UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	))	**Docket No. ER18-2520-000**

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

The California Independent System Operator Corporation (CAISO)[1] submits this answer to comments and protests filed in this proceeding[2] in response to the CAISO's September 28, 2018, filing to temporarily extend previously approved measures to address potential gas limitations (Aliso September 28 Tariff Amendment). The Aliso September 28 Tariff Amendment addresses the effects of limited operations at the Aliso Canyon natural gas storage facility (Aliso Canyon) on the CAISO's system and market operations by extending seven tariff measures previously approved by the Commission that would otherwise automatically expire on November 30, 2018 and December 16, 2018.

---

[1] Capitalized terms not otherwise defined herein have the meanings set forth in appendix A to the CAISO tariff.

[2] The following entities filed motions to intervene in the proceeding: California Public Utilities Commission; Calpine Corporation (Calpine); Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, Six Cities); City of Santa Clara, California d/b/a Silicon Valley Power (SVP); Department of Market Monitoring of the CAISO (DMM); Modesto Irrigation District; NRG Power Marketing LLC (NRG); Pacific Gas and Electric Company (PG&E); Powerex Corp., Southern California Edison Company (SCE); and Western Power Trading Forum (WPTF).

Except for one of the seven measures, protestors support the extension of the interim measures. DMM filed comments and supports extending all of the interim measures except for the use of the gas price scalar to reflect increases in gas prices used to calculate the commitment cost bid caps and default energy bids in the real-time market.[3] NRG filed a limited protest and supports extending the mitigation measures except that it disagrees with the limitation reflected in the currently effective and proposed tariff language that would prevent the CAISO from using a particular gas price index in the day-ahead market for Monday trading days.[4] PG&E filed comments and supports the tariff amendment but asks that the Commission require that the CAISO look more closely to implement cost allocation measures related to certain uplift costs of the measures proposed.[5]

For the reasons set forth in the Aliso September 28 Tariff Amendment and further below, the Commission should accept the amendment as filed with the one minor modification to its proposed tariff language to ensure the CAISO can obtain the most up to date gas price index in its day-ahead market, consistent with the intent of the proposed measures.[6]

---

[3] DMM Comments at 1-2.

[4] NRG Limited Protest at 3-4.

[5] PG&E Comments at 1-3.

[6] The CAISO files 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. For the reasons explained below, the CAISO respectfully requests waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to permit it to answer the protests filed in the proceeding.

I. Motion for Leave to File Answer

Pursuant to Rules 212 and 213 of the Commission's Rules of Practice and Procedure,[7] the CAISO respectfully requests waiver of Rule 213(a)(2)[8] to permit it to answer the protests filed in the proceeding. Good cause for the waiver exists because this answer will aid the Commission in understanding the issues in this proceeding, provide additional information to assist the Commission in its decision-making process, and help to ensure a complete and accurate record in the matter.[9]

II. Answer

A. The Commission Should Disregard any Arguments Regarding Possible Proposals not Before the Commission in this Proceeding and Accept all the Proposed Measures as it did Before.

As demonstrated by the CAISO in the Aliso September 28 Tariff Amendment, the CAISO faces the same operational and market challenges posed by the limited operations of Aliso Canyon.[10] No party has submitted evidence to the contrary. Furthermore, on November 2, 2018, Southern California Gas Corporation (SoCalGas) released its own winter 2018-19 technical assessment finding that that curtailment of noncore customers, including electric generation, is likely. In its assessment, SoCalGas notes that without noncore

---

[7] 18 C.F.R. §§ 385.212, 385.213.

[8] 18 C.F.R. § 385.213(a)(2).

[9] *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).

[10] *See* Aliso September 28 Tariff Amendment at 10-13.

curtailments, storage levels will be depleted, which will put core service at risk. As a result, SoCalGas believes that noncore customer curtailment will be required in all but the most optimistic conditions (warm temperature conditions and minimal facility outages).[11]

Based on these market and operational challenges, the Commission should approve the same measures it previously found to be just and reasonable for an additional year to ensure the CAISO has sufficient tools to operate and manage the CAISO controlled grid reliably and efficiently in light of continued limited operability of Aliso Canyon.

