

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

**EDF Trading North America, LLC, on )  
behalf of )  
AES Alamos, LLC )  
AES Huntington Beach, LLC and )  
AES Redondo Beach, LLC )**

**Docket No. ER19-458-000**

**MOTION FOR LEAVE TO FILE ANSWER AND ANSWER OF THE CALIFORNIA  
INDEPENDENT SYSTEM OPERATOR CORPORATION TO ANSWER**

The California Independent System Operator Corporation (CAISO) hereby submits its motion for leave to answer and answer in response to EDF Trading North America, LLC's (EDFT) January 7, 2019 answer to protests and comments submitted by the CAISO and the CAISO's Department of Market Monitoring (DMM). EDFT has not demonstrated that it incurred actual marginal fuel costs that it did not recover through the CAISO market settlements and bid cost recovery mechanism. Thus, EDFT has not met its burden of showing that its proposed recovery is just and reasonable.

The Commission cannot accept EDFT's Application based on the current record. Therefore, it should establish a procedural schedule that will allow the Commission, EDFT, and intervening parties to evaluate EDFT's marginal fuel cost exposure more carefully. The CAISO understands that there may be intervals or days in which EDFT is entitled to recovery under CAISO Tariff section 30.12. However, fundamental factual questions must be resolved before the Commission can determine the amounts EDFT is owed. The CAISO, DMM, and EDFT agree that an extension of the procedural schedule would allow for further useful discussions among the parties. The CAISO respectfully requests that the Commission briefly suspend the procedural schedule for this proceeding until April 1, 2019, to allow all parties to further discuss and possibly resolve issues, before the Commission issues an order on EDFT's Application or

initiates a hearing or settlement judge procedures.<sup>1</sup> The CAISO understands that EDFT intends to file a motion making this same request.

## **I. Motion for Leave to File Answer**

Pursuant to Rules 212 and 213 of the Commission's Rules of Practice and Procedure,<sup>2</sup> the CAISO respectfully requests waiver of Rule 213(a)(2)<sup>3</sup> to the extent necessary to permit it to answer the answer filed by EDFT in this proceeding. Good cause exists because the CAISO's answer will provide additional information to assist the Commission in the decision-making process, and help to ensure a complete and accurate record in the case.<sup>4</sup>

## **II. Request for Confidential Treatment**

The CAISO respectfully requests confidential treatment of certain material contained in this Motion for Leave and Answer pursuant to section 388.112 of the Commission's regulations.<sup>5</sup> This material contains sensitive commercial, market and financial information that is privileged and confidential. In conformance with section 388.112(b)(2)(i) of the Commission's regulations,<sup>6</sup> EDFT has provided a proposed protective order in Attachment C of its Application.

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<sup>1</sup> Because EDFT requests recovery of costs incurred in the past, the Commission need not set a refund effective date.

<sup>2</sup> The CAISO moves to file this answer pursuant to Rules 212 and 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §§ 385.212, 385.213 (2018).

<sup>3</sup> 18 C.F.R. § 385.213(a)(2) (2018).

<sup>4</sup> See, e.g., *Equitrans, L.P.*, 134 FERC ¶ 61,250 at P 6 (2011); *Cal. Indep. Sys. Operator Corp.*, 132 FERC ¶ 61,023 at P 16 (2010); *Xcel Energy Servs., Inc.*, 124 FERC ¶ 61,011 at P 20 (2008).

<sup>5</sup> 18 C.F.R. § 388.112 (2018).

<sup>6</sup> 18 C.F.R. § 388.112(b)(2)(i) (2018).

