

126 FERC ¶ 61,099
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

California Independent System Operator
Corporation

Docket Nos. OA08-12-001
OA08-12-002
OA08-113-000

ORDER ON COMPLIANCE FILINGS

(Issued February 9, 2009)

1. On April 15, 2008 pursuant to section 206 of the Federal Power Act (FPA),¹ the California Independent System Operator Corporation (CAISO) submitted proposed revisions to its Open Access Transmission Tariff (OATT) in compliance with Order No. 890 and in compliance with Order No. 890-A.² On June 16, 2008, pursuant to section 206 of the FPA,³ the California Independent System Operator Corporation (CAISO) submitted proposed revisions to its OATT in compliance with an order issued on May 16, 2008.⁴ In this order, we accept the CAISO's revisions submitted in compliance with Order No. 890-A and conditionally accept the CAISO's revisions submitted in compliance with Order No. 890 and the May 16 Order, subject to a further compliance filing.

I. Background

2. In Order No. 890, the Commission reformed the *pro forma* OATT to clarify and expand the obligations of transmission providers to ensure that transmission service is provided on a non-discriminatory basis. Among other things, Order No. 890 amended the *pro forma* OATT to require greater consistency and transparency in the calculation of

¹ 16 U.S.C. § 824e (2006).

² *Preventing Undue Discrimination and Preference in Transmission Service*, Order No. 890, FERC Stats. & Regs. ¶ 31,241 (2007), *order on reh'g*, Order No. 890-A, 73 Fed. Reg. 2984 (Jan. 16, 2008), FERC Stats & Regs. ¶ 31,261 (2007).

³ 16 U.S.C. § 824e (2006).

⁴ *See Calif. Indep. Sys. Oper. Corp.*, 123 FERC ¶ 61,180 (2008) (May 16 Order).

available transfer capability, open and coordinated planning of transmission systems and standardization of charges for generator and energy imbalance services. The Commission also revised various policies governing network resources, rollover rights and reassignments of transmission capacity.

3. In Order No. 890-A, the Commission granted limited rehearing and clarification of Order No. 890, largely affirming its reforms. Order No. 890-A continues Order No. 890's objectives of ensuring that electric transmission service is provided on a nondiscriminatory, just and reasonable basis, helping improve the foundation for a competitive electric power market, and providing for more effective regulation and transparency in the operation of the transmission grid.

4. The revisions in Order No. 890-A address, among other things, how transmission providers process service requests, under what circumstances long-term customers may renew (roll over) their transmission service, the ability of network customers to designate certain resources, and how point-to-point customers may reassign transmission capacity. As discussed in further detail below, the Commission also directed transmission providers to address certain issues related to the calculation of available transfer capability and the calculation of incremental costs for purposes of imbalance charges.

II. The CAISO's Compliance Filings

5. The CAISO filed its Order No. 890 compliance filing on October 11, 2007 (October 2007 compliance filing) asserting that the terms and conditions specified in the existing CAISO tariff and the Market Redesign and Technology Upgrade (MRTU) tariff are consistent with or superior to the provisions of the *pro forma* OATT, as revised by Order No. 890. Although the CAISO's compliance demonstration was based on the MRTU tariff, the CAISO filed certain modifications to the existing CAISO tariff to reflect its current methodology for calculating available transfer capability and to incorporate certain revised definitions adopted by the Commission in Order No. 890. By order dated May 16, 2008, in Docket No. OA08-12-000, the Commission (1) accepted the CAISO's proposed changes to the existing CAISO tariff, as modified to be effective October 11, 2007; (2) accepted the CAISO's compliance filing as it relates to the MRTU tariff, in compliance with Order No. 890, to become effective as of the date of MRTU implementation; and (3) directed the CAISO to submit a further compliance filing.⁵ On June 16, 2008, in Docket No. OA08-12-002, the CAISO submitted tariff revisions in response to the May 16 Order.

6. In a separate compliance filing submitted on April 15, 2008, in Docket Nos. OA08-12-001 and OA08-113-000, the CAISO submitted additional tariff revisions in further compliance with Order Nos. 890 and 890-A addressing three discrete areas:

⁵ *Id.*

(1) revisions to both its currently effective CAISO tariff and its MRTU tariff⁶ to allow non-generation resources to provide specified ancillary services; (2) revisions to capitalize the term “Affiliate” in various sections and appendices within its currently effective CAISO tariff and the MRTU tariff; and (3) a revision to section 11.23 of its MRTU tariff to provide that uninstructed deviation penalties shall not apply to any uninstructed imbalance energy resulting from compliance with a directive of the CAISO or the reliability coordinator, or responding to frequency decay.

