coordinators for amounts below the bright line test threshold.

C. July 2008 Underscheduling Order

5. In its July 2008 Underscheduling order, the Commission conditionally accepted the September 2007 CAISO Filing, subject to modifications.⁸ The Commission directed the CAISO to eliminate the five percent free pass provision, concluding that the free pass was unnecessary because the proposed 15 percent threshold provided load serving entities with sufficient flexibility to address variables such as unavoidable forecasting errors and market uncertainties.⁹

D. December 2008 Rehearing and Compliance Order

6. On August 18, 2008, the CAISO made its compliance filing.¹⁰ Also, in August 2008, Pacific Gas & Electric Company and Southern California Edison Company (SoCal Edison) filed requests for rehearing of the Commission’s July 2008 Underscheduling Order. The Commission denied in part and granted in part rehearing, and conditionally accepted the CAISO’s compliance filing.¹¹ The issue of self-scheduled load was the primary issue that prompted the Commission to direct modification to the proposed tariff provisions. The Commission determined that there is the possibility that the CAISO may cut self-scheduled load due to reasons beyond the self-scheduled entity’s control and it would be unfair to penalize the scheduling coordinator under such circumstances.¹² Therefore, the Commission directed the CAISO to submit a proposed tariff provision exempting from the underscheduling penalty load that was curtailed by the CAISO due to reasons beyond the scheduling coordinator’s control.¹³ The Commission noted that this

⁷ The five percent free pass provision would allow a load serving entity to underschedule more than 15 percent of demand for five percent of the trading hours for each month without penalty.

⁸ *Cal. Indep. Sys. Operator Corp.*, 124 FERC ¶ 61,043 (2008) (July 2008 Underscheduling Order).

⁹ *Id.* P 23.

¹⁰ CAISO August 18, 2008 Compliance Filing, Docket No. ER06-615-028.

¹¹ December 2008 Rehearing and Compliance Order, 125 FERC ¶ 61,339 at P 1.

¹² *Id.* P 22.

¹³ *Id.*

exemption should apply not only to self-scheduled load but also to any day-ahead scheduled load that is administratively curtailed by the CAISO under circumstances in which that load would otherwise have cleared the day-ahead market.¹⁴

II. Notice of Filing and Responsive Pleadings

7. Notice of the CAISO's January 2009 Compliance Filing was published in the *Federal Register*, 74 Fed. Reg. 6,148 (2009), with comments, protests, or interventions due on February 11, 2009.

8. SoCal Edison and the California Department of Water Resources State Water Project (SWP) each timely filed comments. On February 26, 2009, the CAISO filed an answer to SoCal Edison's and SWP's comments.

III. Procedural Matters

9. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2008), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept the CAISO's answer because it has provided information that assisted us in our decision-making process.

IV. Discussion

10. In its January 2009 Compliance Filing, the CAISO proposes the underscheduling penalty be calculated based on the scheduling coordinator's net negative CAISO demand deviation in each applicable Load Aggregation Point minus any corresponding CAISO curtailed Integrated Forward Market, or IFM, quantity for the same Load Aggregation Point.¹⁵ If the scheduling coordinator's cleared day-ahead load schedule for a particular Load Aggregation Point is less than its submitted load self-schedule for the same Load Aggregation Point, the difference between these two quantities is removed from the penalty calculations and exempted from any resulting penalty for the trading hour,

¹⁴ *Id.*

¹⁵ The CAISO proposes a new defined term "CAISO IFM Curtailed Quantity" that is included to remove from the penalty calculation the portion of a scheduling coordinator's submitted load self-schedule in an applicable Load Aggregation Point that was curtailed by the CAISO. Thus, the proposed definition of CAISO IFM Curtailed Quantity is: "In each Trading Hour for each Scheduling Coordinator the maximum of zero or the submitted Day-Ahead Self-Schedule for Demand minus the Day-Ahead Schedule for Demand in each applicable [Load Aggregation Point]." See CAISO January 2009 Compliance Filing, Docket No. ER06-614-041, at Attachments A and B, Second Revised Tariff Sheet No. 847.

otherwise no adjustment is needed or made. The CAISO claims that this additional calculation implements the Commission's directive not to apply the underscheduling penalty to the extent the underscheduled load is due to a CAISO curtailment of the load scheduled by the scheduling coordinator.

11. The CAISO contends that the Commission's December 2008 Rehearing and Compliance Order creates the impression that there exists a type of load other than self-scheduled load that may be subject to administrative curtailment by the CAISO and that would increase a scheduling coordinator's exposure to the underscheduling penalty.¹⁶ However, the CAISO claims that under the MRTU Tariff, other than Integrated Forward Market self-scheduled demand, there is no other load that is subject to administrative curtailment by the CAISO in the day-ahead market.