DMM supports extension of all of the temporary measures proposed by the CAISO, except for the measure that would allow the CAISO to apply a gas price scalar to increase the gas price used in calculating caps for commitment costs and default energy bids used in the real-time market for gas-fired generating units in the SoCalGas and San Diego Gas & Electric (SDG&E) gas regions.[12] DMM believes the gas price scalars "weaken market power mitigation and increase costs in the CAISO system, but have proven to be a crude and ineffective tool for limiting gas usage when needed for system reliability."[13]

The CAISO understands the concerns raised by DMM regarding the crudeness of the gas price scalars, but respectfully disagrees that this means the CAISO should not have authority to use the scalars, given that at this time these

---

11 *See* Southern California Gas Company Winter 2018-19 Technical Assessment, November 2, 2018, at 2, available at https://efiling.energy.ca.gov/GetDocument.aspx?tn=225785.

12 DMM Comments at 1.

13 *Id.* at 1-2.

are the only tools the CAISO can implement readily to ensure the energy market can accurately reflect gas costs caused by the limited operability of Aliso Canyon. DMM points to the CAISO's own description of how the effectiveness of the scalars is in part hampered by the "static" nature of the scalars because using the scalars requires activating the gas price scalars in time to capture the same-day gas price increases.[14] This "crudeness" arises out of the change in the CAISO's practice of having the gas price scalars in place all the time to its current practice of having the scalars in place only when warranted by system conditions. The CAISO changed its practices approximately one year ago, after DMM raised concerns that having the gas price scalars in place at all times resulted in the scalars being implemented when not needed, and thereby allowing excess costs to be bid into the CAISO market, and potentially weakening measures needed to address possible exercise of market power. However, having the gas price scalars in place all the time would avoid the scalars not being in place when needed because there would be no delay in triggering the scalars. Without the delay of triggering the scalars, market participants could reflect their gas price costs in the real-time market more readily.

The CAISO continues to work towards bettering its processes so that it can activate the use of the scalars in a timelier manner, in an effort to make the gas price scalars more accessible to more readily reflect increases in gas costs in the real-time market. For example, the CAISO is considering triggering the

---

[14] *Id.* at 4.

gas price scalars when it has notice that the gas company will prompt certain operational flow order (OFO) events. The CAISO agrees with DMM that the "difference in next day gas prices at SoCal Citygate compared to the PG&E Citygate is clearly correlated with the declaration of Operational Flow Order (OFOs) and the different gas imbalance charges associated with these OFOs."[15] The whole purpose of the gas price scalars is to allow gas-fired generators to reflect gas cost expectations in energy and commitment cost bids to decrease the likelihood the CAISO market will dispatch Southern California resources for non-local needs, or, if the market dispatches them, to reflect gas costs in the market and adequately compensate suppliers for them.[16]

DMM further argues that the "static" nature of the gas price scalars is problematic because of the "CAISO's use of static values of 175 percent and 125 percent, rather than scalars based on actual gas market prices and conditions."[17] DMM concludes that because of these limitations, looking back, "gas prices used in calculating bid caps in the real-time market for units in the SoCalGas areas have been lower than may have been warranted on some days and have been too high to mitigate local market power on many other days."[18]

Although looking to historical pricing patterns is instructive in understanding whether the gas price scalars captured actual price variations, it is misleading to judge whether the CAISO needs the scalars going forward based

---

15 *Id.* at 4.

16 *See* Aliso September 28 Tariff Amendment at 20.

17 DMM Comments at 4.

18 *Id.* at 5.

on these patterns alone. The purpose of the scalars is to enable the market to reflect increases in costs in the real-time market that arise intra-day that are not captured in the indices used to calculate commitment cost bid caps and default energy bids. DMM's concern that in some cases the scalars were too high to mitigate for market power based on what the prices actually amounted to ignores that the scalars adjust the commitment cost bid cap and are intended to be in place to capture the possibility of prices increasing based on gas constraints in the Southern California region.

The CAISO continues to believe that until it has more flexible methods of capturing increases in intra-day gas price increases, the gas price scalars are the only market measures it can adopt quickly to ensure the resources in Southern California can reflect the higher cost of gas due to the absence of Aliso Canyon, and as a result move the gas burn from the constrained portion of the system in Southern California.