7. The CAISO states that many of the specific reforms adopted in Order No. 890-A are not applicable to, or are incompatible with, its service model, which it states differs significantly from the *pro forma* OATT service model. As explained in its October 2007 Order No. 890 compliance filing, the CAISO points out that it does not offer traditional Order No. 888 network and point-to-point transmission services. Rather, the CAISO states that it offers only a single transmission service that is available to all eligible customers on a “daily” basis. The CAISO explains that there are no firm, long-term transmission reservations of service under its service model, nor is there a formal application process for transmission service. Instead, transmission service is scheduled on a daily basis. As a result, the CAISO indicates that Order No. 890-A modifications to point-to-point and network transmission services, as well as certain posting requirements related to these services, do not apply to the CAISO’s daily transmission service and the Commission should not require it to adopt them.⁷

8. The CAISO further states that good cause exists to permit it to make its compliance demonstration regarding energy and generator imbalances based on the service model and tariff provisions that will be in place on the effective date of MRTU implementation. The CAISO requests that the Commission grant waiver(s) to permit it to demonstrate compliance with the Order No. 890-A generation and imbalance

⁶ The MRTU tariff is not yet in effect. The CAISO is currently projecting that it will seek to make the MRTU tariff effective in the second quarter of 2009.

⁷ The CAISO explains that those specific Order No 890-A modifications which do not apply to its service model include (1) revisions to Attachment C for those transmission providers that use an Available Flowgate Capacity calculation methodology; (2) revisions concerning energy and generation imbalances; (3) modifications to the capacity reassignment provisions of the *pro forma* OATT; (4) revisions pertaining to unauthorized use penalties; (5) modifications to planning re-dispatch and conditional firm service requirements; (6) revisions pertaining to rollover rights; (7) requirements for the processing of transmission service requests; (8) revisions concerning reservation priorities for transmission service; and (9) revisions pertaining to the designation of network resources. *See* CAISO April 15, 2008 transmittal letter, Docket No. OA08-113-000 at 3.

requirements based on the terms of the MRTU tariff. The CAISO requests that its revised tariff sheets in compliance with Order No. 890-A be made effective April 15, 2008.

III. Notice of Filing and Responsive Pleadings

9. Notice of the CAISO's April 15, 2008 filing was published in the *Federal Register*, 73 Fed. Reg. 21,391 (2008), with interventions and protests due on or before May 6, 2008.

10. Motions to intervene were filed by the Bay Area Municipal Transmission Group and M-S-R Public Power Agency. The Northern California Power Agency (Northern), the California Department of Water Resources State Water Project (State Water Project), Modesto Irrigation District (Modesto), and Beacon Power Corporation (Beacon) each filed a motion to intervene and comments. The CAISO filed a motion for leave to answer and answer to comments. Beacon subsequently filed an amendment to its motion to intervene and comments.

11. Notice of the CAISO's June 16, 2008 filing was published in the *Federal Register*, 73 Fed. Reg. 35,681 (2008), with interventions and protests due on or before July 7, 2008. No protests or adverse comments were filed.

IV. Discussion

A. Procedural Matters

12. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2008), the notices of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

13. 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. We will also accept Beacon's amendment to motion to intervene and comments, which is in the nature of a reply to the CAISO's answer because it has also provided information that assisted us in our decision-making process.

B. Substantive Matters

14. We find that the CAISO's revised tariff sheets comply with the May 16 Order and Order Nos. 890 and 890-A. Accordingly, we accept the CAISO's revisions in response to Order No. 890 and the May 16 Order, effective October 11, 2007, and accept the CAISO's revisions in response to Order No. 890-A effective April 15, 2008. Finally, the

Commission will allow the CAISO to demonstrate compliance with energy and generator imbalance requirements based on the terms of the MRTU tariff, and accepts as in compliance with Order Nos. 890 and 890-A, those provisions submitted by the CAISO in its compliance filing that are not specifically discussed below.

C. Compliance with Order No. 890 and the May 16 Order

1. Non-Generator Participation in Ancillary Services Markets under MRTU

15. In the May 16 Order, the Commission concluded that the Commission's discussion in Order No. 890, addressing the participation of non-generation resources in ancillary services markets required the CAISO to modify its MRTU tariff. As a result, the Commission directed the CAISO to address necessary modifications to MRTU, section 8, to permit participation by non-generators in the CAISO's ancillary services market, and to file tariff sheets reflecting such changes.⁸

16. In its compliance filing, the CAISO states that it supports the development and deployment of alternative technologies and welcomes the participation of non-generation resources in the CAISO's ancillary services market. The CAISO states that its proposed revisions comply with the directives of Order No. 890. Specifically, the CAISO proposes to modify section 8.1 of its currently effective tariff and correspondingly, section 8.1 of its MRTU tariff to state that "Bids for Regulation, Spinning Reserve, Non-Spinning Reserve and Voltage Support may be submitted by a Scheduling Coordinator for other non-generation resources that are capable of providing the specific service and that meet applicable Ancillary Service standards and technical requirements... and are certified by the CAISO to provide Ancillary Services." Additionally, proposed section 8.1 states that the provision of regulation, spinning reserve, non-spinning reserve, and voltage support by other non-generation resources will be subject to the same requirements applicable to other providers of these ancillary services.

