# Stakeholder Comments

## Bidding Rules Enhancements (BRE) Straw proposal FERC Order 809



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The following are Southern California Edison's (SCE) comments on the California Independent System Operator's (CAISO) April 22, 2015, Straw Proposal[1].

SCE supports retaining the current Day Ahead Market (DAM) timeline, Alternative 2. While the Federal Energy Regulatory Commission (FERC) has changed the "Timely" gas cycle to allow electric markets to precede it and thus allegedly better inform gas procurement, doing so creates more problems in California than it solves and will likely lead to higher costs for consumers with no increase in system reliability. SCE's arguments supporting the current DAM timeline can be summarized as:

1. No reliability problem exists in California that will be solved by moving the DAM. California's natural gas infrastructure adequately handles gas volume risk. The primary concern for California consumers is managing price risk, which Alternative 1 makes worse.
2. It is not clear that gas volume certainty will improve. Gas volume certainty is a byproduct of load certainty through the DAM process, and moving the DAM timeline earlier will degrade the accuracy of forecasting load, renewable generation, and hydro generation.
3. The timeline under Alternative 1 will not provide sufficient time to procure and schedule natural gas.
4. California is heavily reliant on power imports to meet its needs. Requiring DAM bids as early as 6:00 AM or 7:00 AM will significantly impact the CAISO market's participants' ability to procure and bid these imports.

[1] http://www.caiso.com/Documents/StrawProposal_BiddingRulesEnhancements.pdf

**California's gas and electric markets, and infrastructure, are different from the east coast and a uniform approach will not work for all**

There are different issues facing electric generation in California versus generation on the east coast. The primary difference is related to the natural gas system infrastructure. FERC, in its Section 206 Order "provides that ninety days after publication of this Final Rule in the *Federal Register* each ISO and RTO is required to propose tariff revisions to coordinate its day-ahead market with the changes adopted herein or to show cause why its existing scheduling practices need not be changed."[2] SCE believes that changing existing scheduling practices at the CAISO would not provide benefits to California and would likely harm California consumers through higher costs.

SCE understands that several areas in the east have gas capacity constraints and that gas volume certainty is important to electric reliability. However, California has relied on a significant amount of natural gas-fired generation for decades and as a result, the gas infrastructure, including access to storage, has evolved to handle gas volume risk. Consequently, the primary risk for participants in the CAISO area is price, which is best addressed by Alternative 2.

Order 809 had a stated intent to "adjust the time at which the results of its day-ahead energy market and reliability unit commitment process (or equivalent) are posted to a time that is sufficiently in advance of the Timely and Evening Nomination Cycles, respectively, to allow gas-fired generators to procure natural gas supply and pipeline transportation capacity to serve their obligations"[3]. The CAISO has proposed that bids would be due at 7:00 AM (perhaps even 6:00 AM) in order to issue market results by 10:00 AM. This would then allow CAISO market participants up to one hour to secure and nominate gas supplies. SCE believes that this is based on several false premises, including volume certainty is the preferred outcome for California, the CAISO will always publish DAM awards at the scheduled time, and gas supplies can be purchased and scheduled in the time remaining.

SCE believes the two primary variables it must consider when creating its bids are price certainty and volume certainty. Price certainty is achieved when the generators purchase gas before making their bids so they can use the known price of gas to formulate their bids. However, this

[2] FERC Order 809, paragraph 2 at page 2.
[3] FERC Order 809, paragraph 16 at page 12.

results in some volume uncertainty and can cause generators to have too much or too little gas, depending on the DAM results. On the other hand, a generator could forecast its gas price to formulate its bids and then purchase the gas necessary to meet the DAM results. Doing so, however, exposes the generator to significant price risk and uneconomic DAM awards. Even if SCE was willing to take this price risk, it does not believe that it could reliably purchase and schedule its gas in the time remaining before its gas nominations are due. The current process allows for about three and one-half hours to procure and schedule natural gas. Gas markets generally become liquid at about 6:00 AM, while the current gas nomination deadline is 9:30 AM. Alternative 1 assumes there will be sufficient liquidity to procure gas, and that the entire process can be completed in one hour, or less if there is a delay in publishing results, which is not realistic.