A large part of DMM's comments focus on the merits of the CAISO's pursuit of other measures that would, in the future, avoid the need for the interim measures proposed in this proceeding. The Commission should disregard DMM's comments regarding alternative proposals, or proposals the CAISO has not yet put forth before the Commission. In this proceeding, the Commission should consider the proposal the CAISO submitted to the Commission in its Aliso September 28 Tariff Amendment, which is whether it is just and reasonable for the Commission to extend the same provisions it has previously found to be just and reasonable in light of the continued limited operability of Aliso Canyon.[19]

The CAISO has shown, and no party has contradicted, that the same conditions that existed before will exist for the next twelve months. In addition, the CAISO has not yet put forth any rule changes that would mitigate for those conditions. The Commission has already found the gas price scalars to be just and reasonable, and although the CAISO can improve its processes for applying the scalars, the CAISO proposes to apply exactly the same scalars that the Commission has previously approved.

DMM continues to put forth its proposal to "implement a process for updating gas prices used in the real-time market based on same day trade prices on the Intercontinental Exchange (ICE) each morning."[20] In this proceeding, the Commission should consider the merits of the CAISO's Aliso September 28 Tariff Amendment and not alternative proposals. Nevertheless, the CAISO shares with the Commission that it has considered DMM's proposal in prior stakeholder initiatives, and concluded that it would not be just and reasonable to implement such an approach for a variety of reasons. When the CAISO changed its practice to use an index obtained from ICE between 8:00 a.m. and 9:00 a.m. PT,

---

19 *See, e.g.*, *ISO New England, Inc.*, 162 FERC ¶ 61,206, at P 33 (2018) ("[T]he question before the Commission . . . is whether ISO-NE has demonstrated that its [proposals] are just and reasonable, not whether ISO-NE's proposal is more or less just and reasonable than protesters' proposed alternatives.") (footnote omitted); *Louisville Gas & Elec. Co.*, 114 FERC ¶ 61,282, at P 29, *order on reh'g*, 116 FERC ¶ 61,020 (2006) (finding that "the just and reasonable standard under the FPA is not so rigid as to limit rates to a 'best rate' or 'most efficient rate' standard."); *City of Bethany v. FERC*, 727 F. 2d 1131, 1136 (D.C. Cir. 1984) (when determining whether a proposed rate was "just and reasonable", as required by the FPA, the Commission properly did not consider "whether a proposed rate schedule is more or less reasonable than the alternative rate designs").

20 DMM Comments at 5-6.

based on next-day gas trading for use in setting default energy bids and commitment cost bid caps for the day-ahead market, the Commission stated that "in order to use an index reported by ICE, the index must conform" to the Commission's Policy Statement on price indices.[21]

The CAISO sought clarification from the Commission that although the CAISO could not itself determine if the index met the Commission's policy, the CAISO could use the index because it could confirm, based on discussions with ICE representatives, that the index used the same volume-weighted average gas price based on cleared gas trades that are executed on ICE's platform, up until the time that the CAISO draws the volume-weighted price from ICE.[22] The Commission found that "the natural gas price index tariff provisions" as accepted "conform to the Commission's policy statement on natural gas and electric price indices."[23] The Commission based its finding on the expectation that the volume-weighted average next-day gas price generated by ICE between 8:00 a.m. and 9:00 a.m. PT, "will include trades between 5:00 a.m. and at least 8:00 a.m. PT, will have sufficient activity to conform to the liquidity requirements of the Policy Statement."[24]

---

[21] *Cal. Indep. Sys. Operator Corp.*, 155 FERC ¶ 61,224 at P 12, n. 14 (citing *Policy Statement on Natural Gas and Electric Indices*, 104 FERC¶ 61,121, *order on clarification,* 105 FERC ¶ 61,282 (2003) (Policy Statement)), (2016).

[22] *See* the CAISO's Motion for Clarification, or in the Alternative, Petition for Limited Waiver, filed August 3, 2016, Docket No. ER16-1649-000, at 2.

[23] *Cal. Indep. Sys. Operator Corp.*, 157 FERC ¶ 61,029 at P 1, and n. 2 (citing *Price Discovery in Natural Gas and Electric Markets,* 104 FERC ¶ 61,121, *order on clarification,* 105 FERC ¶ 61, 282 (2003) (Policy Statement)), (2016).

