UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Indicated CAISO Suppliers) Docket No. ER14-1428-000

MOTION TO INTERVENE AND PROTEST OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION IN RESPONSE TO INDICATED SUPPLIERS' REQUEST FOR WAIVER

The California Independent System Operator Corporation ("ISO") submits this protest[1] to the petition for waiver of unspecified tariff provisions filed by the Indicated Suppliers[2] on March 4, 2014. Indicated Suppliers ask the Commission to allow generators participating in the ISO's markets to generally recover from the ISO "gas procurement and disposal costs that are currently un-recoupable under the [ISO's] existing tariff provisions."[3]

The Commission should reject Indicated Suppliers' waiver petition on both procedural and substantive grounds. First, while submitted as a petition for a tariff waiver, what Indicated Suppliers are actually seeking far exceeds what may be granted in a tariff waiver. Indicated Suppliers not only fail to identify any tariff provisions to be waived, but propose to establish new criteria for determining fuel cost inputs into the ISO markets, and do not explain how those costs are to be allocated. Rather than seeking to mitigate the short-term impact

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[1] The ISO submits this filing pursuant to Rules 211 and 214 of the Federal Energy Regulatory Commission's ("Commission") Rules of Practice and Procedure,18 C.F.R. §§ 385.211, 385.214 (2012).

[2] The Indicated Suppliers consist of generators owned by NRG, Dynegy, CalPeak Power, the La Paloma Generating Company and Shell Energy North America.

[3] Indicated Suppliers Waiver Petition at 16.

of potential natural gas price spikes, as the ISO has done through its own waiver filing made last week, Indicated Suppliers attempt to leverage the recent, winter-season natural gas price volatility in the West to bill the ISO for categories of costs that are not guaranteed recovery under the ISO tariff. A waiver that would rewrite the relevant ISO tariff rules is not an appropriate vehicle for addressing Indicated Suppliers' concerns. The Commission should reject their petition on this basis alone.

Second, Indicated Suppliers' petition should be rejected because it fails to meet the Commission's standards for granting a tariff waiver. Indicated Suppliers' proposed relief is not limited in scope, but rather, goes well beyond what is necessary to ensure the reliability and efficiency of the ISO markets during the remainder of the winter and early spring period, *i.e.,* the period in which gas price spikes might occur. Indicated Suppliers argue that the ISO's proposed waiver is inadequate, but the only support they provide for this assertion is based on a mistaken understanding of the ISO's proposal. Indicated Suppliers also attempt to rely on waivers granted by the Commission for PJM and the New York ISO. Such reliance is misplaced. Both PJM and NYISO made clear that their waivers would not allow generators to recover types of costs that would not normally be eligible for recovery under the existing mechanisms in those entities' tariffs, which is what Indicated Suppliers propose here.

Indicated Suppliers also fail to establish that the waiver will not have undesirable consequences. Granting Indicated Suppliers' request, which would result in calculating costs based on current tariff rules while allowing generators guaranteed recovery of a much broader set of costs, could undermine the efficiency of the ISO markets and create gaming opportunities. In addition, recovering imbalance penalties from the ISO could adversely impact the functioning of the gas regulated system. For these reasons, even if the Commission decides to treat Indicated Suppliers' pleading as a properly pled waiver petition, the Commission should reject it.

Moreover, even if the Commission re-characterizes Indicated Suppliers' waiver filing as a complaint, the Commission must still reject the filing because Indicated Suppliers have failed to meet the basic requirements of Section 206 of the Federal Power Act. i.e., meeting the burden of proof necessary to demonstrate that the ISO's existing tariff provisions are unjust and unreasonable, and that Indicated Suppliers' proposed modifications are just and reasonable. As explained herein and in the ISO's waiver filing, the short-term issues associated with 2014 winter season gas price volatility are best addressed through a limited tariff waiver such as that proposed by the ISO. Broader concerns regarding the how the ISO's existing cost recovery provisions should be modified are best addressed in the stakeholder process that the ISO has committed to begin in April for the purpose of addressing such issues.

I. BACKGROUND

The ISO utilizes natural gas prices as inputs to several types of cost calculations. These include costs associated with (1) starting up and maintaining resources at minimum load for resources electing the proxy cost calculation, (2) certain default energy bids, which are used for purposes of local market power mitigation, (3) generated bids, which are utilized by the ISO for resources subject to a must-offer requirement that do not submit a bid, and (4) bidding rules applicable to all resources. In December 2013 and the first two months of 2014, the ISO markets have been subjected to uncharacteristically higher and more volatile natural gas prices than normal. In particular, between February 5 and 6, California natural gas markets experienced an increase in prices from a range of $7.63/MMBtu to $8.62/MMBtu to a range of $12.29/MMBtu to $23.53/MMBtu.