SCE would also like to emphasize the importance of accurate forecasts in the DAM process. Gas resources essentially make up the difference between load and intermittent and baseload supply. With such an early market deadline under Alternative 1, key forecasting processes will need to be pushed back to the prior day and this will significantly impact forecast accuracy for load and intermittent resources. In addition, since units are re-dispatched in the Real-Time Market (RTM) SCE questions the level of volume certainty that is gained by closing the power markets earlier. Gas volume certainty is informed by load certainty through the DAM process, and moving power markets earlier may increase RTM imbalances.

SCE believes that the CAISO market attains sufficiently optimal DAM results because market participants know the price of gas before making bids to CAISO. Since the Timely cycle closes only an hour after market awards are posted, SCE expects that many market participants would still have to purchase most their gas prior to the publication of market awards. This negates the benefit of volume certainty while also introducing significant price uncertainty. In addition, as mentioned above, in order for SCE to meet the much earlier DAM timeline, it would need to formulate much of its bidding the evening before. Thus, the net result of moving the CAISO DAM timelines earlier would be that the DAM results would be based on less accurate load forecasts and less accurate gas costs. The FERC's one-size-fits-all approach will not provide any net benefits, will increase costs, and make the CAISO market less efficient.

**Alternative 1: Earlier DAM Close – SCE opposes this option**

Moving the DAM timeline earlier than the current 10:00 AM close would compromise forecast and bid price accuracy, and likely increase clearing prices. Assuming a 7:00 AM (or earlier) market close, market participants are likely to default to bid preparation and submission the day prior to the DAM. As a result, forecasts of load, hydro generation, and variable energy resources will be less accurate and lead to additional RTM re-dispatch. Bids for gas-fired dispatchable resources will not be based on actual fuel cost, but instead use a price forecast, and perhaps include a risk premium. Hydro resource bids, which are based on prevailing water conditions and optimized against gas-fired resources, will be less informed and will experience a degradation in accuracy. The DAM will run with inaccurate bid prices. The RTM bids may still be updated to more closely reflect actual cost of production, however, these updates will cause other problems that do not exist today. If bids are updated, the RTM will likely experience a greater need to re-dispatch due to higher load and renewable resource forecast errors in addition to re-priced generation. A consequence to re-dispatching the gas-fired fleet in the RTM is a change in the gas burn from the volume purchased after the DAM results were published. If bids are not updated, gas-fired generation may run uneconomically. In the end, an earlier DAM close will result in less price certainty for gas dispatchable generation, likely higher costs, and market participants will continue to experience gas volume fluctuations.

After discussion with other market participants, it is doubtful that the western bilateral power markets will trade earlier than they currently do (i.e., 5:30 AM – 7:00 AM) with sufficient liquidity. If the DAM bids are due prior to a liquid power trading session, participants will not be able to efficiently procure and schedule imports, likely raising the DAM clearing prices.

In summary, an earlier DAM close seeks to solve a problem that doesn't exist in California and creates other problems, such as CAISO market inefficiencies and higher market clearing prices. SCE advises against an earlier DAM timeline.

**Alternative 2: Maintain Current DAM Close (10:00 AM) – SCE supports this option**

The current timeline allows market participants to achieve a more accurate estimate of costs for electric supplies. The 10:00 AM market close fits well with the current bilateral market timeline. Market participants have the ability to conduct price discovery in both power and gas markets before creating DAM bids. Forecasted gas volumes can be purchased prior to DAM close so that the gas price accurately informs bids for gas-fired dispatchable resources. Additionally, market participants can purchase power out-of-state, and offer and price imports accordingly.

SCE prefers price certainty in the DAM over the pursuit of volume certainty. Typically pipelines provide flexibility for gas balancing (e.g., monthly or five days), which helps manage daily gas-burn fluctuations due to CAISO dispatch. Additionally, SoCal Gas and PG&E offer storage solutions to protect against imbalance charges. Most electric generators in the CAISO are located on their systems.

**Alternative 3: Later DAM Close – SCE does not support this option**

Moving the DAM close a few hours later does not align with the intended benefits of FERC Order 809 and does not produce material benefits. A potential cost of moving the DAM close later is that it would limit the access that CAISO participants have to counterparties located outside of the Pacific time zone. SCE does not support this.