### III. Answer

#### A. The Commission Cannot Accept EDFT's Application at this time Because Fundamental Facts Are in Dispute.

EDFT submitted its Application seeking reimbursement of actual marginal fuel costs for the period July 20, 2018 through August 10, 2018, pursuant to CAISO Tariff section 30.12. The Commission accepted CAISO Tariff section 30.12 as a temporary measure to address constraints on the gas system in the southern part of the CAISO's balancing authority area due to limited operations of the Aliso Canyon storage facility.<sup>7</sup> When the Commission accepted this provision, it anticipated that because of the "uncertainty and potential price volatility introduced into the market due to the limited availability of Aliso Canyon" a resource's "fuel costs may exceed the amounts recoverable under CAISO's normal cost recovery provisions."<sup>8</sup> The expectation under that provision is that scheduling coordinators can seek after-the-fact recovery of unrecovered marginal fuel costs *if* they "cannot recover their fuel costs through the bid cost recovery process."<sup>9</sup> Therefore, the threshold question before the Commission is whether EDFT actually incurred marginal fuel costs in eligible intervals that it did not recover under the CAISO's tariff-based market rules, including bid cost recovery.

CAISO Tariff section 30.12 applies when scheduling coordinators are required to participate in the CAISO market at cost-based bids and not when they are bidding economically. The CAISO's energy bid cap is \$1,000/megawatt hour (MWh). Under normal circumstances, scheduling coordinators face minimal risk for not recovering fuel costs through their energy bids because the price of fuel does not normally rise to levels that would necessitate a bid above \$1,000/MWh. Therefore, if a resource observed high fuel costs, it could have submitted a bid up to the bid cap and mitigated its cost

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<sup>7</sup> *California Indep. Sys. Operator Corp.*, 155 FERC ¶ 61,224 (2016).

<sup>8</sup> *Id.*, at P 91.

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

exposure accordingly. EDFT does not claim or provide any evidence suggesting that for the period of July 20, 2018 through August 10, 2018, the price of gas increased to levels that would have necessitated a bid above \$1,000/MWh. The CAISO is also not aware of any evidence indicating that the \$1,000/MWh bid cap prevented parties from recovering their fuel costs when they were participating economically in the market. The CAISO market rules, including section 30.12, do not guarantee payments for costs incurred when the resources are participating in the CAISO markets economically.

On the other hand, when a resource is subject to bid mitigation (through local market power mitigation or the mitigated exceptional dispatch settlement), or where the bid is generated by the CAISO, the resource's cost-based bid may not be sufficient to recover the cost of fuel.<sup>10</sup> The CAISO uses a gas price index to calculate the cost of fuel. If the gas price index is too low, a resource potentially will be unable to recover its fuel costs, even though the CAISO dispatch required it to run. CAISO Tariff Section 30.12 ensures a resource can recover unrecovered fuel costs when the resource is subject to such cost-based bids after the fact if it actually incurred such costs and the resource is entitled to payments under the CAISO Tariff rules. These principles are clearly stated section 30.12, and the Commission must consider EDFT's Application in that context. The CAISO agrees that, given conditions on the gas and electric systems certain days, it is possible that EDFT did not recover its fuel costs consistent with the CAISO Tariff rules when it was subject to cost-based bids.

In considering whether EDFT has recovered its fuel costs, it important to consider, as DMM stated, that if a bid is mitigated to the default energy bid, under the existing CAISO Tariff rules, the CAISO includes a 10 percent adder on top of the calculated cost components.<sup>11</sup> This means that the default energy bid (or cost-based

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<sup>10</sup> Entities that are required to submit cost-based bids may also seek fuel cost recovery under this section. See CAISO Tariff sections 30.12 and 39.7.1.1.1.

<sup>11</sup> DMM Comments at 5-6, citing CAISO Tariff section 30.7.

bid) used in the market would reflect the resource's calculated marginal fuel costs plus ten percent. EDFT argues that this is irrelevant because the adder is not part of the formula under section 30.12.<sup>12</sup> The CAISO disagrees. EDFT provides no evidence to refute how mathematically its fuel costs could have exceeded what it recovered through the CAISO market if the reported fuel costs were within 10 percent of the cost-based bids. The CAISO's calculations of the default energy bid automatically incorporates the 10 percent adder to ensure the resource has an additional headroom to account for fuel costs not captured by the gas price index the CAISO used. If a scheduling coordinator's fuel costs are at or below the amounts used to clear them in the market, mathematically, the scheduling coordinator cannot have fuel costs that exceed what the CAISO used to clear them in the market or exceptionally dispatch the resources.