The higher natural gas prices experienced on February 5 were not reflected in the proxy cost calculation of start-up and minimum load costs for resources that were committed in the ISO's day-ahead market on February 5 for the February 6 trading day, nor for those in certain default energy bids and generated bids. Instead, in accordance with the calculation methodology set forth in the ISO tariff, the ISO's day-ahead market for the February 6 trading day utilized gas prices published on February 4 for gas deliveries for February 5.[4] Likewise, these prices were not directly reflected in the costs of those resources utilizing the registered cost option on this date because such resources are limited to registering start-up and minimum load costs at no greater than 150 percent of their projected proxy costs. As a result, a number of generators

[4] The ISO tariff process utilizes gas data published two days prior to the applicable trading day for purposes of executing the day-ahead market because only one index is published near the time that the ISO day-ahead market closes and is executed, at approximately 10:00 am on the day prior: the Intercontinental Exchange ("ICE"). Therefore, in order to utilize price data from multiple sources, the ISO must use data published during the afternoon on the day before the day on which the day-ahead market runs.

expressed concerns to the ISO regarding their ability to adequately recover their production costs as a result of the February natural gas spike. Some generators also expressed concern regarding the ISO's dispatches on February 6, which due to a price differential between commitment costs and incremental energy bids, committed a number of resources to minimum load in lieu of dispatching them for incremental energy.

Soon after the February 6 event, the ISO advised stakeholders of its intent to develop, and then developed, a tariff waiver proposal to address the risk of a recurrence of this type of spike in natural gas prices prior to May 1. The ISO discussed its proposal with interested parties through a short stakeholder process. Based on its own analysis as well as stakeholder input, the ISO concluded that the most appropriate solution was to temporarily waive, until May 1, two provisions of the ISO tariff. The ISO made a filing seeking Commission approval for this waiver on March 6.[5]

First, the ISO proposed waiver of Section 39.7.1.1.1.3 of the ISO tariff, which requires the ISO to calculate natural gas costs utilizing at least two price sources published the day before executing the day-ahead market. The ISO proposed that when a significant price spike occurs, the ISO would update its gas price calculations on the day it runs the day-ahead market using prices solely from the ICE index, which is the only publication specified in the tariff

[5] *See* Petition for Limited Waiver of Tariff Provisions, Request for Shortened Comment Period, and Request for Expedited Commission Action by March 19, 2014, Docket No. ER14-1440 (filed March 6, 2014). The ISO also filed in Docket No. ER14-1442 a companion waiver filing requesting immediate Commission action limited to requesting waiver of these provisions for purposes of settling the results of the day-ahead market.

available at or near the time that the ISO's day-ahead market closes at 10:00 a.m.. This will ensure that if another significant increase in natural gas prices occurs, the ISO's commitment costs and other market inputs that include a gas cost component will be based on the most up-to-date gas prices. In turn, this will help address the situation in which the ISO's software dispatched generators at minimum load instead of incremental energy because of the disparity in gas prices between commitment cost bids and energy bids.

The ISO also proposed waiver of Section 30.4 of its tariff, which allows resources on the registered cost option for commitment costs to switch to the proxy cost when the proxy cost calculation exceeds their registered cost, but requires them to remain on the proxy cost option for the balance of the applicable 30-day period. The ISO proposed to waive this requirement so that, if another gas price spike occurs, resources will have the flexibility to immediately switch from the registered cost option to the proxy cost option but stay on the proxy cost option only so long as the proxy cost exceeds their registered costs, after which point they will revert back to the registered cost option for the remainder of the 30-day period.

Finally, the ISO has committed to commence a stakeholder process in April to address the issues raised by the gas market conditions, as well as more general concerns with respect to commitment cost compensation raised by entities such as Indicated Suppliers. The ISO expects that the stakeholder process will require at least several months to complete but is committed to developing an interim solution that can be implemented in the fall if such a solution does not require substantial system changes.

II. MOTION TO INTERVENE

The ISO is a non-profit public benefit corporation organized under the laws of the State of California, with a principal place of business at 250 Outcropping Way, Folsom, California. The ISO is an independent transmission system operator operating the transmission systems of its participating transmission owners. The ISO is a balancing authority and coordinates the ancillary services and electricity markets within its balancing authority area.

