

146 FERC ¶ 61,228  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Cheryl A. LaFleur, Acting Chairman;  
Philip D. Moeller, John R. Norris,  
and Tony Clark.

California Independent System Operator Corporation      Docket No. ER14-1220-000

ORDER ACCEPTING TARIFF REVISIONS SUBJECT TO MODIFICATIONS

(Issued March 27, 2014)

1. On January 30, 2014, pursuant to section 205 of the Federal Power Act,<sup>1</sup> and part 35 of the Commission's regulations,<sup>2</sup> the California Independent System Operator Corporation (CAISO) filed proposed revisions to its tariff<sup>3</sup> to clarify and enhance its resource adequacy substitution process. As discussed below, we accept CAISO's proposed tariff revisions to become effective April 1, 2014, subject to modifications as discussed below.

**I. Background**

2. The California Public Utilities Commission (CPUC) and other local California regulatory authorities have established resource adequacy programs<sup>4</sup> as the primary means of ensuring that there are sufficient resources in California to maintain reliable grid operations. The CAISO tariff sets forth procedures requiring scheduling coordinators for all load-serving entities to demonstrate that they have met their

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<sup>1</sup> 16 U.S.C. § 824d (2006).

<sup>2</sup> 18 C.F.R. Part 35 (2013).

<sup>3</sup> California Independent System Operator Corporation, FERC Electric Tariff, Fifth Replacement (CAISO tariff).

<sup>4</sup> A resource adequacy resource is a resource that is owned by or under contract to a load serving entity and is included in the load serving entity's resource adequacy supply plan. A resource adequacy resource is required to offer its capacity into the CAISO energy and ancillary markets. For the purpose of this proceeding, non-resource adequacy resources refer to resources that are not designated as a resource adequacy resource by a load serving entity and have not been procured by CAISO under CAISO's backstop procurement authority or a reliability must-run contract.

applicable resource adequacy requirements. Once a resource is committed to provide resource adequacy capacity, CAISO expects that the full amount of that capacity will be available to CAISO, unless the resource is on a planned outage, forced outage or derate,<sup>5</sup> which diminishes its ability to provide the full amount of its capacity obligation.

3. In order to enforce the requirements of the resource adequacy program, CAISO established a standard capacity product availability calculation designed to provide an incentive for resources to ensure their capacity is available to the CAISO markets.<sup>6</sup> CAISO states that it measures the availability of resource adequacy capacity and assesses non-availability charges and availability incentive payments to discourage poor operating performance and reward high availability. Under section 40.9.4.2.1 of CAISO's tariff, a resource adequacy resource on a forced outage or derate has the ability to request CAISO's approval to use substitute capacity for its unavailable resource adequacy capacity. CAISO states that substitution enables the resource adequacy resource to meet its resource adequacy obligation and thereby reduce or avoid non-availability charges under the standard capacity product.

4. CAISO states that the current systems in place to process substitution requests do not have the functionality necessary to accommodate the submission and processing of requests by single resources to provide substitute capacity for multiple resources at the same time. To resolve this limitation, CAISO states that it is developing an automated process through which scheduling coordinators can substitute non-resource adequacy capacity from one resource for multiple resource adequacy resources on a forced outage or derate.<sup>7</sup> CAISO states that the automated functionality for substitution would mitigate the impact of a forced outage or derate on the standard capacity product availability calculation. CAISO anticipates that the automated functionality will be deployed in Fall 2014.

5. CAISO states that it conducted an abbreviated stakeholder process and discovered that its stakeholders are concerned about the timing of when the automated substitution process will be operational and about the costs they may incur until the automated solution is in place. Based on stakeholder requests, CAISO proposes to implement a simplified manual substitution process as an interim measure until the automated functionality is deployed.

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<sup>5</sup> A derate is a reduction in the rated capacity of a resource.

<sup>6</sup> *California Independent System Operator Corp.*, 127 FERC ¶ 61,298 (2009).

<sup>7</sup> CAISO Filing at 2.

## II. The Instant Filing

6. In the instant filing, CAISO proposes to modify existing resource adequacy provisions in order to clarify and add details concerning: (1) the process by which resource adequacy resources on a forced outage or derate may use one or multiple resources to provide substitute capacity; (2) the process by which a single resource may provide substitute capacity for up to two resource adequacy resources at the same time; and (3) CAISO's existing practices for determining resource adequacy substitute capacity availability, treatment of unbid capacity by a substitute resource, and allocating the unavailability of a substitute resource's capacity when that resource has an outage or derate during the substitution period.<sup>8</sup>