17. In addition, the CAISO explains that it has initiated a project and stakeholder process to develop technical and operational requirements for integrating storage

⁸ The May 16 Order also noted that on April 15, 2008, the CAISO submitted a filing to comply with the Commission's Order No. 890-A. In that filing, the CAISO also proposed tariff revisions to MRTU, section 8 to address participation by non-generators in the CAISO's ancillary services. As a result, the May 16 Order stated that in the event that the CAISO believed that its April 15, 2008 filing sufficiently addressed the Commission's expressed concerns, the CAISO could make a demonstration in its compliance filing. *See* May 16 Order 123 FERC ¶ 61,180 at n. 29.

technologies into the system and to consider the extent to which additional tariff revisions may be appropriate to enhance their participation in the CAISO markets.⁹

Protests and Comments

18. Although Beacon¹⁰ commends the CAISO for proposing tariff changes that comply with the Commission's directive in Order No. 890 to alleviate discrimination against non-generation resources regarding regulation and frequency response services, Beacon states that the CAISO's tariff changes are incomplete. Beacon asserts that, while the CAISO's tariff changes address the issue of ancillary service provision by non-generators, they fail to address what Beacon calls "numerous other ISO Tariff provisions that must be changed to enable such resources to interconnect to the grid and fully participate in ISO markets." Due to the unique characteristics of Beacon's technology,¹¹ the CAISO must conduct a comprehensive review of the CAISO's master file, software and other operating procedures in order to achieve real compliance with the Commission's Order No. 890 directives. Beacon requests that the changes be incorporated into the CAISO's MRTU tariff and attaches to its motion to intervene and comments, a preliminary list of proposed tariff changes.

19. Beacon requests that the CAISO be directed to make implementing changes in time for non-generation resources to participate fully in the MRTU markets from their inception, or within 90 days, whichever comes first, and that the Commission direct the CAISO to work with Beacon and other non-generation resources to propose amendments that allow new technologies to participate in the regulation market on a comparable basis to generators.

⁹ The CAISO indicates that the project includes a comprehensive review of key issues related to the integration of the energy storage technologies including flywheel systems, pumped hydro storage, compressed air storage, super capacitors, flow batteries and plug-in hybrid vehicles. *See* CAISO June 16, 2008, transmittal letter, Docket No. OA08-12-002 at 4.

¹⁰ Beacon has developed a new non-generation flywheel-based energy storage technology to provide ancillary regulation services. Beacon's technology operates by using flywheels to recycle excess energy when generated power exceeds load and delivers it to the grid when load increases.

¹¹ Beacon states that, for example, its flywheel technology can deliver energy to the grid for any period up to fifteen minutes, but it cannot exceed that duration. The CAISO's master file and other protocols need to reflect this characteristic. *See* Beacon comments at 7.

20. The CAISO requests that the Commission reject Beacon's request that it be directed to propose additional tariff changes regarding the authorization of non-generation resources to provide ancillary services beyond those proposed in its compliance filing. The CAISO states that its proposed tariff revisions are fully consistent with the *pro forma* tariff language that was adopted by the Commission in Order No. 890. The CAISO states that the comprehensive modifications that Beacon seeks to the MRTU Tariff, operating instructions, and software far exceed the express requirements of Order No. 890.¹² The CAISO asserts that Beacon blurs the distinction between the actual requirements of Order No. 890 and Beacon's wish list of additional tariff amendments to facilitate the commercial operation of its flywheel technology. The CAISO states that the Commission's determination of its compliance with Order No. 890 should be limited to the express directives of that order. Accordingly, the CAISO states that the Commission should accept the proposed tariff modifications addressing non-generator participation in the ancillary services market as being consistent with Order No. 890.¹³

21. The CAISO further notes that acceptance of its proposed tariff modifications will not preclude or limit the CAISO's consideration of additional changes to the tariff operation procedures and software. The CAISO states that its project and stakeholder initiative is the more appropriate forum to consider the types of issues raised by Beacon, given that the requirements of Order No. 890 apply to all non-generator resources, not just Beacon's flywheel technology. The CAISO states that the Commission should allow its process to proceed without rigid schedule requirements and should not require the CAISO to divert its attention from the implementation of the new market design to address the issues raised herein.