Section 30.12 ensures resources recover their actual fuel costs when such costs are *greater* than the fuel cost used to calculate the resource's cost-based bids used to clear in the CAISO market or dispatch the resources. The CAISO agrees with DMM, that to recover excess fuel costs under section 30.12, the applicant must at the very least demonstrate both that its actual marginal fuel costs were higher than the applicable gas price index in the CAISO Tariff plus 10 percent and were not recovered through bid cost recovery.

The CAISO compared the gas prices submitted by EDFT for each of its units that the CAISO used in calculating the cost-based bids (*i.e.*, the default energy bids) and confirmed these prices reflect the prices used in the CAISO's calculations.<sup>13</sup> When comparing the gas prices EDFT submitted as their actual fuel costs against the fuel

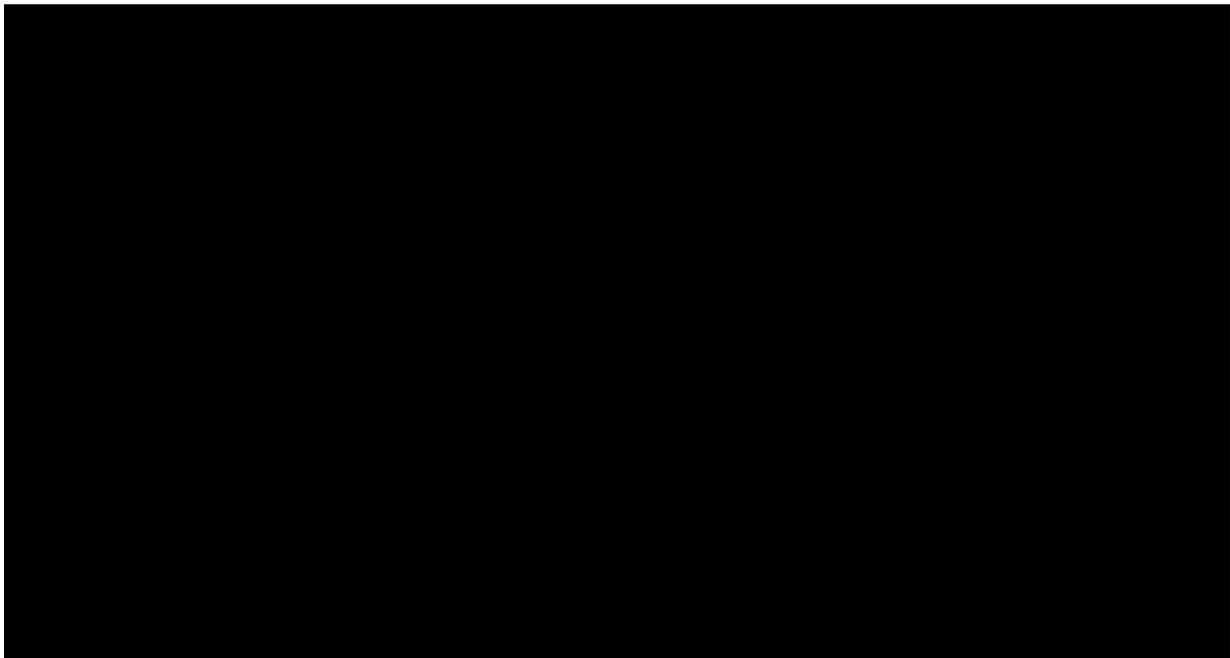
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<sup>12</sup> EDFT Answer at 7-8.