12. The CAISO asserts that under the current MRTU Tariff, scheduling coordinators schedule load in the day-ahead market by submitting either economic bids or self-schedules (or a combination of the two), and that load submitted in economic bids is cleared through the market-clearing process of the Integrated Forward Market and is not subject to administrative curtailment by the CAISO. Thus, the CAISO maintains, the only day-ahead scheduled load that may be subject to administrative curtailment by the CAISO and that could affect a scheduling coordinator's exposure to the underscheduling penalty is load that is submitted in a self-schedule.

13. Also, the CAISO notes that in the December 2008 Rehearing and Compliance Order, the Commission found the CAISO's proposed clarification to section 11.24.2 of the MRTU Tariff, as proposed in its answer, acceptable. Therefore, the CAISO submitted the revised tariff sheets to reflect that proposed change.

A. Participating Load

14. SWP claims that the CAISO's compliance filing may prejudice participating load.¹⁷ SWP acknowledges that the MRTU Tariff already exempts participating load from underscheduling penalties.¹⁸ However, SWP contends, the sweeping approach the CAISO uses in its filing, including broad definitions and conclusions that allegedly disregard participating load, could be prejudicial and unduly discriminatory.¹⁹

¹⁶ *Id.* at 3 (quoting December 2008 Rehearing and Compliance Order, 125 FERC ¶ 61,339 at P 22).

¹⁷ SWP February 11, 2009 Comments, Docket No. ER06-615-041, at 2.

¹⁸ *Id.* at 2 (citing CAISO MRTU Tariff Fourth Replacement Tariff § 11.24.3(c)).

¹⁹ *Id.*

15. SWP asserts that requests by the CAISO to dispatch or adjust schedules of participating loads, if accepted, may cause deviations from their day-ahead schedule. Therefore, SWP argues that the CAISO's claim is false that "under the current MRTU Tariff rules other than IFM self-scheduled demand there is no other load that is subject to administrative curtailment by CAISO in the Day-Ahead Market."²⁰ This is because the CAISO's representation fails to encompass participating load. SWP contends that MRTU expressly targets participating load for administrative curtailment because participating load is scheduled at its node or custom Load Aggregation Point. SWP adds that participating load may also be subject to exceptional dispatch to curtail or increase load consumption.

16. SWP maintains that the CAISO's proposed definition of "CAISO IFM Curtailed Quantity" appears to apply only to default Load Aggregation Point level loads, excluding the participating loads most likely to be among the actual CAISO Integrated Forward Market curtailed quantities of loads. SWP contends that the CAISO's proposed definition excludes participating load, which is scheduled at its node or custom Load Aggregation Point level.

17. SWP claims that because participating load is known to be the most vulnerable to CAISO adjustments beyond the control of the scheduling coordinator and is most likely to bear the cost consequences, the Commission should not authorize the CAISO to institute protections and definitions that exclude participating load. SWP contends that once such tariff language is in place, SWP will confront arguments that any effort to include participating load in comparable protections is collaterally estopped by the outcome of this docket.

18. Therefore, SWP requests that the Commission require the CAISO to protect all types of loads from all cost consequences (penalties or cost allocations) associated with all deviations caused by CAISO adjustments (load reductions or increases) beyond the control of the scheduling coordinator. The SWP also requests that the Commission require the CAISO to define CAISO IFM curtailed quantity to include participating load, so that when loads are protected against all cost consequences of any deviations caused by CAISO schedule adjustments or dispatch instructions and thus beyond the control of the scheduling coordinator, participating loads will be protected.

19. The CAISO responds that it agrees with SWP's statement that the tariff exempts participating load from the underscheduling penalty altogether. Thus, the CAISO asserts that the fact that participating load is exempt from the penalty in the first instance renders unnecessary any further requirements to exempt participating load from the charge.

²⁰ *Id.* (citing CAISO January 2009 Compliance Filing, Docket No. ER06-615-041, at 3).

Therefore, the CAISO contends that SWP's request explicitly to include participating load in the definition CAISO IFM Curtailed Quantity is entirely unnecessary.

20. The CAISO further asserts that to the extent SWP is requesting any further exemptions from charges and penalties, SWP's request is outside the scope of this proceeding. The CAISO argues that SWP's request that the CAISO "protect all types of loads from all cost consequences (penalties or cost allocations) associated with all deviations caused by CAISO schedule adjustments or dispatch instructions (load reductions or increases) beyond the control of the Scheduling Coordinator" inappropriately seeks to expand the scope of the exemption ordered by the Commission.²¹

21. Further, the CAISO contends that SWP's request is in conflict with the fundamental principles of MRTU. The CAISO asserts that SWP asks that the CAISO provide a financial guarantee for whatever load a scheduling coordinator submits as a self-schedule in the IFM. The CAISO claims this proposal contradicts the essence of the CAISO's responsibility to perform congestion management and create feasible Integrated Forward Market schedules. Congestion management under MRTU will sometimes require that the Integrated Forward Market optimization curtail some self-scheduled load so that feasible schedules can be produced. In clearing the market, the optimization ensures that the resulting schedules are feasible, that prices are set to reflect the curtailment of self-scheduled price-taker load, and that scheduling coordinator's accepted Integrated Forward Market schedules are settled correctly. The market does not compensate scheduling coordinators for portions of their bids, economic or self-scheduled, that are not accepted in the market.

