



Comments of Pacific Gas and Electric Company on the Aliso Canyon Gas- Electric Coordination Draft Final Proposal

Submitted by	Company	Date Submitted
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Introduction

Pacific Gas and Electric Company (PG&E) appreciates the opportunity to offer comments on the Aliso Canyon Gas-Electric Coordination Initiative Draft Final Proposal issued on April 26, 2016 by the California Independent System Operator (CAISO). PG&E continues to applaud the CAISO’s efforts to address urgent challenges posed by lack of gas storage in Southern California, and looks forward to collaborating with the CAISO and other market participants as the initiative progresses.

The following recommendations augment comments submitted by PG&E on April 21 and on March 30, in response to the CAISO’s Straw Proposal and Issue Paper, respectively. PG&E now raises additional concerns and seeks clarification regarding new or updated provisions.

Given the Aliso Canyon storage facility location, most of the burden of the current storage constraints is on stakeholders in Southern California. The impacts will reach beyond that region, however, and PG&E supports solutions that will enable Northern California to facilitate reliability and efficiency throughout the state.

Comments

PG&E understands that the CAISO must act quickly to mitigate risks associated with the loss of Aliso Canyon storage, and thus, a condensed timeframe exists during which to develop, evaluate, test, and refine CAISO proposals. Even with limited time remaining before summer implementation, however, PG&E encourages the CAISO to address the following outstanding considerations.

Reserving Transmission Capacity on Path 26:¹ PG&E supports this approach to enhancing reliability, and seeks clarification on key proposal aspects in order to prepare appropriately

¹ To ensure that sufficient flexibility is available in Southern California to meet a contingency or an unanticipated net load deviation, the CAISO is proposing to reduce Path 26 transfer capability in the day ahead and real time market.



for implementation. PG&E urges the CAISO to provide additional detail with regard to the following:

- **Quantity Reserved and Conditions for Release:** PG&E looks forward to understanding how the CAISO will assess “system conditions” to determine the amount of transmission capacity to reserve on Path 26, as well as when reserved capacity will be released. PG&E encourages the CAISO to release transmission capacity reserved on Path 26 prior to running the Real Time market (FMM and RTD) in order to allow resources in Northern California to respond to changing requirements in Southern California.
- **Reservations on Transmission Capacity Outside of Path 26:** Utilizing reserved transmission capacity on Path 26 should help to meet variations in Real Time requirements; however, it is possible that flexibility in Northern California will be insufficient and/or that the CAISO will see undesired effects of the approach, such as increased OFOs or significant number of starts being used on Northern California resources with use limitations (such as maximum yearly starts). PG&E strongly recommends that the CAISO develop plans and procedures to ensure additional capacity to move power between Southern California and other areas in the Real Time market.
- **Pricing Reserved Transmission Accurately:** Withholding CRRs in a monthly CRR process may not provide the flexibility needed to vary transmission capacity reservations on Path 26 from day to day while maintaining revenue adequacy. PG&E recommends that the CAISO seek authority to price the transmission capacity reserved on Path 26 each hour of the Day Ahead Market at the shadow price of the transmission constraint. Per CAISO cost causation principles, the market cost of the transmission capacity reserved for SoCalGas area reliability would be collected from participants in that area through an uplift charge. This approach would provide the revenue needed to avoid adverse impacts on CRR revenue adequacy if the CRR monthly process is not changed.

Commitment Costs and Default Energy Bids: PG&E supports the proposed concepts, but encourages the CAISO to provide additional analysis prior to implementation. As PG&E understands the proposal, CAISO plans to update commitment costs in real time to reflect changes in procurement costs/gas availability in four ways. While acknowledging the time constraints around implementation, PG&E encourages the CAISO to address the following considerations for each component of the proposal:

- **Real Time Rebidding of Commitment Costs**²: Despite the extraordinary circumstances present, PG&E opposes rebidding of commitment costs for resources without consideration

² CAISO is proposing to allow rebidding of commitment costs in real time regardless of whether it had a Day Ahead schedule or received a binding startup instruction. PG&E understands that the urgency of the situation precludes the CAISO from implementing rebidding limitations approved by the CAISO Board (i.e. only allowing resources that did not have a day ahead schedule or real time commitment to re-bid their commitment costs). PG&E interprets this enhancement applying CAISO-wide.



to whether the resource had a day ahead award or not. First, it is unclear to PG&E from CAISO's proposal if this rebidding accounts for incremental energy or would allow generators to replace their day ahead award with a new bid. PG&E is concerned with market power system wide even if a market power test was passed. PG&E is also concerned that this will encourage resources to rebid at a higher cost and produce inefficient market outcomes. PG&E recommends a cost based bidding requirement if the costs change between the day-ahead and real time market. Second, PG&E remains concerned that the short timeframe in which the CAISO plans to implement this change severely impedes the CAISO and market participants' ability to conduct adequate systems testing and preparation, as this significantly impacts bidding, internal processes and reporting.

- Increasing Commitment Cost Bid Cap and Default Energy Bids³: PG&E understands that the CAISO is proposing to increase commitment cost bid cap and default energy bids used, by adjusting the gas price index used as an input into the commitment cost bid cap using the maximum of: (a) increased bid amount necessary to dispatch Aliso Canyon-affected generators for local needs (not system needs); (b) Real time price premium to account for systematic difference between Day Ahead and same day gas prices. PG&E interprets this enhancement as applying to generators subject to constraints caused by loss of Aliso Canyon storage and requests that the CAISO clarify this intention.