7. CAISO explains that the request for the initial substitution will continue to be processed using the existing automated process and that the manual process will be limited to a second substitution from the same resource. To clarify these procedures, CAISO proposes new tariff language that explicitly requires the scheduling coordinator for a resource already providing substitute capacity to use the manual process to request CAISO's approval to provide substitute capacity for a second resource adequacy resource. CAISO states that substitution requests must be submitted prior to the close of the applicable day-ahead market.<sup>9</sup>

8. CAISO explains that, because of the manual nature of the second substitution process, these requests will require additional time for CAISO to review. CAISO proposes to add a new tariff section 40.9.4.2.1(g) to state that CAISO will respond to the manual substitution requests and reflect approved substitutions in the CAISO systems within five business days after receiving the request. CAISO notes that, if the requested substitution period begins before CAISO responds to the request, approved substitutions will be effective on the requested start date and the scheduling coordinator for the resource providing the substitute capacity may begin bidding into the CAISO market as of that start date.<sup>10</sup>

9. CAISO also proposes to add a new tariff section 40.9.4.2.1(j), which sets forth the allocation of a partial derate at a substitute resource. Specifically, CAISO states that, in the event that the resource providing resource adequacy substitute capacity has an outage or derate during the substitution period, CAISO will allocate the reduction in available capacity on a *pro-rata* basis to each commitment of the resource to provide resource adequacy capacity, resource adequacy replacement capacity, resource adequacy substitute

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<sup>8</sup> CAISO Filing at 3.

<sup>9</sup> *Id.* at 8.

<sup>10</sup> *Id.*

capacity, and backstop capacity.<sup>11</sup> CAISO states that the proposed allocation provision is consistent with CAISO's current practices of allocating an outage or derate *pro-rata* across a resource's capacity commitments and only extends the practice to additional substitutions.

10. CAISO states that the proposed tariff revisions are necessary because the current tariff language does not provide for the second substitution option, nor does it provide the conditions under which this option would be provided. Further, CAISO believes that this process is a workable, temporary solution and will reduce the potential cost exposure of market participants to standard capacity non-availability charges.

### **III. Notice and Responsive Pleadings**

11. Notice of CAISO's filing was published in the *Federal Register*, 79 Fed. Reg. 76,055 (2014), with protests or interventions due on or before February 20, 2014. Timely motions to intervene were filed by: the California Department of Water Resources State Water Project; Pacific Gas and Electric Company; Southern California Edison Company; the City of Santa Clara, California; and the Northern California Power Agency. The NRG Companies and San Diego Gas and Electric Company (SDG&E) filed timely motions to intervene and comment. On March 12, 2014, CAISO filed an answer.

### **IV. Comments, Protests, and Answers**

12. The NRG Companies support CAISO's proposed tariff revisions, stating that these changes will protect resource adequacy suppliers from non-availability charges, as well as enable capacity providers to substitute resources and mitigate the impact of a forced outage or derate.

13. SDG&E generally supports the objectives in CAISO's proposal, but objects to CAISO's proposed section 40.9.4.2.1(j) ("Allocation of Unavailable [Resource Adequacy] Substitute Capacity"), claiming that this section alters the terms under which a derating is allocated among the various resource commitments. Specifically, SDG&E explains that, under the current CAISO tariff section 40.9.4.2.2, any derate will apply first to any non-resource adequacy capacity of the resource. Thus, SDG&E asserts that 100 percent of a derate will first apply to a resource's substitute capacity commitment since substitute capacity is considered non-resource adequacy capacity.<sup>12</sup> Conversely, SDG&E argues that the proposed section 40.9.4.2.1(j) would allocate a derating of a resource on a *pro-rata* basis to each commitment of the resource without first applying the derate to a resource's non-resource adequacy commitments, including substitute

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<sup>11</sup> *Id.* at 12.

<sup>12</sup> SDG&E Comments at 5.

capacity. SDG&E asserts that a resource providing both resource adequacy capacity and substitute capacity will now potentially face unavailability penalties in the event of a derate because the derate will reduce the amount of resource adequacy capacity that it provides, even if the entire derate could first be applied to its substitute capacity commitment. SDG&E therefore argues that CAISO's proposed provision unnecessarily modifies the preexisting rules governing the allocation of resource derates, will result in the unreasonable loss of performance incentives and unjust imposition of performance penalties for certain market participants, and will result in higher costs to consumers without offering any commensurate improvements to system reliability.<sup>13</sup>

14. In order to address these concerns, SDG&E requests that the Commission approve CAISO's filing, subject to the modification of proposed section 40.9.4.2.1(j) so as to make the new rules consistent with existing tariff section 40.9.4.2.2.