<sup>13</sup> In calculating the default energy bids, the CAISO systems use a common hub price reference for all of the EDFT units, but apply different transportation costs to the different units. Therefore, different units may use different gas prices incorporated into their default energy bids. [REDACTED]

prices used in calculating the default energy bids for use in the CAISO markets, the CAISO found that for [REDACTED] of the days, the gas prices EDFT submitted as their actual fuel costs, was already covered by the gas prices (which includes the 10 percent adder) the CAISO used to calculate the default energy bids.<sup>14</sup> Table 1 below shows the frequency of days by resource in which the gas prices EDFT submitted as their actual fuel costs is already covered by the gas prices used in the CAISO market.

**Table 1**



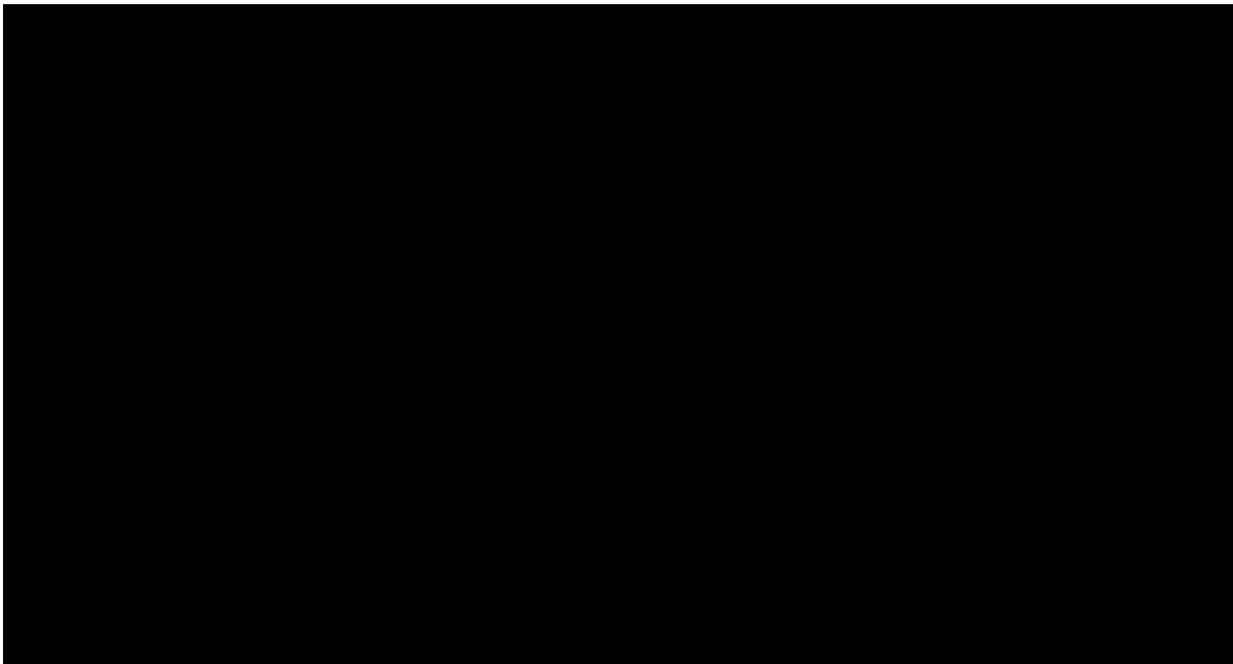
The metrics show that for only about [REDACTED] percent of the days, EDFT may have a valid claim that its actual fuel costs exceeded the fuel costs used to dispatch and compensate its resources. In other words, in only about [REDACTED] of the days, the resources cost-based bids (which included the 10 percent adder), were based on a fuel price that was lower than the gas prices EDFT submitted as its actual fuel costs. As the Commission analyzes whether EDFT is owed any further revenue out of the CAISO markets, it must disregard [REDACTED] of the days.

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<sup>14</sup> Even without the 10 percent adder, for [REDACTED] of the days, EDFT's units submitted fuel costs that were below the gas prices used in the calculating the default energy bids used in the CAISO market.