Commission Determination

22. We find that the CAISO's proposed tariff revisions to section 8.1 of the currently effective CAISO tariff and MRTU tariff, respectively, relating to the provision of ancillary services by non-generation resources are not in full compliance with Order No. 890 and the May 16 Order. The CAISO's proposed modification to section 8.1 permits scheduling coordinators to submit ancillary service bids for non-generation resources. However, proposed section 8.1 states that the provision of regulation, spinning reserve, non-spinning reserve and voltage support by other non-generation resources is subject to "the same" requirements applicable to other providers of these ancillary services. In

¹² The CAISO notes that Beacon's list of necessary changes includes new issues not addressed in Order No. 890. *See* CAISO June 16, 2008 transmittal letter, Docket No. OA08-12-002 at 5-6.

¹³ Order No. 890, FERC Stats. & Regs. ¶ 31,241 at P 888.

Order No. 890-A,¹⁴ the Commission found, in affirming our previous determination that the sale of ancillary services by load resources should be permitted where appropriate on a comparable basis to services provided by generation resources, that a transmission provider may impose appropriate technical criteria comparable to the requirements placed on generation resources. In addition, we found that treating similarly-situated resources on a comparable basis does not necessarily mean that the resources are treated the same.¹⁵ We direct the CAISO to submit a compliance filing within 30 days of the date of this order that demonstrates how subjecting generation and non-generation resources “to the same requirements applicable to other providers of these Ancillary Services, as set forth in Sections 8.5 through 8.14” satisfies our comparability requirement.

23. We also find that Beacon’s proposed additional tariff changes and changes to the CAISO’s practices and procedures are beyond the scope of this proceeding. As Beacon has indicated, the CAISO has commenced a stakeholder process that is intended to address the broader requirements for Beacon’s new technology.¹⁶ A comprehensive stakeholder process is the appropriate vehicle within which to evaluate such changes and to develop necessary tariff modifications.

2. Creditworthiness

24. Order No. 890 required transmission providers to specify in a new Attachment L to the *pro forma* OATT, the qualitative and quantitative criteria that transmission providers use to determine the level of secured and unsecured credit required of its customers.¹⁷ Order No. 890 required each transmission provider’s Attachment L to

¹⁴ Order No. 890-A, FERC Stats. & Regs. 31,261 at P 499 (“The Commission affirms the decision in Order No. 890 that the sales of ancillary services by load resources should be permitted where appropriate on a comparable basis to service provided by generation resources. A transmission provider may impose appropriate technical criteria, comparable to the requirements placed on generation resources, in order to reliably allow load resources to provide the different ancillary services. We note that such criteria and requirements have been implemented in RTO markets that allow demand response to participate as an ancillary service resource. As Southern suggests, any such reliability-based qualification criteria should be developed and imposed on a non-discriminatory basis. We also agree with Southern that transmission providers should give comparable, not preferential, consideration of load resources in selecting the mix of resources to supply ancillary services.”).

¹⁵ Order No. 890-A, FERCS Stats. & Regs. 31,261 at P 216.

¹⁶ See <http://www.caiso.com/docs/2005/06/09/2005060910374912494.html>

¹⁷ Order No. 890, FERC Stats. & Regs. ¶ 31,241 at P 1656.

contain the following: (1) a summary of the procedure for determining the level of secured and unsecured credit; (2) a list of the acceptable types of collateral/security; (3) a procedure for providing customers with reasonable notice of changes in credit levels and collateral requirements; (4) a procedure for providing customers, upon request, a written explanation for any change in credit levels or collateral requirements; (5) a reasonable opportunity to contest determinations of credit levels or collateral requirements; and (6) a reasonable opportunity to post additional collateral, including curing any non-creditworthy determination.¹⁸ In addition, Order No. 890 permits transmission providers to supplement Attachment L with a credit guide or manual to be posted on a transmission provider's OASIS.

25. The May 16 Order directed the CAISO to incorporate creditworthiness provisions into its MRTU tariff, in compliance with the requirements of Order No. 890, and to file the MRTU tariff sheets reflecting these revisions.¹⁹ In its compliance filing, the CAISO explains that subsequent to the filing of its October 2007 compliance filing, it incorporated its creditworthiness provisions complying with Order No. 890 into MRTU tariff proceedings.²⁰ Therefore, in its compliance filing, the CAISO provides, for informational purposes, the MRTU creditworthiness provisions as Attachment E²¹ that were previously incorporated into the MRTU tariff.

¹⁸ *Id.* P 1657.