[24] *Id.* at P 10.

In contrast, ICE does not publish an index for the same-day gas trades, rather, what is available is an estimated price based on current same-day gas trades that occur on ICE. In considering DMM's proposal, the CAISO could not establish that the same-day gas trading information would at all times include sufficient trades to meet the liquidity requirements under the Commission's policy statement. This would render the methodology unjust and unreasonable because it would create situations when the index is artificially too high or too low, to reflect expected intra-day gas costs exposure.

At the time the CAISO was considering the changes to address commitment cost and default energy bid caps, the CAISO was also considering its compliance with the Commission's Order No. 831, in which the Commission required Independent System Operators and Regional Transmission Organizations to provide market participants with the ability submit bids in excess of $1000/MWh based on verified costs.[25] The CAISO concluded it was best to synchronize and leverage these efforts since both required the need to verify increases in costs not captured by fuel price indices. As part of these efforts, the CAISO developed a process for suppliers to request adjustments to a specific resource's default energy bid or commitment cost bid cap based on the supplier's expected costs. This process includes provisions to approve adjustment requests automatically based on a "reasonableness threshold" established by the CAISO that represents expected differences between supplier's expected costs

[25] *Offer Caps in Markets Operated by Regional Transmission Organizations and Independent System Operators*, 157 FERC ¶ 61, 115 (2016) (Order No. 831).

and the costs calculated by the CAISO based on a published gas price index.

As noted by DMM, the CAISO has recently concluded that the reasonableness threshold values it has developed so far under its Commitment Cost and Default Energy Bids (CCDEBE) proposal may not capture all same-day gas price volatility.[26] The CAISO is considering modifying its CCDEBE proposal so that it can use gas trading information on ICE to adjust reasonableness thresholds to reflect same-day gas price volatility better than it currently does today. This is different from what DMM is proposing.

DMM is proposing that the CAISO update default energy bids and commitment cost bid caps based on the same-day gas trading information the CAISO observes on ICE. A supplier can bid up to a default energy bid or commitment cost bid cap irrespective if that is the supplier's actual costs. The CAISO does not believe this is reasonable because it cannot always confirm that the same-day gas trading is sufficiently liquid to either justify such increases, or reflect true costs suppliers will face. In contrast, the CAISO is considering updating its reasonableness thresholds used for approving reference level adjustment requests because there would be the additional requirement that suppliers can only submit adjustment requests based on their expected costs. Under the CAISO's proposal, suppliers would not be allowed to bid up to the adjusted reasonableness threshold unless their bid is based on expected costs, which are subject to audit by the CAISO.

[26] DMM Comments at 9-10.

The Commission should disregard DMM's suggestions that the CAISO is likely to further delay implementation of the CCDEBE proposed changes because it is re-opening the stakeholder process. The CAISO is on track to take the minor modification to its CCDEBE proposal to its Board of Governors in March and will be filing the complete tariff amendment with the Commission by the end of April of 2019. The proposed change to the overall proposal would not constitute a major deviation from the CAISO's current implementation plan.

B. The Commission Need not Direct the CAISO to Provide Additional Transparency on the Costs of Using the Minimum Gas Burn Constraint Because the CAISO is Already Planning on Doing so Through its Upcoming Assessment of Using this Measure on a Long-Term Basis.

PG&E supports Commission-approval of the Aliso September 28 Tariff Amendment, but asks the Commission to order the CAISO to provide greater transparency regarding the CAISO's use of interim measures as well the cost impacts. PG&E also requests the Commission to require the CAISO to take expedited action to provide greater transparency regarding the historic impacts of the interim measures already implemented as well as the costs and benefits of the measures.[27] PG&E asks that the CAISO evaluate whether changes to the cost allocation for the real-time imbalance offsets (RTIEO) and real-time congestion offsets (RTCO) (*i.e.*, uplift costs) might be warranted to align with cost causation and beneficiaries pay principles.[28]

---

[27] PG&E Comments at 1.

[28] *Id.* at 1-2.

