

April 28, 2016

The CAISO's April 26, 2016 Draft Final Proposal (DFP) puts market participants between a rock and hard place. The CAISO seems to have backed away from its proposal to provide transparent, market-based mechanisms for its proposed mitigation measures. The ISO's DFP will instead likely harm existing market-based mechanisms if and when the concerns associated with the unavailability of Aliso Canyon come to fruition. The DFP makes little progress toward providing requested clarifications to the critical proposal elements. Without simply asking the ISO to revert to some of its initial proposed remedies or otherwise consider more robust solutions, we offer comments as follows.

Near-term Remedies Prior to Filing

The CAISO must make a strong and focused effort to clarify and improve the proposal before WPTF could support the proposal when it comes before FERC. The following items are included in this set of needed ISO actions.

1. To clarify the application of the gas constraint shadow price. To which nodes will it apply? Will CRRs be available to these points or to otherwise hedge the LMP price spreads? Will virtuals be allowed to the nodes? Questions such as these need to be resolved, and if necessary the CAISO should hold another working group discussion on that aspect of the proposal, or issue a revised DFP that addresses these questions. Additionally, the WPTF urges the CAISO to allow the gas availability nomogram to affect the congestion component of LMP for relevant generation and generation aggregate nodes used in CRR hedging. Aligning the congestion component of generation points to the cost of the gas availability constraint preserves the locational price certainty that CRR hedges are intended to provide.
2. To clarify the penalty price, or at a minimum propose the relative priority of this new gas constraint relative to transmission constraint relaxation and the power balance constraint relaxation. The ISO must offer more information about both the pricing run and the scheduling run penalty prices; without these modification, neither FERC nor market participant will be able to assess the workability and reasonableness of the proposal.
3. To specify the mapping of generators to constraint nomograms or applicable nomogram areas. Similarly, the ISO must specify by use of this mapping (e.g., precisely) to which suppliers or regions of suppliers the various parts of the proposal would apply or not apply.
4. To clarify what procedures it will put in place to determine when, and by how much, Path 26 will be derated when it needs to be derated. Additionally, the ISO should continue to strive to implement only the de-rating that is necessary from a reliability perspective. To the extent the Aliso Canyon limitations are a limitation on imports into southern California, Path 26 should only be de-rated in the north to south direction. WPTF is concerned that a bi-directional de-rate would have the possibility of creating counterintuitive price signals when the true reliability concern is only unidirectional. Finally, the ISO also needs to specify if and how it will adjust the CRR processes in anticipation of derates.

5. To specify for each area of operator discretion included in its proposal what processes will be used to provide information to the market place when those actions are taken, and a report on the reason for taking them and their impact.
6. To clarify any efforts the ISO expects to take to bringing deliveries of energy over the interties including the PDCI and LADWP's Intermountain Power Project DC line.
7. To begin a process to replace all of the short term fixes with market-based solutions. There is no indication that the Aliso Canyon situation will be resolved by the winter. The proposal – with the clarifications requested herein – while potentially productive for the immediate term, significantly lacks cost-causation, equity, transparency, market basis and objectivity. Further, we find the proposal discriminatory.¹ In no respect is it just or reasonable for the ISO to delay implementing proper market designs. Suggesting this proposal may sunset in November, but putting off for some unspecified time a stakeholder process for proper fixes, is not acceptable. If the ISO were to pursue such a path there is no doubt that these “interim” measures would have to be used for the winter season as well.

Continued Processes After Filing

WPTF also recommends the following process occur in parallel with implementation.

- Operating procedures and/or BPMs be developed and stakeholder processes be held to vet these with stakeholders.
- Mechanisms be developed to provide transparency for any aspects that cannot immediately be supported on OASIS, including providing results of 2DA market to all market participants. (Providing the info only through CMRI creates a competitive advantage for physical resource holders over other market participants.)
- A working group/market sim group or forum be established to provide quick identification, trouble shooting and remedies of issues that arise during and following deployment. We recommend the ISO establish once per week calls beginning immediately to continue to keep market participants informed of design and implementation details and to address questions.

We understand the CAISO's need to ensure that it can balance loads and resources. That does not justify the ISO not taking every effort to implement processes and procedures that are transparent and market based. That is, the ISO's role is to manage efficient dispatch and reliability through the markets that it oversees; it is not appropriate for the ISO to implement measures that circumvent the markets to manage reliability requirements. We encourage the ISO to re-establish its commitment to more appropriate and market based solutions to the Aliso Canyon gas storage system challenges and to the other structural problems with the CAISO's bidding rules.

¹ In a highly interconnected market, it is not appropriate to establish bidding rules that apply to one area, but not another; in every market settlement period, price formation in one sub-region impacts price formation in the others. WPTF is concerned the ISO's proposal is discriminatory and that it will have unintended consequences if implemented as written and strongly urges the CAISO to apply their commitment cost bid cap enhancement and establishment of real-time gas price premiums evenly across all market participants.