The ISO operates under the terms of the ISO tariff, which is on file with the Commission. The ISO is responsible for administering the spot electricity markets in California, under the terms set forth in its tariff, which includes certain cost components that utilize natural gas prices. Indicated Suppliers' petition requests the Commission to provide additional cost recovery not provided in the ISO tariff. No other party can adequately represent the ISO's interests in this proceeding, and the ISO's intervention is therefore in the public interest and should be granted.

III. PROTEST

A. Indicated Suppliers' Petition for Tariff Waiver Should Be Dismissed as an Inappropriate Attempt To Expand the Scope of Cost Recovery Currently Permissible under the ISO's Tariff

Indicated Suppliers frame their petition as a response to the volatility experienced in the natural gas markets in the West during this winter period. It is evident from the broad scope of their proposed relief, as well as other statements in their petition, however, that Indicated Suppliers' petition is not a discrete and narrowly tailored solution designed solely to address volatile natural gas commodity pricing this winter. Instead, Indicated Suppliers propose an approach that would allow suppliers to bill the ISO directly for essentially any and all gas-related expenses incurred by suppliers, regardless of price conditions. This is not a waiver of the ISO's existing tariff provisions, but rather, a request for a completely different cost recovery rule. Indicated Suppliers fail to even identify which provisions of the ISO tariff that they propose to waive, or describe how the costs for which they propose to bill the ISO would be allocated. The Commission should therefore dismiss Indicated Suppliers' pleading because: (1) it is not a proper request for a waiver, but rather a request to amend the ISO tariff and (2) it constitutes a collateral attack on the Commission's orders approving the ISO's existing tariff provisions. Even if the Commission were to treat Indicated Suppliers' petition as a complaint under Section 206 of the Federal Power Act, the Commission must reject the filing because it also fails to meet the requirements of Section 206.

The ISO has acknowledged that the tariff rule requiring the use of multiple gas price indices published the day prior to running the day-ahead market, although resulting in a more robust index, can, under narrow circumstances involving significant gas cost increases, lead to a disparity between the natural gas prices used to calculate commitment costs and energy bid prices. As explained above, the ISO addressed these concerns with stakeholders, including Indicated Suppliers, and filed with the Commission a request for an appropriately narrow waiver of the ISO's natural gas calculation provisions in order to permit the use of the most recent gas prices in the execution and settlement of the day-ahead market when natural gas prices increase significantly. This solution will ensure that resources have an adequate opportunity to recover their natural gas commodity and transportation costs, within the confines of existing ISO cost recovery rules, as well as improving the efficiency of the ISO's dispatch solution under these circumstances.

In contrast, Indicated Suppliers request that the Commission allow resources to bill the ISO for any "gas procurement and disposal costs that are currently un-recoupable under the ISO's existing tariff provisions."[6] This request, by its very nature, goes well beyond the scope of the ISO's existing cost recovery provisions. The ISO tariff provides for direct recovery of fuel costs associated with fuel actually used in production as well as gas transportation.[7] Indicated Suppliers' open-ended proposal to bill the ISO for any "gas procurement" expenses would permit generators to receive from the ISO market guaranteed recovery of types of costs that are not directly related to the variable cost of fuel used in production.

Given the ambiguity of Indicated Suppliers' filing, which does not even identify specific ISO tariff provisions to be waived, it is not clear exactly what

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6 Indicated Supplier Waiver Petition at 16.

7 *See* ISO Tariff, Section 39.7.3.1.1.1; ISO Business Practice Manual for Market Instruments, Section C.1.

costs Indicated Suppliers expect to be able to bill the ISO for. However, Indicated Suppliers do specifically request that the Commission allow generators to recover "disposal costs" associated with the gas procured to respond to ISO dispatches. Indicated Suppliers do not specify what these disposal costs are. Presumably, however, they would include gas imbalance charges and costs incurred for selling gas procured but not burned at prices below procurement costs. The ISO tariff does not, however, provide for the direct recovery of such charges through its bid cost recovery mechanisms, which allows for recovery of production costs such as start-up and minimum load costs for resources committed by the ISO.

This request is also a collateral attack on the fundamental underpinnings of the ISO's current commitment cost recovery rules. This issue was previously raised by NRG, one of the Indicated Generators, in the context of a filing made by the ISO last fall to amend its commitment cost tariff provisions.[8] The ISO argued that it is not appropriate for these costs to be directly included in the ISO's commitment cost calculation methodology[9], and the Commission accepted the ISO's filing without requiring the inclusion of these costs.[10] The Indicated Suppliers waiver filing constitutes a collateral attack on that fairly recent decision of which NRG did not seek rehearing.