Table 2, below, shows by resource the costs in dollar amounts that fell on those the days in which the resource’s cost-based bids (which included the 10 percent adder) were based on a fuel price that was higher than the gas prices EDFT submitted as its actual fuel costs. The second column of Table 2 reflects the costs EDFT states it should recover for the affected resources for the entire period from July 20, 2018 through August 20, 2018. The third column represents the fuel costs in total dollar amounts for those days when the resources cost-based bids (which included the 10 percent adder) were based on a fuel price that was higher than the gas prices EDFT submitted as its actual fuel costs.

**Table 2**

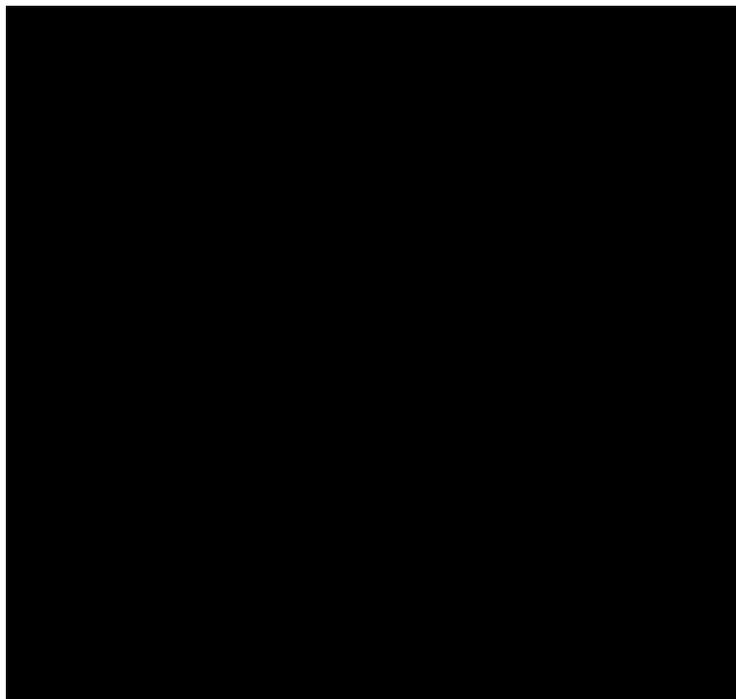


The CAISO has estimated that [REDACTED] of the costs reported by EDFT fall on days in which EDFT could not have experienced any fuel cost deficiency because the CAISO used a fuel cost in calculating the cost-based bids that exceeded the fuel costs EDFT has reported as its actual fuel costs. The CAISO’s analysis is consistent with DMM’s finding that [REDACTED] of EDFT’s requested recovery corresponds to units and days when EDFT’s actual fuel costs were within 10 percent of the gas price index used

by the CAISO.<sup>15</sup> This means that there is, at most, approximately [REDACTED] that EDFT may be entitled to recover through this proceeding.

Turning to those days in which EDFT's reported fuel costs exceed the gas price index used by the CAISO, it also is necessary to determine whether EDFT was actually subject to cost-based bids and thus eligible for cost recovery under section 30.12. Table 3 shows, of the days in which EDFT's reported fuel costs exceeded the fuel costs used to calculate the default energy bids (*i.e.*, 20 percent of the days for which EDFTs seeks recovery under section 30.12), the percent of intervals in which EDFT's resources were mitigated. The data in Table 3 shows that in only a small portion of the intervals for those days EDFT's resources may have been faced with a cost-based bid that did not adequately factor in their fuel costs. The CAISO did not evaluate the specific costs associated with these intervals. More time is required to determine what amounts EDFT may recover from these intervals.