22. The CAISO adds that it wishes to clarify a misconception reflected in SWP's comments asserting that the exemption as contained in the CAISO's submitted tariff language only applies to load scheduled and settled at the default Load Aggregation Point. The CAISO states that it deliberately drafted this definition and the accompanying language in section 11.24 using the phrase "applicable LAP" so that the exemption would apply also to loads scheduled and settled at custom Load Aggregation Points as well as the default Load Aggregation Points.

Commission Determination

23. The Commission finds that SWP's contention that the language proposed in the CAISO's January 2009 Compliance Filing may be prejudicial and unduly discriminatory concerning participating load are unfounded. As SWP and the CAISO note, participating

²¹ CAISO February 26, 2009 Answer to Comments to Compliance Filing, Docket No. ER06-615-041, at 5-6 (CAISO Answer) (citing SWP Comment, Docket No. ER06-615-041, at 1-2).

load is explicitly exempted from underscheduling penalties under the terms of the MRTU Tariff.²² Therefore, the terms of the compliance filing do not prejudice participating load or unduly discriminate against participating load.

B. Load Bid at the Cap

24. SoCal Edison claims that the CAISO's January 2009 Compliance Filing does not provide an exemption for load, other than self-scheduled load, that is bid in the day-ahead market and administratively curtailed.²³ SoCal Edison requests that the Commission require the CAISO to provide an exemption for load, bid at the cap, that does not get scheduled in the day-ahead market when Locational Marginal Prices dictate otherwise.

25. SoCal Edison asserts that situations can occur where one or more scheduling coordinators bid all or a portion of their load economically at the bid cap, and, due to the principles of supply and demand, not all of the megawatts are cleared, even though the resultant Locational Marginal Price is equal to the load bid. When this situation occurs, the CAISO software takes administrative action to determine the amount of each scheduling coordinator's bid to not schedule (i.e., the load that is subject to administrative curtailment) in the day-ahead market. In such situations, SoCal Edison claims the tariff should provide exemption for load that was forced to make prorated curtailments to balance supply and demand.

26. The CAISO responds that it agrees with SoCal Edison that the MRTU Tariff should recognize the scenario SoCal Edison describes, in addition to self-scheduled Integrated Forward Market demand. Therefore, the CAISO proposes to revise the definition of "CAISO IFM Curtailed Quantity" as follows:

In each Trading Hour for each Scheduling Coordinator (a) the maximum of zero or the submitted Day-Ahead Self-Schedule for Demand minus the Day-Ahead Schedule for Demand in each applicable LAP, or (b) in the event a LAP price equals the maximum price for Energy Bids specified in Section 39.6.1.1, the maximum of zero or the submitted Day-Ahead Self-Schedule for Demand plus the quantity of Demand bid at the maximum price for Energy Bids specified in Section 39.6.1.1 minus the Day-Ahead Schedule for Demand in the relevant LAP.²⁴

²² CAISO MRTU Tariff Fourth Replacement Tariff § 11.24.3(c).

²³ SoCal Edison February 11, 2009 Comments, Docket No. ER06-615-041, at 1.

²⁴ CAISO Answer, Docket No. ER06-615-041, at 4.

27. The CAISO proposes to submit this change in a subsequent compliance filing if the Commission agrees that this appropriately addresses SoCal Edison's comment.

Commission Determination

28. The Commission directed the CAISO to provide an exemption from the underscheduling penalty for self-scheduled load and for any day-ahead scheduled load that is administratively curtailed by the CAISO under circumstances in which that load would otherwise have cleared the day-ahead market. We agree with SoCal Edison that the CAISO's originally proposed exemption did not address load that was not self-scheduled. Further, we agree that the CAISO's proposed tariff revision adequately addresses SoCal Edison's concerns.²⁵ Therefore, the Commission directs the CAISO to submit tariff sheets within 30 days of the issuance of this order consistent with the revised definition of "CAISO IFM Curtailed Quantity" that the CAISO proposed in its answer.

The Commission orders:

(A) The January 2009 Compliance Filing is conditionally accepted, as discussed in the body of this order.

(B) The CAISO is directed to submit a compliance filing within 30 days of the date of this order, as discussed in the body of the order.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

²⁵ *Id.*