¹⁹ In its October 2007 compliance filing the CAISO explained that section 12 of its currently effective CAISO tariff satisfied the Order No 890 requirements with regard to the inclusion of credit procedures in a transmission provider's transmission OATT, and satisfied the Commission's stated reasons for requiring transmission providers to include basic credit requirements in their OATT. However, the CAISO did not file tariff sheets to incorporate these credit requirements into the MRTU tariff, rather, the CAISO represented that credit provisions would be incorporated into the MRTU tariff sometime prior to MRTU implementation.

²⁰ The CAISO explains that in December 2007, it filed the applicable creditworthiness provisions that the Commission had previously approved in Docket No. ER06-700-000 for incorporation into the MRTU tariff. *See* Docket Nos. ER06-615 and ER08-367. Additionally, the CAISO indicates that it proposed revisions to the creditworthiness provisions and other provisions of the MRTU tariff which were subsequently accepted for filing. *See Calif. Ind. Sys. Oper. Corp.*, 124 FERC ¶ 61,107 (2008).

²¹ The CAISO's creditworthiness provisions are included in Attachment E; rather than Attachment L, referred to in Order No. 890.

Commission Determination

26. We find the CAISO's creditworthiness provisions are consistent with the principles of Order No. 890 and accept the CAISO's demonstration that these provisions have been incorporated into the MRTU tariff, as directed in the May 16 Order.²²

3. Procedures for Addressing Parallel Flows

27. The May 16 Order noted that the CAISO did not file an Attachment J to address "Procedures for Addressing Parallel Flows" that is to be "filed by the Transmission Provider," therefore, the CAISO was directed to file, a completed Attachment as shown below:

The North American Electric Reliability Corporation's ("NERC") Qualified Path Unscheduled Flow Relief for the Western Electricity Coordinating Council (WECC), Reliability Standard WECC-IRO-STD-006-0 filed by NERC in Docket No. RR07-11-000 on March 26, 2007, and approved by the Commission on June 8, 2007, and any amendments thereto, are hereby incorporated and made part of this Tariff. See www.nerc.com for the current version of the NERC's Qualified Path Unscheduled Flow Relief Procedures for WECC.

28. In compliance with the directive, the CAISO filed a completed Attachment J²³ for incorporation into the currently effective CAISO tariff and the MRTU tariff, respectively.

Commission Determination

29. The CAISO's filing of Attachment J, Procedures for Addressing Parallel Flows under the currently effective CAISO tariff and the MRTU tariff is in compliance with Order No. 890 and the May 16 Order, and is accepted for filing.

4. Available Transfer Capability Methodology

30. In Order No. 890, the Commission required a transmission provider to clearly identify which methodology it employs (e.g., contract path, network available transfer capability, or network available flowgate capacity). The transmission provider must also

²² See *Calif. Ind. Sys. Oper. Corp.*, 125 FERC ¶ 61,262 (2008).

²³ The Procedures for Addressing Parallel Flows is labeled Appendix FF under the currently effective CAISO tariff and labeled Appendix M under the MRTU tariff.

describe in detail the specific mathematical algorithms used to calculate firm and non-firm available transfer capability (and available flowgate capacity, if applicable) for its scheduling, operating and planning horizons. Further, the actual mathematical algorithms must be posted on the transmission provider's website, with the link noted in the transmission provider's Attachment C.

31. In the May 16 Order, the Commission concluded the CAISO's Methodology to Assess Available Transfer Capability²⁴ (Appendix L) did not provide a description of the specific mathematical algorithms used to calculate firm and non-firm available transfer capability for its scheduling, operating and planning horizons, and did not include a link to the location on the CAISO's website containing the actual mathematical algorithms. In addressing the specific available transfer capability components, the Commission further found that the CAISO's Appendix L (1) did not provide an explanation of the CAISO's calculation methodology used to determine the transmission capacity set aside for native load and non-OATT customers; (2) did not provide a detailed explanation of its transmission reserve margin calculation methodology and failed to provide the databases used to calculate transmission reserve margin; and (3) did not provide an adequate explanation of its capacity benefit margin practices including, among other things, a definition or a detailed explanation of its calculation methodology for capacity benefit margin, or the databases used for its capacity benefit margin calculation.

32. In response to the Commission's directives, the CAISO submitted Appendix L tariff revisions to provide greater detail and information about each component of the available transfer capability calculation, as well as providing a narrative description of the available transfer capability mathematical algorithm. With regard to its transmission set-aside, the CAISO proposes tariff modifications to (1) describe how it reserves transmission capacity for existing transmission commitments (ETCs) that represent existing contracts and transmission ownership rights; (2) describe the ETC reservations calculator; and (3) describe the timeline and process through which ETC rights are released under current practices. The CAISO also revised Appendix L to include a link to its operating procedure governing its treatment of these existing rights. The CAISO further notes that because it does not use capacity benefit margins or transmission reserve margins for operational purposes, it proposes a statement in its Attachment L indicating that the values of capacity benefit margins and transmission reserve margins are set at zero in the calculation of available transfer capability. The CAISO requests that the Commission accept these tariff modifications and otherwise waive the requirements of Order No. 890 and the May 16 Order as they relate to the inclusion of capacity benefit margin and transmission reserve margin provisions in Appendix L.