**Table 3**



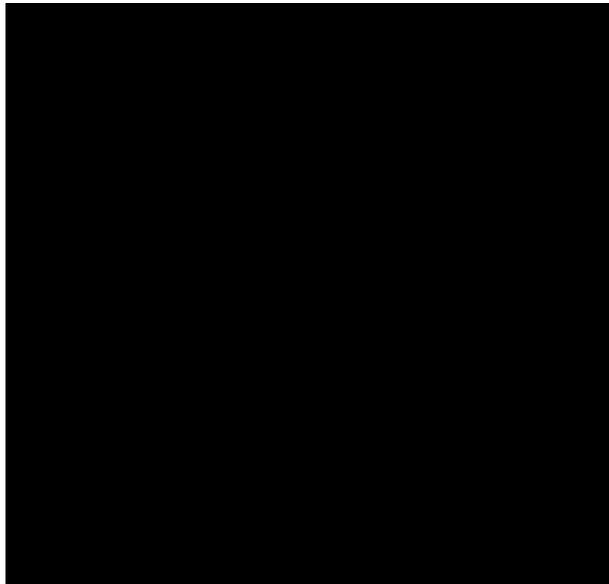
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<sup>15</sup> DMM Comments at 6.

Also, it is necessary to consider whether EDFT's resources were persistently deviating during those intervals. The CAISO market rules account for persistent deviations and disqualifies resources from bid cost recovery payments if the resources are persistently deviating from CAISO dispatch instructions.<sup>16</sup> If the mechanism is triggered, the persistency deviation metric mitigates a resource's bid energy bid costs that are used for bid cost recovery settlement. The CAISO conducted a preliminary analysis and found that throughout the reported period several of EDFT's resources persistently deviated from the MW level the CAISO market instructed.

Table 4 below, summarizes the frequency of hours in which the CAISO flagged EDFT's resources as persistently deviating. It is possible that in many of the intervals reported by EDFT, the resources would be ineligible to receive bid cost recovery because they were persistently deviating. Section 30.12 was not intended to circumvent the market rules the CAISO has adopted to incentivize resources to follow their dispatches. The Commission must consider this carefully before determining the appropriate payments owed to EDFT under section 30.12.

**Table 4**



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<sup>16</sup> See Section 11.17 of the CAISO Tariff.

In summary, section 30.12 of the CAISO Tariff provides an opportunity for scheduling coordinators to recover actually incurred marginal fuel costs that were recovered through the CAISO market settlements and bid cost recovery mechanism. EDFT has not demonstrated that it has not recovered its marginal fuel costs through the CAISO markets, including bid cost recovery. The CAISO agrees with DMM that additional analysis and verification should be performed before approving cost recovery under EDFT's Application.<sup>17</sup>

**B. A portion of the Recovery Sought by EDFT may be Due to a Market Settlements Issue that is Outside the Scope of this Proceeding**

In its answer, EDFT states that on August 10, 2018, Redondo Beach unit 8 was exceptionally dispatched but only compensated at the locational marginal price.<sup>18</sup> A CAISO exceptional dispatch to commit a resource is a CAISO commitment, and the resource is entitled to receive its commitment costs (start, up, minimum load and, if applicable, transition costs). The CAISO has analyzed that trading day, and preliminarily it appears an error may have resulted in EDFT's resource only being compensated at the locational marginal price, and not compensated for its minimum load commitment costs associated with the exceptional dispatch instruction. For instance, Attachment A to EDFT's filing shows a fuel cost of [REDACTED] for Redondo Beach unit 8. The CAISO actually used [REDACTED] for fuel cost to calculate the cost-based bids for the resource, which results in a minimum load cost of [REDACTED], and at the 125 percent value used to estimate the minimum load cost, it results in a minimum load cost of [REDACTED]. This is the value that EDFT bid in the

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<sup>17</sup> DMM also identified a mathematical error in EDFT's filing that EDFT has conceded which would further reduce any potential fuel cost recovery by more than \$2 million.

<sup>18</sup> EDFT Answer at 10-11.

market and that was covering the actual costs. However, this cost seemed to not be considered in the settlement of EDFT's resource. With a minimum load cost of [REDACTED] for 24 hours, EDFT's resource should have costs in the amount of [REDACTED] accounted towards the minimum load cost.

