

Memorandum

To: ISO Board of Governors

From: Keith Casey, Vice President, Market and Infrastructure Development

Date: July 9, 2015

Re: Briefing on FERC Order 809

This memorandum does not require Board action.

EXECUTIVE SUMMARY

In April 2015, the Federal Energy Regulatory Commission adopted a final rule – Order 809 – to address reliability concerns and market inefficiencies that arise when natural gas-fired generators cannot obtain capacity on gas pipelines to support electricity market schedules. Order 809 effectively provides generators more time in the day ahead timeframe to schedule capacity on natural gas pipelines. In a parallel effort, the Commission has asked each ISO and RTO to adjust the close of its day-ahead energy market to accommodate the change in natural gas pipeline scheduling or explain why no changes are necessary. Management conducted an extensive stakeholder process and, after careful consideration of stakeholder input, finds that the current day-ahead timelines already support reliability and efficient operation of the market and allow generators to procure natural gas and necessary transportation services to support electric schedules. Management thus intends to submit a filing, by July 23, 2015, explaining why no changes are necessary.

BACKGROUND

On April 16, 2015, the Federal Energy Regulatory Commission adopted a final rule – Order 809 - that revises the Commission's regulations relating to the scheduling of transportation service on interstate natural gas pipelines. As part of Order 809, the Commission modified the timely nomination cycle for day-ahead scheduling of transportation service on interstate pipelines from 11:30 a.m. central clock time (CCT) (9:30 a.m. Pacific Time (PT)) to 1:00 p.m. CCT (11:00 a.m. PT). Under separate section 206 proceedings initiated by the Commission, each ISO and RTO must: (1) make a filing that proposes tariff changes to adjust the time at which it posts the results of its day-ahead energy market and reliability unit commitment process to a time that is sufficiently in advance of the timely and evening nomination cycles to allow gas-fired generators to procure natural gas supply and pipeline transportation capacity to serve their obligations; or (2) show cause why such changes are not necessary.

Management proposed three alternatives to stakeholders. Alternative 1 would move the close of the day-ahead market and publication of day-ahead market results to earlier in the

day, before the close of the new timely nomination cycle for scheduling gas transportation services at 11:00 a.m. PT. Alternative 2 would keep the ISO's current day-ahead market close time at 10:00 a.m. PT and market results publication at 1:00 p.m. PT. Alternative 3 would move the day-ahead market time close and market result publication times to later in the day, after the close of the new timely nomination cycle, but before the evening nomination cycle for scheduling gas transportation services at 4:00 p.m. PT.

Stakeholders overwhelmingly recommended against Alternative 3, but were divided on the benefits of Alternative 1 versus Alternative 2. Based on stakeholder feedback, Management plans to propose to the Commission to maintain the current day-ahead market closing time under Alternative 2.

RATIONALE TO SELECT ALTERNATIVE 2

Enhancing reliability

There does not appear to be any evidence that a lack of pipeline capacity exists when a resource is required to procure natural gas that would warrant changing the ISO's market timeline.

California and the Western Interconnection do not have the same wide-spread capacity constraints as eastern ISOs and RTOs. For example, California intrastate pipeline companies maintain adequate capacity to serve core and noncore gas customers and undertake expansions based on specific reliability-based design criteria rather than in response to firm contract demand. For natural gas customers such as peaking power plants, California gas pipeline companies offer firm or interruptible service options as well as firm service for small volume purchases.

Increasing efficiency

Order 809 seeks to enhance coordination between the electric and gas markets. But the ISO's current day-ahead electric scheduling practices provide more natural gas price certainty and allow for more accurate load, hydro-electric resource, and variable energy resource forecasting accuracy (which leads to day-ahead results that align better with real-time expectations) for market participants. Scheduling coordinators have estimated that potential inefficiencies resulting from less accurate forecasting that would accompany an earlier day-ahead market closing time could lead to millions of dollars in costs annually.

Operating impacts

Supporters of Alternative 2 outlined several process and staffing changes that would negatively affect their operations if the ISO moved the close of the day-ahead market to earlier in the day. They cite a loss in coordination between the day-ahead market staff and the rest of their procurement organizations.

In contrast, stakeholder comments in support of Alternative 1 are much less compelling. Specifically, while the ISO would publish day-ahead market results before the 11:00 a.m.

PT close of the natural gas timely nomination cycle under Alternative 1, there is no evidence that a lack of pipeline capacity exists when a resource procures gas transportation services in any of the later nomination cycles for natural gas transportation. In fact, some market participants wait until after the ISO publishes day-ahead market results, currently after the close of the timely nomination cycle, to procure natural gas transportation services. Market participants have other opportunities to schedule natural gas transportation later in the day-ahead timeframe and during the operating day.

Other stakeholder comments are that Alternative 1 would somehow address natural gas price spike events such as occurred during February 2014 or that it would better allow market participants to procure natural gas after the ISO publishes day-ahead market results. The February 2014 natural gas price spike was the result of low natural gas supply rather than a lack of transportation capacity and thus is unrelated to the timeline for nominating gas transportation. The ISO is addressing pricing concerns in general in other ISO policy initiatives and has no evidence that market participants currently cannot procure natural gas after the close of the ISO's day-ahead market.

CONCLUSION

Based on the information it has reviewed, Management does not believe sufficient benefits to natural gas-fired generators exist to justify the adverse impacts to existing operating practices that would result from moving the close of the day-ahead market and publication of day-ahead market results to earlier in the day. For this reason, Management intends to make a filing to show cause why changes to the ISO's day-ahead market close and publication of market results are not necessary. This filing is due by July 23, 2015.