Stakeholder Comments

FERC Order 809 Comments, Bidding Rules Enhancements Straw Proposal Stakeholder Meeting April 29, 2015

Submitted by	Company	Date Submitted
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SDG&E appreciates the opportunity to comment on market operations and day ahead processes considerations when addressing the FERC Order 809 changes to natural gas market cycle closing times. SDG&E believes the best solution is to keep the current timeline for the day-ahead market bid submissions, market run, and posting of results.

There are many considerations when contemplating changing the timeline of the day-ahead market. This includes access to best available information for Load and generation bids, natural gas price certainty, renewable generation forecasts, unit availability and capacity replacement. Market participants do stand to benefit from greater alignment of the natural gas market cycles and CAISO day-ahead market results. However, this benefit would require the CAISO Integrated Forward Market (IFM) to close by 6:00am or 7:00am every morning. SDG&E believes the added risks, specifically information uncertainty, brought on by closing the market earlier does not justify the earlier close.

Additionally, on a macro-level, FERC must consider the unique characteristics of California and the CAISO. Specifically, California's RPS goals are the most aggressive in the nation. As California marches towards 33% renewables, and in the future perhaps greater, imposing an earlier market closing time just to align with the new Timely gas market is a regressive measure. An earlier market close would be sacrificing renewable forecast accuracy weather data to align the market to purchase natural gas at the margin (not baseload gas, simply the daily swing needs). This appears to favor natural gas over renewables which is not in line with national or state regulatory goals.

SDG&E also has concerns regarding the CAISO scheduling obligations that SDG&E's Electric Grid Operations Department has under two Agreements predating the creation of the CAISO- the Arizona Transmission System Participation Agreement (ATSPA) and the California Transmission System Participation Agreement (CTSPA). As the "Scheduling Agent" for Arizona Public Service (APS) and Imperial Irrigation District (IID) under these Agreements, moving the close of the IFM to a time earlier than 10:00 AM may create an unreasonable requirement on APS and IID to complete their day-ahead analysis and inform SDG&E of their energy scheduling requirements for the next day, as well as create a burden on SDG&E to submit those schedules on time.

Current Natural Gas Procurement

SDG&E executes over 90% of its natural gas transactions as both baseload and daily purchases which are scheduled in the Timely Nomination Cycle. The remainder of the gas is transacted after the Timely Nomination Cycle and scheduled in later cycles and is the result of fluctuations in both the day ahead and real time gas generation demand. Therefore the volume of gas that would be affected from changing scheduling deadlines would be a relatively small portion of the current natural gas purchasing activity.

The majority of natural gas trading takes place well before the current Timely Nomination Cycle, and neither the change in the gas scheduling, nor the potential change in CAISO scheduling is likely to change the market behavior. Most gas transactions that would be executed as a result of the CAISO publishing its results earlier would still be executed in an illiquid market. The new nomination deadline will likely not change SDG&E's gas procurement activities, and would likely not provide any benefit.

The current Day-Ahead IFM timeline remains the best timeline for CAISO

SDG&E recommends the CAISO maintain the current timeline for the IFM. A holistic view of inputs and elements is necessary when envisioning a robust, efficient, reasonable and competitive market. SDG&E believes the current market closing time and operational timeline provides the best solution for marketers and generators participating in the market. While the mis-alignment with the gas market will remain, when assessed with all of the considerations, the current IFM timeline to be the best solution.

The current timeline of the CAISO IFM, a 10:00am close with results published no later than 2:00pm, facilitates an efficient market by allowing market participants time to incorporate the most recent decision making information in to submitted bids on a day-ahead timeframe. Generators can bid based on most recent gas prices (cost). In the same way, Load demand bids can reflect most current demand data inputs such as updated weather forecasts.

In addition to up-to-date forecasts and gas prices, other secondary elements benefit from the present IFM close time. PIRP, or renewable energy forecasts, are published at approximately 6:00am. Also, Resource Adequacy (RA) will soon have a replacement deadline of 8:00am for next day. These elements can be redesigned for an earlier time but stand to add costs and logistical challenges. Most notably, 8:00am gives SC's a chance to replace RA for the following day. An earlier close will surely make that nearly impossible.

The second best option is moving the IFM close earlier, but no earlier than 7am

FERC insinuates it would like the IFM results published before the close of the timely gas market. However, they also ask what is just and reasonable. SDG&E believes the possible benefits of publishing IFM market results in time for the close of the Timely cycle, 11:00am, brings unnecessary risk and possible added costs as outlined above. Therefore, this is not just and reasonable for the CAISO market.

In order to benefit from the timely gas market, IFM market results would need to be published by 10:00am. To maintain some timeliness in weather and renewable forecasts, gas and generator availability inputs, the IFM close can be no earlier than 7:00am. SDG&E believes SCs and Load Serving Entities (LSEs) can accomplish critical tasks for market participation by 7:00am, but no earlier.

A close earlier than 7:00am jeopardizes market efficiency and outweighs the gas procurement benefit of the earlier market close. There may be some benefit to the short term gas trading. But, the benefit on this daily marginal amount of gas is not estimated to make up for the real risks introduced to the entire system by an earlier timeline necessary to have market results posted with enough time to meet the 11:00am timely cycle gas deadline.

If the market closes before 7am, market participant information degrades at a greater pace. Since weather, historical loads, gas and generator information are all aggregated and processed between 5:00-7:00am, pushing the market earlier than 7:00am close could result in these inputs being pushed back to the previous day. SCs and LSEs are reliant on other entities such as ICE and weather services for inputs. Not all services work 24 hours a day and collecting inputs at 3am may not be an option.

With the degradation of input data, market clearing prices may suffer and load procurement will be less accurate. Market participants will consider building in a buffer to gas prices as a hedge. This will inflate least cost dispatch bids and have an upward pressure on day-ahead clearing prices. Additionally, LSEs and less accurate load procurement will be more exposed to the real time market for fluctuations from their Load forecast. Less accurate load procurement by LSEs may then come back to CAISO and necessitate more procurement of RUC adding costs to the system.

Lastly, having staff available to collect and process all of this information at a dramatically earlier time will bring additional operating costs to SCs and LSEs. Currently, marketers are able to complete market and scheduling tasks as well as other Front Office reporting and analysis functions. If the market closes earlier, marketers and schedulers preparing bids and submitting to the market will not overlap sufficiently with regular office hours. This will necessitate more employees to accomplish the same tasks SDG&E currently completes on a daily basis.

SDG&E does not support moving the market close to a later time

Moving the market close and IFM process to a later timeframe does not achieve the goal of posting market results in time for the close of the Timely market. And, a later market close provides no benefit to the day-ahead electricity market.

In conclusion, there is an issue with the misalignment of the market publishing and the close of the Timely Nomination Cycle. However, SDG&E does not believe moving the close of the wholesale market earlier will solve this issue. And, in fact, an earlier market close time may do more harm than good.

FERC directs CAISO to examine if the market designed day-ahead process is just and reasonable. SDG&E believes the current IFM schedule is just and reasonable for the various factors outlined above. While FERC implies their desire for ISOs and RTOs to publish market result in ample time for the timely market close, SDG&E believes that is not the optimal (ie, NOT just and reasonable) timeline for the CAISO market. Changing the whole IFM timeline to accommodate marginal, or daily swings, in gas procurement is not in the best interest of CAISO efficiency and would be to the detriment of market participants, and, thus, rate payers.