²⁴ The CAISO proposed modifications to Appendix L of the currently effective tariff only. The CAISO represents that it will make a separate section 205 filing to incorporate its ATC methodology under the MRTU tariff.

Commission Determination

33. We find that the CAISO's proposed tariff revisions addressing its available transfer capability methodology comply with the Commission's directives in Order No. 890 and the May 16 Order and are accepted for filing. We also conclude that the CAISO's request for waiver of the requirements of Order No. 890 and the May 16 Order related to the inclusion of capacity benefit margin and transmission reserve margin provisions is unnecessary. The CAISO revised tariff provisions indicate that it does not use capacity benefit margin and transmission reserve margin and has reflected statements consistent with the *pro forma* OATT. Therefore, no waiver is necessary.

D. Compliance with Order No. 890-A

1. Changes in Available Flowgate Capacity Values

34. In Order No. 890-A, the Commission required certain transmission providers to provide a narrative explaining the reasons for changes in available flowgate capacity values as a result of changes in available flowgate capacity inputs that cause available transmission capability or total transmission capacity to change by 10 percent or more.²⁵ A transmission provider must post this narrative on its Open Access Same-Time Information System (OASIS). Further, the transmission provider must provide a statement in its compliance filing describing how the narrative is derived from available transfer capability/total transmission capacity postings. If this information was provided in an earlier compliance filing, the transmission provider may refer to that earlier filing.

a. The CAISO's Filing

35. The CAISO states that it exceeds the Commission's requirements for posting narrative explanations of the causes for total transmission capacity changes of 10 percent or more. The CAISO explains that it posts on its OASIS the impact and a brief description of the cause of every outage on a constrained path that causes a de-rate. According to the CAISO this includes outages that cause partial de-rates far below the 10 percent change in total transmission capacity contemplated by Order No. 890-A as a threshold for posting a narrative explanation.

36. The CAISO further states that it does not employ an available flowgate capacity calculation methodology. Rather, the CAISO indicates that it utilizes the rated system path method to establish the total transmission capacity of CAISO branch groups. The

²⁵ This requirement applies to transmission providers that use an available flowgate capacity calculation method that does not base changes in available transfer capability on changes in total transmission capacity. *See* Order No. 890-A, FERC Stats. & Regs. ¶ 31,261 at P 127.

CAISO indicates that the rated system path methodology is approved by the North American Energy Reliability Corporation (NERC). Accordingly, the CAISO states that this requirement does not apply to the CAISO in any event.²⁶

b. Commission Determination

37. The CAISO does not use an available flowgate capacity calculation methodology. Moreover, the CAISO exceeds the Commission's requirements as it already posts narrative explanations of the causes of every outage on a constrained path that causes a de-rate. Based on the CAISO's explanation, we find that the Order No. 890-A requirement that it post a narrative explaining the reasons for changes in available flowgate capacity as a result of inputs that cause available transmission capacity to change by 10 percent or more does not apply to the CAISO.

2. Flowgate Modeling Study Methodology

38. In Order No. 890-A, the Commission clarified that each transmission provider must provide the step-by-step modeling study methodology and criteria for adding or eliminating flowgates in its Attachment C.²⁷ The Commission directed any transmission provider that did not include this information in its earlier Attachment C filing to include it in its Order No. 890-A compliance filing. A transmission provider that has already satisfied this obligation may instead refer to a previous Commission order accepting these provisions in its Attachment C to its OATT.

a. The CAISO's Filing

39. The CAISO states that it does not employ the available flowgate capacity calculation methodology. Rather, the CAISO uses the rated system path method, which it indicates is approved by NERC. As a result, the CAISO states that this directive does not apply to it.²⁸

b. Commission Determination

40. Based on the CAISO's representation that it does not employ the available flowgate capacity calculation methodology, relying instead on the NERC-approved rated system path method, we find that the requirements of Order No. 890-A regarding modeling study methodology and criteria for adding or eliminating flowgates as a part of the available transfer capability methodology do not apply to the CAISO.

²⁶ CAISO April 15, 2008 transmittal letter, Docket No. OA08-113-000 at 6.

²⁷ See Order No. 890-A, FERC Stats. & Regs. ¶ 31,261 at P 149.

²⁸ CAISO April 15, 2008 transmittal letter, Docket No. OA08-113-000 at 6.