[8] *See* Protest of NRG Companies, Docket No. ER13-2296 (September 20, 2013).

[9] *See* ISO Answer to Motions to Intervene and Comments, Docket No. ER13-2296 (October 2, 2013) at 7-8.

[10] *Calif. Indep. Sys. Operator Corp*., 145 FERC ¶ 61,082 (2013).

There are other statements in Indicated Suppliers' petition that further demonstrate that the intended result is not merely to address the impact of seasonal market conditions, but rather, to expand the scope of the ISO's cost compensation provisions. For instance, Indicated Suppliers state that while they "are hopeful that the CAISO will *eventually amend its Tariff to implement a just and reasonable cost recovery mechanism*, generators cannot be asked to continue operating at a loss while waiting for the cavalry to arrive,"[11] and "natural gas-fired generators operating in California know to a virtual certainty that the *current CAISO methodology* will continue to prevent them from fully recovering the costs of natural gas procured to comply with CAISO dispatch instructions."[12] These statements are further evidence that Indicated Suppliers believe the ISO tariff provisions relating to cost recovery to be fundamentally flawed, and that this "waiver petition" is in fact an attempt to obtain cost recovery utilizing an entirely different mechanism than the ISO tariff currently provides. In other words, it is not really a waiver request.

Indicated Suppliers are within their rights to dispute the justness and reasonableness of the ISO tariff. However, a tariff waiver is not the appropriate vehicle by which to do so. A prospective tariff change, such as that sought by Indicated Suppliers, is only available pursuant to Sections 205 and 206 of the Federal Power Act. However, even if their petition is treated as a Section 206 complaint, the Indicated Suppliers fail to demonstrate that the ISO's current tariff

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[11] Indicated Suppliers Waiver Petition at 17 (emphasis added).

[12] *Id*. at 15 (emphasis added).

provisions are not just and reasonable, or that their proposed alternative solution is just and reasonable.

Indicated Suppliers assert that generators in California have incurred "millions" of unrecoverable gas costs,[13] but fail to explain the applicable source of these costs, or which, if any, portion of these costs would be unrecoverable under the existing bid cost recovery mechanisms taking into account the ISO's waiver request. Indicated Suppliers' alternative proposal is also vague and ambiguous, insofar as it does not describe with any specificity what costs generators would be permitted to recover, or the mechanism by which those costs would be allocated to ISO market participants. The only category of costs that Indicated Suppliers specifically reference are "gas disposal" costs, but Indicated Suppliers provide no justification for why such costs should be eligible for explicit recovery under the ISO tariff. As the ISO explained in the context of its commitment cost tariff amendment filed last year, it is not appropriate to include imbalance charges in the fuel cost component of the proxy cost commitment calculations because these costs are not associated with specific start-ups or minimum load dispatches. Therefore, it is reasonable to expect that generators will manage their gas imbalance risks through hedging and existing ISO tariff mechanisms, including the registered cost option, which allows

[13] Indicated Supplier Petition at 15.

generators to specify start-up and minimum load costs up to 150 percent of their projected proxy cost calculations.[14]

Indicated Suppliers' proposal to bill the ISO directly for any gas costs arguably related to ISO dispatches also raises concerns with respect to the impact on ISO markets and gas system reliability. Allowing generators to be committed based on one set of costs (*i.e.*, based on the proxy or registered cost option) but be paid by the ISO for a different set of costs would likely lead to market distortions, as well as creating potential gaming opportunities. In addition, although the ISO's board has authorized the ISO to allow generators to recover certain pipeline penalties through the ISO's bid cost recovery mechanism, one of the key goals in developing the specific implementing mechanism is to ensure that it does not undermine the underlying incentives that relate to preserving gas system reliability. Indicated Suppliers' proposal, however, would simply allow generators to bill the ISO for any gas-related costs, thereby holding generators harmless against such penalties without any consideration of the impact that doing so might have on gas system reliability.

In sum, Indicated Suppliers come nowhere near meeting the burden of proof necessary to demonstrate that the ISO's existing tariff is unjust and unreasonable, or that Indicated Suppliers' preferred alternative is just and reasonable.

