

INSIGHTS

FERC Accepts CAISO's Proposed Tariff Amendments Addressing Inoperability of Aliso Canyon

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On June 1, 2016, the Federal Energy Regulatory Commission (FERC) accepted revisions to the California Independent System Operator (CAISO) tariff to address market conditions associated with the limited operability of the Aliso Canyon natural gas storage facility.^[1] Aliso Canyon, one of the largest natural gas storage facilities in the country, has been closed since October 2015, when a large natural gas leak was discovered there. As a result of the closure, concerns were raised about potential reliability issues entering into the high demand summer months, prompting CAISO to file proposed tariff amendments with FERC.^[2] CAISO stated that its revisions were intended to mitigate operational risks and preserve reliability given the limited operability of Aliso Canyon by modifying certain aspects of its markets and expanding the ISO's authorities.^[3] In recognition that some of its proposed changes may only be necessary for the summer period, CAISO requested approval of its proposed changes on an interim basis until November 30, 2016, at which point the tariff would revert automatically to its original state.^[4]

In its June 1 Order, FERC accepted CAISO's proposal, subject to condition, recognizing "this interim set of measures is based on the unique set of circumstances CAISO will face this summer due to the limited operability of the Aliso Canyon natural gas storage facility in southern California."^[5] A short summary of the interim amendments to the CAISO tariff, and FERC's comments or conditions on those amendments, is provided below. FERC did not explicitly comment on each and every one of CAISO's proposals in its June 1 Order, but noted that any elements of CAISO's proposed amendments that were not addressed in the Order were accepted as just and reasonable.^[6]

- Scheduling coordinators will receive a two-day-ahead, non-binding, advisory commitment schedule.^[7]
- The gas price index for the day-ahead will, in the interim period, be based on an Intercontinental Exchange ("ICE") volume-weighted average price.^[8]
- The gas price used to calculate commitment costs and default energy bids for generators served by the affected gas systems will be increased.^[9]
- Resources can rebid resource commitment costs in the real-time market when the resource was not committed in the day-ahead market.^[10]

- Resources that were not committed in the day-ahead market will be excluded from consideration and commitment in CAISO's real-time, short-term unit commitment process unless they submit bids into the real-time market. Instead, the short-term unit commitment process will use "bids that were previously submitted in the real-time market by the scheduling coordinator for the trading hour" or "clean bid[s] from the day-ahead market if the resource has a day-ahead schedule or received a start-up instruction in RUC for the trading hour or if the resource has a real-time must-offer obligation for that trading hour." [\[11\]](#)
- CAISO has the authority to implement a gas constraint to limit the amount of natural gas burned in certain gas regions during specific hours. [\[12\]](#) FERC's order directs CAISO to revise its tariff to establish a mechanism for disclosing information regarding its enforcement of the gas constraint to market participants. [\[13\]](#) FERC also directed CAISO to disclose commercial pricing node (CNode) data to market participants to enhance their ability to review CAISO settlements and whether CAISO's gas constraint is being appropriately enforced. [\[14\]](#)
- CAISO has the authority to reserve internal transmission transfer capability to ensure adequate import capability into regions affected by gas constraints at Aliso Canyon and to adjust the release of congestion revenue rights to reflect its anticipated reservation of transmission. [\[15\]](#)
- CAISO has the authority to limit or suspend virtual bidding when it deems it necessary for market efficiency. [\[16\]](#) FERC conditioned this authority on it being narrowly tailored to address market inefficiencies created by other aspects of its proposed amendments. [\[17\]](#) As such, FERC ordered CAISO to submit a compliance filing, within 30 days, clarifying "that CAISO may only suspend virtual bidding for market efficiency purposes in relation to its reservation of internal transfer capacity of its enforcement of the gas constraint." [\[18\]](#)
- Scheduling coordinators may recover costs after-the-fact through section 205 filings with the Commission. [\[19\]](#) FERC accepted this proposal, but subject to the condition that CAISO extend the after-the-fact cost recovery provisions to generators participating in the Energy Imbalance Market. [\[20\]](#)

CAISO's proposals are effective June 2, 2016, with the limited exceptions of CAISO's proposals to use an ICE-generated index for gas prices in the day-ahead and to increase the gas cost included in commitment cost caps and default energy bids, which will become effective July 6, 2016. [\[21\]](#)

FERC also ordered that Commission staff convene a technical conference "to facilitate a discussion regarding the efficacy of the measures accepted...and the need for additional and/or longer-term measures." [\[22\]](#) FERC rejected certain commenters' suggestion that CAISO be required to run a two-week simulation prior to implementing the proposed amendments. [\[23\]](#)

In a press release published soon after the June 1 Order, FERC Chairman Norman Bay stressed the seriousness of the Aliso Canyon leak and subsequent closure and the likelihood that the situation will "stress the region's gas system this summer." [\[24\]](#) Chairman Bay noted how the Aliso Canyon event had highlighted the "connection between the gas and electric industries" and the resulting "need for infrastructure as gas becomes the marginal fuel for power generation in many markets." [\[25\]](#)

[\[1\]](#) *Cal. Indep. Sys. Operator Corp.*, Order Accepting Tariff Revisions, Subject to Condition, and Establishing a Technical Conference, Docket No. ER16-1649-000 (June 1, 2016) (June 1 Order).

[\[2\]](#) *Cal. Indep. Sys. Operator Corp.*, Tariff Amendment to Enhance Gas-Electric Coordination to Address Risks Posed by Limited Operability of Aliso Canyon Natural Gas Storage Facility, Docket No. ER16-1649-000 (filed May 9, 2016) (Aliso Canyon Tariff Amendment).

[\[3\]](#) *Id.* at 1-2.

[\[4\]](#) *Id.* at 2.

[\[5\]](#) June 1 Order at P 2.

[\[6\]](#) *Id.* at P 12.

[\[7\]](#) *Id.* at P 14. FERC rejected certain commenters' request that the two-day-ahead information be provided to all market participants. *Id.* at PP 16-17.

[\[8\]](#) Aliso Canyon Tariff Amendment at 3, 12-14; June 1 Order at fn 14.

[\[9\]](#) June 1 Order at PP 19-22. FERC accepted this proposal, subject to the condition that CAISO clarify the unit of gas to which its proposed \$2.50 adder applies. *Id.* at PP 29-35.

[\[10\]](#) Aliso Canyon Tariff Amendment at 4, 20-22; June 1 Order at fn 13.

[\[11\]](#) Aliso Canyon Tariff Amendment at 4, 23-24; June 1 Order at fn 13.

[\[12\]](#) June 1 Order at PP 36-41.

[\[13\]](#) *Id.* at PP 48-53.

[\[14\]](#) *Id.*

[\[15\]](#) *Id.* at PP 54-56. FERC rejected the suggestion that CAISO be required to make a compliance filing whenever it identifies an internal transfer path to reserve, but clarified that CAISO must immediately inform its market participants of any amount of internal transmission transfer capability that is in fact reserved. *Id.* at PP 63-71.

[\[16\]](#) *Id.* at PP 72-73.

[\[17\]](#) *Id.* at P 80.

[\[18\]](#) *Id.*

[\[19\]](#) *Id.* at PP 85-87.

[\[20\]](#) *Id.* at PP 91-96.

[\[21\]](#) *Id.* at PP 13, 29.

[\[22\]](#) *Id.* at P 2.

[\[23\]](#) *Id.* at P 103.

[\[24\]](#) Release R-16-17, *FERC Accepts Measures Addressing Gas-Electric Reliability in Southern California*, Docket No. ER16-1649-000 (June 1, 2016).

[\[25\]](#) *Id.*