3. Incremental Costs in Imbalance Charges

41. Order No. 890-A also required each transmission provider to provide language in its OATT clearly specifying the method by which it calculates the incremental costs for purposes of imbalance charges, as well as the method it will use to obtain each component of the calculation.²⁹ The Commission found that imbalance charges should be based on the actual cost to correct the imbalance and, therefore, modified the definition of imbalance charges to include the cost of the last 10 megawatts dispatched for any purpose, whether to serve native load, correct imbalances, or make off-system sales.³⁰ If start-up costs are incurred during an hour different from the hour of excess imbalance, the start-up costs may also be included in the calculation of incremental costs, as long as they are associated with providing imbalance service.³¹

a. The CAISO's Filing

42. The CAISO states that the specific provisions of Order No. 890 regarding charges for energy and generator imbalances are not compatible with ISO and RTO markets where energy and generator imbalances are resolved through market mechanisms. As a result, the CAISO states that its locational marginal price-based, two-settlement energy imbalance market and pricing structure satisfies the generation and energy imbalance charge principles adopted in Order No. 890. The CAISO further states that its MRTU locational marginal price-based settlement of energy and generator imbalances is consistent with or superior to the additional requirements regarding energy and generator imbalances adopted in Order No. 890-A.

43. The CAISO states that its MRTU design provides transparent and efficient mechanisms for procuring and pricing imbalance energy and allocating costs which enable the CAISO to track and post the actual incremental costs incurred due to energy re-dispatch, as well as any additional unit commitment that is necessary to meet imbalance energy needs. Under its MRTU structure, the CAISO indicates that each scheduling coordinator will incur a charge or payment depending on the deviations of its resources, demand or generation from the day-ahead schedule. Imbalance energy is based on the locational marginal prices derived from the optimization of the real-time market, which includes market-based prices derived from a short-term load forecast reflecting actual system conditions. Thus, according to the CAISO, all settlement of imbalance energy is based on the applicable replacement costs using the applicable locational marginal price and the applicable settlement period. No penalty is applied.³²

²⁹ Order No. 890-A, FERC Stats. & Regs. ¶ 31,261 at P 310.

³⁰ *Id.* P 309.

³¹ *Id.* P 312.

³² CAISO April 15, 2008 transmittal letter, Docket No. OA08-113-000 at 8-9.

44. The CAISO explains that at the start of MRTU, no penalties will apply to energy or generator imbalances, however, the uninstructed deviation penalty provision under section 11.23 of the MRTU tariff (which is not currently in effect)³³ does not explicitly state that no penalty would apply to imbalances by generators who deviate from their schedules in order to comply with directives of the CAISO or the reliability coordinator. Therefore, the CAISO proposes to amend section 11.23 in compliance with Order No. 890-A. Further, the CAISO states that if it were to receive authorization to charge penalties for imbalance energy, those penalties would apply only to generator imbalances, and thus would be consistent with or superior to the requirements of Order No. 890-A that such penalties not apply to both energy and generation.³⁴

45. The CAISO further states that its MRTU tariff is consistent with or superior to the modified definition of incremental cost requiring transmission providers to use the cost of the last 10 MWs dispatched for any purpose, i.e., to serve native load, correct imbalances, or to make off-system sales. The CAISO's rationale for this position is based on its statements that its locational marginal price-based settlement process values the cost of any incremental or decremental energy at that energy's real-time locational marginal price. As a result, the CAISO states that a transmission provider is able to calculate the incremental or decremental energy cost for any increase or decrease in energy or generation at a specific location dispatched for any service. The CAISO states that its locational marginal price-based settlement process satisfies the Order 890-A requirement that transmission providers clearly specify the methods by which they calculate incremental costs for purposes of imbalance charges, as well as the methods used to obtain each component of the calculation.

46. The CAISO requests that it be permitted to make its compliance demonstration regarding energy and generator imbalances based on the service model that will be in place on the effective date of MRTU implementation. In support of this request, the CAISO states that any effort to demonstrate compliance with Order No. 890-A would be irrelevant because the CAISO's current imbalance energy pricing and congestion management schemes will be completely overhauled under MRTU and replaced with a locational marginal price-based system within a matter of months after the summer of 2008. The CAISO requests that the Commission grant any necessary waivers to permit the CAISO to demonstrate compliance with the Order No. 890-A generation and energy imbalance requirements based on the terms of the MRTU tariff.³⁵

³³ In order to implement uninstructed deviation penalties under MRTU, the CAISO is required to submit a separate filing to establish an effective date for these provisions. *See Calif. Indep. Sys. Oper. Corp.*, 116 FERC ¶ 61,274, at P 591-594 (2006).

³⁴ CAISO April 15, 2008 transmittal letter, Docket No. OA08-113-000 at 9.