15. SDG&E also argues that CAISO's filing may reveal an inconsistency between the CAISO Tariff and its practices related to the allocation of resource deratings to the various commitments proffered for resource adequacy purposes. SDG&E contends that, under the CAISO tariff, the allocation of outages is only described as applying first to non-resource adequacy capacity. SDG&E asserts that there is no implication that outages are to be applied ratably to the entire range of "a resource's capacity commitments," or that a resource's resource adequacy capacity will be affected in any respect. SDG&E argues that if CAISO has been allocating a resource's derating ratably to the entire range of that resource's capacity commitments, including its resource adequacy capacity, these allocations may have been done in a manner inconsistent with the procedures described by CAISO's existing tariff. SDG&E requests that the Commission require CAISO to explain its current practices and the consistency of those practices with its current tariff.<sup>14</sup>

16. In its answer, CAISO argues that the adoption of section 40.9.4.2.1(j) is necessary to extend the allocation of capacity reductions caused by a derate to substitute resources that are not included in a monthly supply plan. Specifically, CAISO states that existing section 40.9.4.2.2 only applies to a resource that is partially committed as resource adequacy capacity in a supply plan. In contrast, CAISO states that proposed section 40.9.4.2.1(j) dictates that an outage or derate at a resource providing resource adequacy substitute capacity for one or more units is accounted for in the same manner, whether or not the resource was initially included in a supply plan. Further, CAISO states that proposed section 40.9.4.2.1(j) provides additional clarity about how these derates could impact the resource's commitments to provide resource adequacy and backstop capacity.

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<sup>13</sup> *Id.* at 6, 8.

<sup>14</sup> *Id.* at 9-10.

17. Notwithstanding CAISO's position that section 40.9.4.2.1(j) should be adopted without modification, in order to address SDG&E's concern and avoid future misinterpretation, CAISO states that it is willing to revise section 40.9.4.2.1(j) to expressly state that:

In the event the resource providing [Resource Adequacy] Substitute Capacity has an outage or de-rate during the substitution period, the CAISO shall allocate the MW reduction in available capacity in accordance with section 40.9.4.2.2. The allocation to any non-exempt resource adequacy shall be made on a pro-rata basis to each commitment of the substitute resource to provide [Resource Adequacy] Capacity, [Resource Adequacy] Replacement Capacity, [Resource Adequacy] Substitution Capacity, and CPM Capacity.<sup>15</sup>

## V. Discussion

### Procedural Matters

18. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2013), the notice of intervention and the timely, unopposed motions to intervene serve to make these entities that filed them parties to this proceeding.

19. Rule 213(a)(2) of the Commission's Rules and Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2013), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept CAISO's answer because it provided information that assisted us in our decision-making process.

## VI. Commission Determination

20. We accept CAISO's tariff revisions, subject to modification of proposed section 40.9.4.2.1(j), and further clarifications, as discussed below. The Commission finds that the proposed tariff revisions provide a just and reasonable temporary mechanism for processing multiple substitution requests that will enhance and clarify the existing resource adequacy substitution process. Further, we find that the proposed revisions adequately address stakeholders' concerns by protecting market participants against the costs they may incur from non-availability charges as well as mitigate the impact of forced outages and derates on system reliability.

21. However, we find the proposed section 40.9.4.2.1(j) is unclear about how a resource providing substitute capacity will be affected under a forced outage or derate.

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<sup>15</sup> CAISO Answer at 7.

We also find unclear whether this proposed section is consistent with CAISO's currently effective tariff section addressing how CAISO accounts for derates (section 40.9.4.2.2).

22. We find that CAISO's revised language to section 40.9.4.2.1(j), as set forth in its answer, addresses our concerns by modifying the proposed section 40.9.4.2.1(j) to apply derates to a resource's capacity commitments in a way that is now consistent with CAISO's current tariff section 40.9.4.2.2. We find that CAISO's answer with its revised language will provide additional clarity about how capacity reductions due to an outage or derate will be allocated to a substitute resource consistent with other resource adequacy resources. Therefore, we accept CAISO's proposed language in section 40.9.4.2.1(j), as modified by its answer. We direct CAISO to submit a compliance filing within 30 days of this order to change its proposed section 40.9.4.2.1(j) to reflect the modified language set forth in its answer.

23. In addition, we find that CAISO's tariff, as proposed, fails to clearly define substitute resource adequacy capacity as resource adequacy capacity for purposes of allocating derates. Therefore, we also direct CAISO to modify its tariff to clearly state that substitute resource adequacy capacity will be treated as resource adequacy capacity during the period of substitution for purposes of a forced outage or derate allocation. We direct CAISO to submit a compliance filing within 30 days of this order to clarify its classification of substitute capacity. We find this added clarity will provide transparency and allow market participants to determine if future allocations are correctly implemented in the marketplace.

The Commission orders:

(A) CAISO's proposed tariff revisions are hereby accepted subject to modification, effective April 1, 2014, as requested and as discussed in the body of this order.

(B) CAISO is hereby 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.

( S E A L )

Nathaniel J. Davis, Sr.,  
Deputy Secretary.