

129 FERC ¶ 61,186
FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

December 1, 2009

In Reply Refer To:
California Independent System Operator
Corporation
Docket No. ER10-28-000

Nancy Saracino, General Counsel
California Independent System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630

Reference: Revised Tariff Sheets Modifying Rules Limiting Bid Supply Pool in
Integrated Forward Market

Dear Ms. Saracino:

1. On October 2, 2009, the California Independent System Operator Corporation (CAISO) submitted revisions to the CAISO Tariff¹ to modify rules that currently limit the pool of supply bids in the CAISO's integrated forward market.
2. The CAISO explains that its market design includes a mechanism for mitigating local market power in the integrated forward market through a series of local market power mitigation procedures known as the market power mitigation and reliability requirements determination process (Mitigation Process). The Mitigation Process is performed prior to the integrated forward market. Under these procedures, the CAISO first runs the market software with only "competitive constraints" enforced. The CAISO then runs the market software with "all constraints" enforced (including both competitive and non-competitive constraints). The CAISO explains that bids from units that are dispatched to a higher level in this second run are then subject to bid mitigation in the integrated forward market. The CAISO notes that it currently uses forecast demand for the Mitigation Process and bid-in demand for the integrated forward market.

¹ California Independent System Operator Corporation, FERC Electric Tariff, Fourth Replacement Volume No. 1.

3. The CAISO explains that under section 31.2 of the CAISO Tariff, the pool of bids currently available for commitment in the integrated forward market is limited to units that are “dispatched” in the pre-integrated forward market process run. The CAISO claims that the original purpose of this rule was to avoid a potential dispatch of relatively high-priced unmitigated bids in the integrated forward market, which would then set the marginal price. The CAISO has observed, however, that in some cases, limiting the pool of units considered in the integrated forward market in this manner could create inefficiencies and raise overall costs to the market. The CAISO claims that this situation could occur when bid-in demand exceeds CAISO forecast demand. The CAISO claims that the purpose of the proposed revision is to allow bids from resources not committed in the Mitigation Process to compete with bids from resources that are committed in the Mitigation Process. Specifically, the CAISO points out that the instant filing revises sections 31.2 and 31.2.1 of the CAISO Tariff by deleting language providing that only bids cleared in the Mitigation Process will be forwarded to the integrated forward market, and also modifies section 31.3 to provide that the integrated forward market will consider bids that cleared the Mitigation Process in addition to bids that did not clear the Mitigation Process. The CAISO requests an effective date for these revisions of December 2, 2009.

4. In addition to the inefficiencies and increased overall costs to the market observed by the CAISO as a result of the limitation of supply bids considered in the integrated forward market, the CAISO also points out that the CAISO’s department of market monitoring conducted an analysis that indicated that the concerns relating to local market power mitigation procedures that led to this rule did not appear to be as significant as thought during the initial market design process.² The CAISO also notes that recent software upgrades have eliminated the potential that consideration of all bids would have a negative impact on market software performance.³ As a result, the CAISO has concluded that the modification in the instant filing will increase overall market efficiency and help prevent extreme price spikes that could occur in the integrated forward market in the event bid-in demand exceeds the CAISO’s forecast by a significant margin.

5. Notice of the CAISO’s filing was published in the *Federal Register*, 74 Fed. Reg. 52798, with interventions and protests due on or before October 23, 2009. Timely motions to intervene were filed by Dynegy Morro Bay, LLC, Dynegy Moss Landing, LLC, Dynegy Oakland, LLC, and Dynegy South Bay, LLC (collectively, “Dynegy”), the California Public Utilities Commission, Pacific Gas and Electric Company, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California, NRG Power

² CAISO filing, transmittal letter at 3.

³ *Id.*

Marketing LLC, Cabrillo Power I LLC, Cabrillo Power II LLC, El Segundo Power LLC, and Long Beach Generation LLC, Southern California Edison Company (SoCal Edison), Northern California Power Agency, the California Department of Water Resources State Water Project, the City of Santa Clara, California, the City of Palo Alto, California, and the City of Alameda, California (collectively, the “Bay Area Municipal Transmission Group”), the Metropolitan Water District of Southern California, Modesto Irrigation District, and the City of Santa Clara, California, the City of Redding, California, and the M-S-R Power Agency. Comments in support were filed by Dynegy and the Bay Area Municipal Transmission Group. Comments conditionally supporting the CAISO’s filing were filed by SoCal Edison. Pursuant to Rule 214 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2009), the timely, unopposed motions to intervene serve to make the entities that filed them parties to the proceedings in which they were filed.

6. SoCal Edison states that it supports the CAISO’s proposed tariff modifications as a temporary solution. SoCal Edison states that such a change should ensure that sufficient economic supply is made available in the integrated forward market’s scheduling and pricing runs during instances of bid-in demand exceeding the CAISO demand forecast. SoCal Edison states that the temporary solution proposed in the instant filing should be implemented, but encourages the CAISO to implement the approach of running the Mitigation Process using bid-in demand, not forecasted demand, as directed by the Commission,⁴ as soon as practicable. SoCal Edison also conditions its support on the understanding that the CAISO’s department of market monitoring will continuously monitor the market impacts of passing un-reviewed bids to the integrated forward market. SoCal Edison remains concerned over the possibility that market power may arise under this proposal. SoCal Edison states that to address this concern, the Commission should require the CAISO to provide an analysis of the market impacts of eliminating the integrated forward market pool restriction every three months from the effective date of the proposed modifications until a replacement mechanism is implemented.

7. The Commission will accept the CAISO’s tariff revisions, as designated, effective December 2, 2009. We agree with the CAISO that expanding the supply of bids available in the integrated forward market will contribute toward a reduction in overall costs to the market, especially when bid-in demand significantly exceeds the CAISO’s forecasted demand. We are persuaded by the CAISO’s explanation, which is bolstered by the findings of the CAISO’s department of market monitoring that the concerns about local market power that led to design more stringent mitigation procedures are not as significant as thought during the initial market design process. Nevertheless, the Commission agrees with SoCal Edison that the CAISO’s department of market

⁴ SoCal Edison Comments at 2-3, citing *Order Conditionally Accepting The California Independent System Operator’s Electric Tariff Filing To Reflect Market Redesign And Technology Upgrade*, 116 FERC ¶ 61,274, at P 1089 (2006).

monitoring should closely monitor the impacts on the integrated forward market of relaxing this limitation of supply bids forwarded to the integrated forward market from the Mitigation Process; however, we will not impose any additional reporting burden on the CAISO department of market monitoring. We would expect the CAISO department of market monitoring to expeditiously report any problems related to the tariff revisions accepted here in its normal reporting processes, consistent with the obligations of the CAISO department of market monitoring under Order 719.⁵

By direction of the Commission.

Kimberly D. Bose,
Secretary.

⁵ See *Wholesale Competition in Regions with Organized Electric Markets*, Order No. 719, 73 Fed. Reg. 64,100 (Oct. 28, 2008), FERC Stats. & Regs. ¶ 31,281 (2008) at P 354.