

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

<b>Actions regarding the Commission's Policy on Price Index Formation and Transparency</b>	) ) ) ) )	<b>Docket No. PL20-3-000</b>
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**MOTION TO INTERVENE AND COMMENTS OF THE  
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION  
ON PROPOSED REVISED POLICY STATEMENT**

The California Independent System Operator Corporation (“CAISO”)<sup>1</sup> respectfully submits this motion to intervene and the following comments on the Commission’s proposed revised policy statement (“Proposed Policy Statement”)<sup>2</sup> in this proceeding.<sup>3</sup> The CAISO supports the Commission’s goals of encouraging more market participants to report their transactions to price index developers and providing greater transparency into the price formation process to increase confidence in the accuracy and reliability of wholesale prices. The CAISO believes updating the Price Index Order is timely and will help market operators and participants understand modern principles for developing and using price indices in organized markets.

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<sup>1</sup> The CAISO is a non-profit public benefit corporation organized under the laws of the State of California with its principal place of business at 250 Outcropping Way, Folsom, California 95630. Pursuant to Rule 214 of the Commission’s Rules of Practice and Procedure, the CAISO requests leave to intervene in this proceeding. As explained in these comments, the CAISO uses price indices in its tariff and market processes, and thus has an interest in this proceeding.

<sup>2</sup> *Actions Regarding the Commission’s Policy on Price Index Formation and Transparency, and Indices Referenced in Natural Gas and Electric Tariffs*, 173 FERC ¶ 61,237 (2020).

<sup>3</sup> Terms not otherwise defined herein have the meanings set forth in Appendix A to the CAISO tariff, and references to specific sections, articles, and appendices are references to sections, articles, and appendices in the current CAISO tariff and revised or proposed in this filing, unless otherwise indicated.

As an independent system operator, the CAISO defers to other parties on the various aspects of the Proposed Policy Statement pertaining to natural gas prices. Nevertheless, referring to natural gas prices as an index for wholesale energy is a critical input to the CAISO's markets. The CAISO therefore welcomes this opportunity to comment on the Commission's proposals regarding liquidity standards for a gas price index to be referenced in a tariff.

In the Proposed Policy Statement, the Commission proposes several new requirements to test the liquidity of daily or hourly indices.<sup>4</sup> For example, the Proposed Policy Statement would require hourly indices to meet at least one of the following conditions, "on average," for all non-holiday weekdays for at least 180 continuous days out of the most recent 365 days:

1. Average volume traded of at least 25,000 million Btus (MMBtu) *per day* for natural gas or 2,000 Megawatt hours (MWh) per day for power; or
2. Average number of transactions of five or more per day; or
3. Average number of counterparties of five or more per day.<sup>5</sup>

The CAISO supports these reforms and the clarity this level of specificity will provide. The reforms will provide clear direction for *establishing* indices used in ISO/RTO tariffs and market processes. However, the CAISO requests clarification on *applying* these criteria once their use is established in a tariff. The CAISO also requests the Commission specify the extent to which index developers must report criteria-related data when they rely on market assessments rather than weighted averages.

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<sup>4</sup> Proposed Policy Statement at P 38.

<sup>5</sup> *Id.*

### **Clarifications on Applying Criteria**

First, the CAISO requests the Commission clarify what happens if an index becomes insufficiently liquid based on the Commission's criteria. For example, the CAISO tariff specifies various natural gas price indices the CAISO uses to calculate the proxy gas cost for generators' default energy bids.<sup>6</sup> If one the prescribed indices becomes insufficiently liquid under the Proposed Policy Statement, the CAISO is still required to comply with its tariff. The CAISO requests that the Commission clarify what the CAISO should do if an established index no longer meets the Proposed Policy Statement's criteria. The CAISO recommends that the Commission clarify that ISO/RTOs are still obligated to comply with their tariffs even where an index becomes insufficiently liquid.

Second, the CAISO requests clarification on how frequently it should evaluate indices for liquidity. The Proposed Policy Statement requires indices to meet the Commission's proposed criteria "on average" for at least 180 days of the most recent 365. Does this mean ISO/RTOs must evaluate indices at least annually, daily, or by some other metric?

Third, the Commission should clarify what it means by "on average" when the Proposed Policy Statement also requires an index to meet the criteria for at least 180 continuous days. For example, does an index need to meet at least one of the criteria for 180 continuous days independent of the other criteria or different criteria each day

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<sup>6</sup> See, e.g., Section 39.7.1.1.1.2 of the CAISO tariff. For example, the CAISO tariff states, "The CAISO will calculate a gas price index using at least one (1) price from the following publications: Natural Gas Intelligence, SNL Energy/BTU's Daily Gas Wire, or Platt's Gas Daily." Section 39.7.1.1.1.3.

for 180 days?<sup>7</sup> Put another way, would an index fail the Commission's criteria if it satisfied criterion one and failed criteria two and three for 179 days, and on day 180 failed criteria one and two but satisfied criterion three?

Fourth, the CAISO requests the Commission clarify the extent to which it must apply the criteria to different uses in the CAISO tariff. For example, the CAISO may use price indices to calculate or assess default energy bids, commitment costs, and maximum import bid prices. In some cases the index price may establish one variable among many in a calculation, in others it may help establish a zone of reasonableness for bid components, and in others it may dictate a market outcome. These uses can rely on price indices to a varying degree. The Commission should clarify whether the CAISO must comply with the proposed liquidity criteria *every time* it uses an index price, or whether it can seek relief from applying those criteria where liquidity and the use of the index price is less critical. The CAISO requests that the Commission identify use cases where indices need to satisfy the liquidity criteria and use cases where indices may not need to satisfy the liquidity criteria.

### **Market Assessment Requirements**

In the Proposed Policy Statement, the Commission would require price index developers to “clearly indicate when they engage in market assessments rather than

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<sup>7</sup> For example, in the former case, an hourly index would need to have an average number of transactions of five or more per day for 180 days (or one of the other two criteria). In the latter case, an hourly index could comply with the Proposed Policy Statement by having an average number of transactions of five or more per day for 60 days, then an average number of counterparties of five or more per day for the next 60 days, then an average volume traded of at least 25,000 million Btus (MMBtu) per day for the final 60 days.

calculating price indices based on weighted averages of reported trades.”<sup>8</sup> The CAISO supports this requirement, but asks the Commission to require price index developers to report the daily volume traded, number of transactions, and number of counterparties, even on days when the developers use market assessments. Without these data points, ISO/RTOs may be unable to assess liquidity under the Proposed Policy Statement. Alternatively, the CAISO asks the Commission to clarify how ISO/RTOs should evaluate liquidity where developers use market assessments.

Respectfully submitted,

**/s/ William H. Weaver**

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Dated: March 23, 2021

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<sup>8</sup> Proposed Policy Statement at P 28.

## CERTIFICATE OF SERVICE

I certify that I have served the foregoing document upon the parties listed on the official service list in the captioned proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California, this 23rd day of March, 2021.

*/s/ Jacqueline Meredith*  
Jacqueline Meredith