The CAISO already provides information on the impact of the interim measures, including the minimum gas constraint, in its market performance and planning forum (MPPF) meetings and has discussed openly with stakeholders the conditions under which and impacts of when the Aliso Canyon provisions were used. The CAISO is also committed to working with PG&E and other stakeholders to determine what additional information is needed that the CAISO can provide. The CAISO will continue to provide any new information through the MPPF stakeholder meetings, which are well attended by all stakeholders.

With regards to the cost implications of the interim measures, the CAISO has already indicated in its Aliso September 28 Tariff Amendment that it intends to conduct a stakeholder process to evaluate whether to propose the ability to use the gas constraint on a permanent basis on the CAISO balancing authority area beyond the termination of the interim measures it requests in this proceeding.[29] If through that process the CAISO determines it is necessary to have the gas constraint on a permanent basis, the CAISO will also consider whether it is necessary to adopt a different cost allocation based on the historical cost impacts of the use of the constraint.

When the CAISO considered this question previously with stakeholders, it concluded that there was no obvious way of identifying the cost impacts of utilizing the gas constraint, such as increases to RTIEO and RTCO, from other compounded factors such as higher gas prices. The CAISO's use of the gas constraint obviously coincides with the already constrained system conditions,

[29] Aliso September 28 Tariff Amendment at 28.

which can cause increases on the RTIEO and RTCO.

PG&E points to DMM's data in which DMM reported that "higher real-time energy imbalance costs totaling $24 million, about $19 million of which is attributable to four days (February 20 to 23)" are also the days "in which real-time gas burn constraints associated with Aliso Canyon gas-electric coordination were enforced and binding during peak hours in the real-time market."[30] DMM does not demonstrate, however, that these costs are driven alone by the use of the constraint, but simply states that these costs coincide with the increase.

The CAISO has considered whether the increase the RTIEO and RTCO in February was due to the use of the constraint. The CAISO concluded that, although the constraint does increase the constraints the market must solve for, it is not obvious that it is the only factor in the increase in in RTIEO and RTCO as compared to other times. During the February 20-23 period, as discussed in the Aliso September 28 Tariff Amendment, the gas system was experiencing significant constraints, as was the electric grid.

In order to facilitate sufficient and reliable electric service, the CAISO must balance energy supply and demand at all times. To the extent there are energy imbalances that have to be met in the real-time market, the CAISO must procure for such differences in the real-time market. Some of the costs of the CAISO's procurements in the real-time market are accounted and paid for pursuant to the RTIEO. The RTIEO is a CAISO account used to reconcile the settlement dollar

[30] PG&E Comments at 2, citing DMM Q1 2018 Report on Market Issues and Performance, July 10, 2018, p. 31.

values for all real-time energy charge codes to ensure that, after payments and charges for the real-time market have been calculated, there is neither a shortage nor a surplus in revenue. Any shortages or surpluses in revenue are allocated to all scheduling coordinators based on a *pro rata* share of their measured demand (*i.e.*, metered load and exports).

The RTCO is a real-time balancing account that captures the difference in what the CAISO collects from demand in the marginal cost of congestion component of the locational marginal price, and what the CAISO pays to supply for the marginal cost of congestion. By design, the RTIEO and RTCO will reflect differences in system conditions between the day-ahead and real-time markets, which could result in either a surplus or shortfall in those accounts. This may arise from any condition and constraint in the market and not just because of the gas constraints. For instance, if gas prices are higher than usual resulting in higher energy prices, it means the congestion costs of transmission constraints will be priced (managed) more expensively, which will lead to higher congestion costs.

Experience with constrained gas and electric system conditions in July when the CAISO did not enforce the constraint suggests that the RTIEO and RTCO will increase when the systems are so constrained.[31] As reported by the CAISO in its August 29, 2018, MPPF meeting, the RTCO increased substantially in July following system conditions related to high load, gas prices, and real-time

[31] *See* Aliso September 28 Tariff Amendment at 38.

congestion patterns.[32]

C. The Commission Should Accept the CAISO's Proposal to Use the Constraint for an Additional Year in Light of the Continued Absence of Aliso Canyon.

