

Comments on Bidding Rules Enhancements Draft Final Proposal

Department of Market Monitoring

February 29, 2016

The Department of Market Monitoring (DMM) appreciates the opportunity to review and comment on the ISO's Draft Final Proposal for Bidding Rules Enhancements. DMM has previously provided extensive comments relating to the issues and proposals in the ISO's Draft Final Proposal. For comments on Section 3.2 (Consideration of additional costs as marginal) and Section 3.3 (Requests to consider improvements to GPI) see DMM's comments on the revised straw proposal.¹

In these comments, we provide additional comments relating to provisions in ISO's Final Draft proposal relating to (1) after-the-fact cost recovery and (2) improvements to gas transportation adders.

The Revised Straw Proposal contained a section discussing options for improving the gas price index such that the current one-day lag in next day natural gas prices could be alleviated. The ISO determined that any changes prior to FERC Order 809 – which is effective in April 2016 – would be premature, and has therefore postponed this discussion. DMM is looking forward to a continued discussion on this topic after April 2016.

Provide opportunity for after-the-fact cost recovery (Section 7.1)

The ISO proposes to allow scheduling coordinators the ability to seek cost recovery at FERC if they can support that actual costs from procuring natural gas exceeded 125 percent of the gas price index for commitment costs. The recovery would take place through a recalculation of bid cost recovery payments after FERC has determined that a resource incurred actual gas procurement costs for unit commitments issued by the ISO market software that exceeded the commitment cost bid cap.

The complexities and challenges of providing after-the-fact cost recovery – whether costs were validated by the ISO or FERC – were specifically noted by the ISO in comments filed at FERC in March 2014.

If the Commission decides to examine an approach that provides for after-the-fact reimbursement of costs above an offer cap, the CAISO would have concerns with such an approach. The CAISO may not have access to information necessary to verify that a gas invoice represents gas costs associated with a particular CAISO dispatch. If the Commission does pursue such an approach, it will need to define how to assess whether cost recovery is appropriate. Cost recovery could be assessed hourly, daily, or over longer periods and any assessment of cost recovery should consider hedging arrangements entered into by the

¹ DMM Comments – Bidding Rules Enhancements Revised Straw Proposal:

http://www.aiso.com/Documents/DMMComments_BiddingRulesEnhancements_RevisedStrawProposal.pdf.

supplier. Given the complexity of hedging instruments and programs, this assessment would likely be challenging for the CAISO or the Commission to complete.²

In previous comments for this stakeholder process, DMM has been supportive of the consideration and discussion of the general concept of after-the-fact recovery, but has emphasized that strict and clear conditions need to be spelled out in detail and in advance to allow for thorough vetting by stakeholders.³ While the Draft Final Proposal provides additional detail compared to previous proposals, DMM continues to believe that it would be beneficial for stakeholders, FERC and the ISO to have additional detail in the proposal. Specifically, DMM believes that it would be highly beneficial for the ISO to provide FERC with additional guidance on which costs are to be considered for recovery and under which circumstances recovery may be warranted.

For example, more precise and detailed descriptions or examples of the calculations that would be employed would be highly beneficial. This includes, but is not limited to, (1) specifications on how to convert units of electricity (MWh) from different schedules and dispatches into natural gas, (2) how to assess the source of gas when only a portion of the gas was procured in the same day market, (3) how to determine during which time intervals the gas that was bought at a higher price is assumed to be burned, (4) how to account for cases where natural gas was procured for a portfolio of natural gas resources, and (5) how to treat penalties such as operational flow orders.

Improve gas transportation adders (Section 7.2)

The ISO is proposing to increase the flexibility of registered fuel regions and to allow for cap-and-trade credits to the base transportation rates to be reflected in fuel regions. DMM supports this provision as it may facilitate more accurate representation of costs incurred by ISO resources. Further, this change supports regionalization and expansion efforts by offering a flexible framework to represent gas costs in EIM areas.

² Comments by the California Independent System Operator Corporation on Technical Workshops, Price Formation in Energy and Ancillary Services Markets Operated by Regional Transmission Organizations and Independent System Operators, Docket No. AD14-14, March 6, 2015, p. 5:
http://www.caiso.com/Documents/Mar6_2015_CAISOComments_onTechnicalWorkshops_AD14-14.pdf.

³ Ibid, p. 5.