PG&E requests that the CAISO, prior to implementation, share with market participants additional information and illustrative examples on the methodology used under each approach to determine the new commitment cost bid cap and DEB adder, as well as the source(s) of prices used; a proposed timeline for updating prices and communication changes to market participants; and, if possible, the mathematical formulation behind each approach. Specifically, PG&E seeks to understand how the increased bid amount would be determined in the first scenario and, in the second, how the CAISO will compute the real time price premium to account for differences; whether intraday bids would be used; and how the CAISO will respond if these markets are not liquid enough.

- Expanding Board- Approved Policy for After- the- Fact Recovery: PG&E understands that the CAISO aims to add on to the Board-approved policy of addressing commitment costs in after-the-fact cost recovery filings by allowing for recovery of incurred marginal procurement costs associated with incremental energy. PG&E interprets this proposal as applying CAISO-wide.

PG&E supports after-the-fact cost recovery in limited circumstances, recognizing that it is always preferential to use available tools to conform to gas system constraints and balancing

³ CAISO has stated that this is anticipated to be approximately a 75% premium, capped at the OFO price. PG&E interprets this enhancement as applying to those generators subject to the constraints due to the Aliso Canyon situation.



requirements and avoid the need for exceptional cost recovery at all. Though recognizing that price volatility or marginal procurement costs can create situations in which cost recovery is appropriate, PG&E requests that the CAISO tariff outline the design details associated with this proposal, including the specific reporting and documentation requirements required from generators, and the calculation methodology CAISO would use to verify these results.

Virtual Bidding: PG&E strongly urges the CAISO to suspend virtual bidding in the affected area. Consistent with PG&E's previous comments and concerns submitted by the Department of Market Monitoring⁴, PG&E recommends CAISO suspend virtual bidding in the Affected Aliso area. When FERC granted CAISO's request to suspend virtual bidding on the interties, FERC's conditions for the reinstatement of intertie virtual bidding was contingent on, "CAISO filing a report to demonstrate that the new market structure is providing the expected price convergence," that the market structure "is working to reduce systemic price divergence," and that "the anticipated benefits of intertie convergence bidding outweigh any expected market inefficiencies, including any risk of market manipulation."⁵ None of the three criteria can be demonstrated to support allowing virtual bidding in the affected Aliso area.

The constraint on Path 26 (and possibly other transmission lines) will likely create systematic price differences between day-ahead and real time, which if responded to by virtual bidders, could undermine the effectiveness of the constraint and increase real-time imbalance energy offset charges. There is no evidence to suggest that the benefits virtual bidding can provide in narrowing the gap between day-ahead and real-time prices will hold true under these emergency conditions, and the anticipated benefits of virtual bidding do not outweigh the significant risk of market manipulation. CAISO could also institute short term safeguards in other areas of CAISO's footprint, such as placing limits on the total volume of convergence bids at each hub and limits on the volume that any one market participant could trade.

Additional Considerations

- **Exceptional Dispatch and Cost Allocation:** In accordance with the CAISO's Cost Allocation Guiding Principles, PG&E recommends that the CAISO examine whether the costs of any exceptional dispatch resulting from limited storage in the affected area should be allocated to the affected area.
- **Implementation Testing:** PG&E remains concerned about the aggressive implementation timeline associated with any changes that would require market interface modifications.

⁴ "Comments on Aliso Canyon Gas-Electric Coordination Straw Proposal". April 21, 2016. California ISO – Department of Market Monitoring.

https://www.caiso.com/Documents/DMMComments_AlisoCanyonGasElectricCoordinationStrawProposal.pdf

⁵ https://www.caiso.com/Documents/Apr3_2015_TariffWaiver_IntertieCB_ER15-1451.pdf



PG&E strongly recommends CAISO provide testing scenarios for market simulation prior to implementation.

- EIM Benefits: PG&E requests CAISO further evaluate whether additional changes to the EIM market, including setting aside transmission or making contractual arrangements with generators in the EIM areas, could be used if the changes proposed are not sufficient to ensure reliability at an affordable price.
- Sunset Provisions: PG&E would appreciate language in the tariff to specify any sunset provisions associated with each market design change.
- Situational Awareness: PG&E encourages the CAISO to explicitly implement heightened communications/coordination of system operators (Day Ahead and Real-time) with neighboring Balancing Authorities regarding gas system constraints and potential electric generation constraints in the Southern California region. These communications would better prepare the CAISO to respond to adverse system condition in the event the planned market mechanisms to manage the Aliso canyon Storage and Southern California gas system constraints are insufficient. Perhaps most important will be communications and coordination between the CAISO and the Los Angeles Department of Water and Power Balancing Authority who are both impacted by the Aliso canyon Storage and Southern California gas system constraints.
- Monitoring Market Performance: PG&E encourages the CAISO, upon implementation of the planned market mechanisms, to closely monitor and develop useful metrics (e.g. accuracy gas/electric demand, number of hours hours/amounts of gas system out of balance, effectiveness of Path-26 flows, LMP prices, out-market dispatch etc.) and communicate them back to market participants. In addition, PG&E recommends that the CAISO implement a process to facilitate feedback from market participants on any issues and suggestions for potential improvements.