DMM recommends that, although it supports granting the CAISO authority to use the gas constraint, the CAISO should refine how it utilizes the maximum gas constraint and improve how gas usage constraint limits are set and adjusted in real-time.[33] DMM asserts that market performance during the limited times the CAISO has utilized maximum gas constraints shows that this measure can increase market costs significantly and should be more effectively designed and implemented to ensure it is an effective tool for helping to ensure reliability.[34]

The CAISO continues to improve on the constraint as it employs and observes its effectiveness and impact, and the CAISO will continue to do so in the upcoming year. From the performance analysis of the gas constraints carried out by the CAISO after its use in early 2018, the CAISO identified the need to handle better the definition of the gas limits for the real-time market.[35] The CAISO discussed these observations and the ongoing effort to improve the limit management with DMM. The CAISO also discussed the performance of the gas constraints and its impacts during the subsequent MPPF meetings. The CAISO will continue to do so and will continue to work with DMM as it makes

---

[32] *See* Presentation Market Performance and Planning Forum, August 29, 2018, slide 31, available at http://www.caiso.com/Documents/Presentation-MarketandPerformancePlanningForum-Aug292018.pdf

[33] DMM Comments at 2 and 27.

[34] *Id.* at 2.

[35] Aliso September 28 Transmittal Letter at 36-37.

adjustments. Also, the CAISO will continue to discuss its observations and any enhancements with stakeholders during the MPPF meetings. Furthermore, the CAISO will be conducting a stakeholder process next year to consider the use of the constraint on a permanent basis and will discuss performance of the constraint further during those meetings.

As indicated in the Aliso September 28 Tariff Amendment, DMM's concerns conflate two different aspects of the gas constraint, one that is the vehicle used to enforce the gas limitation (currently using a gas nomogram in the market) and the second one is the actual definition of the limit. The potential improvement and enhancements, and DMM's concern, are related to achieve a better definition of the gas limits, which is to a great extent independent of using or not a gas nomogram in the market. If the CAISO had not used the gas nomogram, it still would need to define what limits to use and impose by some means, such as using exceptional dispatches. Any potential refinements on how gas limitations are defined is beyond the use of the gas nomogram. Not using the gas nomogram will not obviate the challenges associated with defining the gas limitations in the energy market and even more complexities would arise because of the lack of a market constraint.

DMM also notes that the CAISO is currently adding additional detail to the business practice manual to clarify how the constraint is formulated and "how the constraint may be shaped."[36] DMM also "recommends that any further

---

[36] DMM Comments at 26, citing Aliso September 28 Tariff Amendment at 31.

modification to the formulation of the maximum gas constraint be clearly explained and documented for DMM and stakeholders in a timely manner."[37] The CAISO agrees to do so and any improvements will be discussed in the upcoming stakeholder process to consider implementing the constraint beyond the interim period requested in this proceeding.

D. The CAISO Agrees with NRG that the CAISO Should have the Flexibility to use the Most up-to-date Index Published by ICE in its Proposed Day-Ahead Index Update Procedure.

The CAISO proposes to maintain until no later than December 31, 2019, the existing interim tariff provisions that the Commission accepted in the Aliso Phase 3 proceeding to improve the accuracy of the gas commodity price indices the CAISO uses to calculate commitment cost proxy costs, generated bids, and default energy bids used by the day-ahead market, by reflecting the most recent gas commodity price information. Using information that more accurately reflects prevailing gas commodity costs enhances the day-ahead market's ability to schedule resources efficiently. These provisions also better ensure that resources cleared in the day-ahead market will be compensated based on fuel prices that better reflect their actual costs of procurement.

No party objects to this proposal, however, NRG notes that the CAISO's current practice of using a volume-weighted average price reported between 8:00 a.m. and 9:00 a.m. PT that the ICE calculates based on trades transacted on ICE during its next-day trading window, *i.e.*, on the morning of the CAISO's day-ahead market, is too limiting for Monday's and can result in underestimating a

[37] *Id.* at 26.

resource's exposure to fuel cost. NRG, therefore, recommends that the CAISO adjust its use of gas index costs in its day-ahead market for Mondays to no longer use only the next-day prices obtained on Friday.[38] ICE also produces at times a Monday-only gas trading index on Fridays, which covers trading on Friday's for gas deliveries on Monday. ICE produces the Monday-only index when the gas market anticipates Monday will have much higher demand than Saturday and Sunday. NRG asserts the Monday-only index reflects the market's expectation of prices specific to the Monday power day.[39] Monday gas demand and the resulting prices are typically greater on Mondays than over the weekend.