Although, EDFT did not dispute this issue, the CAISO is investigating it and agrees in principle, that if the CAISO exceptionally dispatches a resource, the resource is entitled to the applicable exceptional dispatch energy settlement. Under the exceptional dispatch settlement rules, the resource would be compensated at its bid price, unless the settlement is mitigated, in which case the resource generally would be compensated at the higher of the default energy bid or locational marginal prices. In addition, the resource would be eligible for recovery of its commitment costs, which are processed through the CAISO's bid cost recovery mechanism. If there is an error on the CAISO's part, the appropriate forum for resolving this settlement issue is through the CAISO's settlement dispute process and not this proceeding. Sections 30.12 or 30.11 were not intended to override the CAISO's existing processes for evaluating such errors. The CAISO will conclude its investigation and take appropriate actions to fix any settlement errors identified for the affected days under its existing CAISO tariff authority.

In any case, the Commission must consider that some of the fuel costs EDFT claims it should recover in this proceeding may be recoverable through the CAISO's existing settlement disputes process. This is an additional reason why the Commission cannot simply accept EDFT's Application.

**C. The Commission Should Deny EDFT Any Recovery Under CAISO Tariff Section 30.11 at this time.**

EDFT continues to state that it reserves its right to recovery under Section 30.11 of the CAISO Tariff. The Commission should deny recovery of commitment costs associated with section 30.11 in this proceeding. Section 30.11 states:

If a Scheduling Coordinator incurs but cannot recover through the Bid Cost Recovery process any actual marginal fuel procurement costs that exceed (i) the limit on Bids for Start-Up Costs set forth in Section 30.7.9, (ii) the limit on Bids for Minimum Load Costs set forth in Section 30.7.10, or (iii) the limit on Bids for Transition Costs set forth in Section 30.4.1.1.5, the Scheduling Coordinator for the resource may seek to recover those costs through a FERC filing made pursuant to Section 205 of the Federal Power Act. The Scheduling Coordinator must notify the CAISO within thirty (30) Business Days after the Operating Day on which the resource incurred the unrecovered costs, and must submit the filing to FERC within ninety (90) Business Days after that Trading Day.

EDFT did not provide notice of its intent to recover costs permitted under section 30.11 of the CAISO Tariff. EDFT's notice was specific only to the recovery of costs under section 30.12.<sup>19</sup>

Even if the Commission were to find that EDFT provided adequate notice under the CAISO tariff, the record is void of any data to show that EDFT has not recovered actual marginal procurement costs that exceed the limits specified in section 30.11. The Commission cannot find in this proceeding that EDFT is owed any money under section 30.11.

Sections 30.11 and 30.12 pertain to the recovery of two entirely different types of costs associated with CAISO dispatches and commitments. Section 30.11 pertains to commitment costs, which are subject to different bidding limitations and are calculated based on different inputs than the marginal energy cost-based bids that are covered under section 30.12. As the responsible scheduling coordinator, EDFT bears the burden to demonstrate that it has not recovered actual marginal fuel costs associated its

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<sup>19</sup> EDFT Answer at 4-5.

commitment costs. It is not the CAISO's burden to show that EDFT may not have recovered such costs.

#### **IV. Conclusion**

For the foregoing reasons, the CAISO requests the Commission grant its motion to for leave to file this answer. The CAISO further respectfully requests that the Commission establish a procedural schedule that would give all parties until April 1, 2019, to discuss and possibly resolve the issues in this proceeding before the Commission issues an order on EDFT's Application or initiates a hearing or settlement judge procedures.

Respectfully submitted,

**By: /s/ Anna A. McKenna**

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*Counsel for California Independent  
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Dated: January 24, 2019

## **CERTIFICATE OF SERVICE**

I hereby certify that I have served the foregoing document upon the parties listed on the official service lists in the above-referenced 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 24<sup>th</sup> day of January, 2019.

*Is/ Grace Clark*

Grace Clark