³⁵ *See* CAISO April 15, 2008 transmittal letter, Docket No. OA08-113-000 n.7.

b. Commission Determination

47. In our May 16 Order, we found that the CAISO's settlement structure for imbalance energy under MRTU obviates the need for separate imbalance energy charges based on incremental and decremental costs, including a tiered approach to assessing imbalance penalties.³⁶ We found the CAISO's market mechanism for imbalance energy settlement under MRTU to be consistent with or superior to the tiered approach for imbalances adopted in the *pro forma* OATT.³⁷ Consistent with the findings in our May 16 Order, we conclude that the CAISO's settlement of energy and generator imbalances using the locational marginal pricing market mechanisms is also consistent with or superior to the *pro forma* OATT as modified by Order No. 890-A. We also accept the CAISO's proposed modification to section 11.23 in compliance with Order No.890-A.

48. We find that good cause exists to permit the CAISO to demonstrate compliance with the Order No. 890-A generation and energy imbalance requirements based on the MRTU tariff. We note that the effective date of MRTU is currently expected to occur in the second quarter of 2009. Accordingly, we will waive the requirement that the CAISO demonstrate compliance with the Order No. 890-A generation and energy imbalance requirements in its currently effective tariff.

4. Definition of Affiliate

49. In Order No. 890-A, the Commission granted rehearing to amend the *pro forma* OATT such that every use of the term Affiliate in a transmission tariff is capitalized. The Commission also found that members of an umbrella joint action agency are not Affiliates of the joint action agency within the meaning of the *pro forma* OATT. The Commission further clarified that the transmission function and generation function of a single corporation are Affiliates because each would be an entity under common control, notwithstanding the fact that they are within the same corporation.³⁸

50. The CAISO states that it is amending both its currently effective CAISO tariff and its MRTU tariff to capitalize the term Affiliate in compliance with the requirements of Order No. 890-A. The Commission finds these revisions comply with the requirements of Order No. 890-A.

³⁶ May 16 Order, 123 FERC ¶ 61,180 at P 24.

³⁷ *Id.* P 25.

³⁸ Order No. 890-A, FERC Stats. & Regs. ¶ 31,261 at P 1003.

5. Miscellaneous Additional Comments

51. Northern and Modesto filed comments expressing concerns with the CAISO's statement that this filing, together with its December 21, 2007 filing in Docket No. OA08-62-000, satisfies the transmission planning requirements of Order Nos. 890 and 890-A. State Water Project's comments also related to the CAISO's transmission planning process. Specifically, State Water Project seeks clarification that the CAISO's April 15, 2008 compliance filing in this docket does not override certain commitments made by the CAISO in response to State Water Project's protest in Docket No. OA08-62-000. State Water Project's concerns primarily revolve around issues of transmission planning and comparability of transmission service. State Water Project seeks recognition that the fact that certain requirements under Order Nos. 890 and 890-A may not directly apply to transmission service under the CAISO's service model does not by itself act to relieve the CAISO from the burden of complying with the principles enunciated by Order Nos. 890 and 890-A.

Commission Determination

52. On June 19, 2008, the Commission issued an order on the CAISO's December 21, 2007 compliance filing relating to its transmission planning process.³⁹ Accordingly, while we find that the CAISO is responsible for expressly demonstrating compliance with each of the Order No. 890 criteria, we also find that the specific issues raised by Northern, Modesto, and State Water Project in comments are more appropriately considered in the CAISO's compliance filing in Docket No. OA08-62-003, rather than this docket.

The Commission orders:

(A) The CAISO's tariff revisions to the MRTU tariff, submitted in compliance with Order No. 890 and the May 16 Order, are conditionally accepted for filing, subject to a compliance filing, as discussed in the body of this order, effective upon implementation of MRTU. We direct the CAISO to make an informational filing specifying the effective date of the tariff sheets being accepted herein prior to the implementation of MRTU.

(B) The CAISO's tariff revisions to the currently effective CAISO tariff submitted in compliance with Order No. 890 and the May 16, Order are accepted for filing effective October 11, 2007.

³⁹ *California Independent System Operator Corp.*, 123 FERC ¶ 61,283 (2008).

(C) The CAISO's revisions to the currently effective CAISO tariff, submitted in compliance with Order No. 890-A are hereby accepted, effective April 15, 2008.

(D) The CAISO's revisions to the MRTU tariff, submitted in compliance with Order No. 890-A, are hereby accepted effective upon implementation of MRTU. We direct the CAISO to make an informational filing specifying the effective date of the tariff sheets being accepted herein prior to the implementation of MRTU.

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

By the Commission. Commissioner Kelliher is not participating.

(S E A L)

Kimberly D. Bose,
Secretary.