The CAISO does not object to having the flexibility of using the Monday-only gas price index when it is produced on Fridays. However, the currently effective language in the CAISO tariff restricts the CAISOs ability to use this index. The currently effective CAISO tariff states that the CAISO "will use a gas price index based on natural gas prices reported by the Intercontinental Exchange one (1) day prior to the applicable Trading Day between 8:00 and 9:00 a.m. Pacific Time for natural gas deliveries on the Trading Day, which is a volume-weighted average price calculated by the Intercontinental Exchange based on trades transacted that day on the Intercontinental Exchange during its next-day trading window."[40] This means the CAISO cannot use the Monday-only index reported by ICE based on the currently effective CAISO tariff language.

---

38 NRG Limited Protest at 3.

39 *Id.* at 3.

40 Previously accepted CAISO tariff section 3.7.1.1.1.3(c).

The current restriction is inconsistent with the reason for adopting the updated price index methodology because it forces the CAISO to forgo the use of a more up-to-date available index. The proposal to use the Monday-only index is not inconsistent with the intent of that tariff provision but because it is not specifically the index ICE posts one (1) day prior to the applicable trading day (*i.e.*, Monday) between 8:00 a.m. and 9:00 a.m. PT. This rule applies well for weekdays other than Monday and does not pose any limitations. However, for Mondays it does not factor in the trades for Monday-only and therefore may not capture costs for the additional gas suppliers may have to purchase for Monday delivery to meet higher generation schedules on Monday. Choosing the index between 8:00 a.m. and 9:00 a.m. PT is particularly important for weekdays other than Monday because the day-ahead market bid submission closes at 10:00 a.m. PT on the day prior to the trading day. This gives market participants the ability to change their bid to address any potential gas price issues they face on the trading day. This issue does not arise for Mondays because the Monday-only index is published on Friday and market participants can change their bids up until Sunday morning at 10:00 a.m. PT for the day-ahead market for the Monday trade day.

The Monday-only index is also a "volume-weighted average price calculated by the Intercontinental Exchange based on trades transacted for that day on the ICE."[41] The whole purpose of the day-ahead updated index is to ensure the market runs with more up-to-date costs. At the time the CAISO

---

[41] CAISO tariff section 39.7.1.1.1.3(b).

developed the procedure this issue was not apparent and therefore, the CAISO wrote the tariff to accommodate the use of the index it knew captured the more up-to-date gas price information. With experience and through discussions with market participants, the CAISO now is aware of this index and believes it should have the flexibility to use this index.

The CAISO can address this by modifying the tariff so that the tariff states that:

> "For the Day-Ahead Market~~,~~ for all Trading Days except for Monday Trading Days, the CAISO will use a gas price index based on natural gas prices reported by the Intercontinental Exchange one (1) day prior to the applicable Trading Day between 8:00 and 9:00 a.m. Pacific Time for natural gas deliveries on the Trading Day, which is a volume-weighted average price calculated by the Intercontinental Exchange based on trades transacted that day on the Intercontinental Exchange during its next-day trading window. For Monday Trading Days, the CAISO may use the Monday-only index when it is available and reported by the International Exchange three days prior to the Monday Trading Day."[42]

The CAISO can address this in compliance with the Commission's order in this proceeding or in a subsequent tariff clarification.

[42] Proposed CAISO tariff section 39.7.1.1.1.3(b).

III. Conclusion

For the foregoing reasons, the Commission should accept the tariff revisions contained in the Aliso September 28 Tariff Amendment with one minor modification as discussed herein.

Respectfully submitted,

/s/Anna McKenna

Roger E. Collanton
General Counsel
Anna A. McKenna
Assistant General Counsel
Jordan Pinjuv
Senior Counsel
California Independent System
Operator Corporation
250 Outcropping Way
Folsom, CA 95630
amckenna@caiso.com
jpinjuv@caiso.com

Counsel for the California Independent System Operator Corporation

Dated: November 5, 2018

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for the above-referenced proceeding, pursuant to 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 5th day of November, 2018.

Grace Clark
Grace Clark