Also, the ISO has already committed to conduct a robust stakeholder process beginning in April to address commitment cost compensation issues for

[14] ISO Answer to Motions to Intervene and Comments, Docket No. ER13-2296 (October 2, 2013) at 7-8.

generators, including issues of gas-related costs, and intends to implement an interim solution as early as this coming fall. It would not be just and reasonable to impose an entirely new cost compensation rule without any mechanism to allocate those costs in the ISO market without the benefit of a stakeholder process. For these reasons, the Commission should dismiss Indicated Suppliers' so-called waiver petition as an improperly and inadequately pled attempt to amend the existing provisions of the ISO tariff.

B. Indicated Suppliers Do Not Meet the Commission's Standard for Tariff Waiver

Even if the Commission is inclined to treat Indicated Suppliers' filing as a cognizable petition for tariff waiver, it should nevertheless deny the request because it fails to meet the Commission's standard for approving tariff waivers. The Commission has granted one-time waivers upon a showing that there is a concrete problem in need of resolution, the waiver is of limited scope, and there are no undesirable consequences, such as harm to third parties.[15] Indicated Suppliers' petition does not meet this standard. Although the ISO's normal tariff rule for calculating natural gas costs can lead to cost disparities when gas prices increase suddenly, the ISO developed and filed a feasible tariff waiver solution narrowly tailored to the scope of the problem. By contrast, Indicated Suppliers' proposed relief is far more expansive than is necessary under the circumstances, and could very well have undesirable consequences, including

[15] *See, e.g.*, *New York Indep. Sys. Operator, Inc.*, 146 FERC ¶ 61,061, at P 19 (2014); *PJM Interconnection, L.L.C.*, 141 FERC ¶ 61,103, at P 8 (2012); *ISO New England Inc.*, 134 FERC ¶ 61,182, at P 8 (2011); *California Indep. Sys. Operator Corp.*, 132 FERC ¶ 61,004, at P 10 (2010).

creating market distortions and potential gaming opportunities and undermining mechanisms intended to ensure gas system reliability.

1. Indicated Suppliers' Requested Waiver Goes Well Beyond What Is Necessary To Ensure the Reliability and Efficiency of the ISO's Markets During the Remaining Winter and Early Spring Period.

In response to the potential for natural gas price spikes occurring in the West, the ISO developed a proposal that is narrowly tailored to address the specific concerns regarding the application of the ISO's tariff gas cost calculations when a significant price spike occurs. The ISO's proposal will ensure that the ISO's commitment costs and other price components that utilize a gas cost component are determined based on prices published on the same day on which the day-ahead market is run and for which gas will flow. This will ensure that resources in the ISO's day-ahead market are not prevented from recovering their gas procurement costs when such conditions occur. In addition, this solution will address concerns regarding the inefficient dispatch of resources at minimum load based on disparities between the natural gas inputs to commitment costs and incremental energy bids in the ISO's day-ahead market.

In contrast, Indicated Suppliers propose a remedy that is far broader than necessary to address the scope of the problem.[16] As explained above, Indicated Suppliers' proposal would permit resources to recover costs beyond

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[16] *See Midwest Indep. Transmission Sys. Operator*, 136 FERC ¶ 61,212 at P 29 (2011) (denying a petition for waiver because it was not limited in scope and lacked specificity, including identification of which tariff provisions it purported to waive); cf. *Midcontinent Indep. Sys. Operator Corp*., 146 FERC ¶ 61,132 (2014) (granting waiver petition based on a finding that it was narrowly tailored to address a concrete problem).

those guaranteed recovery under the ISO tariff. As such, this proposal goes well beyond simply correcting an unintended consequence and ensuring that the ISO tariff functions in accordance with its underlying principles.

Moreover, although Indicated Suppliers argue that the ISO's proposed solution is inadequate, the two reasons they provide are both without merit. First, Indicated Suppliers' contention that the ISO's proposal would reduce but not eliminate the time lag between the publication of natural gas prices and the execution of the ISO's day-ahead market on days such as weekends is incorrect.[17] If, for instance, a spike in the price of natural gas occurs between a Thursday and Friday, the ISO would recalculate the price of natural gas using prices published Friday morning and use those prices in the day-ahead market executed that day for the Saturday trading day. Then, for the day-ahead market runs on Saturday and Sunday for trading days Sunday and Monday respectively, the ISO's normal methodology would utilize the same gas price from Friday, because gas prices published on Friday cover flow dates from Saturday through Monday. Therefore, even on a weekend, the ISO's proposed waiver would ensure that there would be no divergence between actual gas prices on the flow date and the prices utilized for the ISO's day-ahead market for the same date.

Indicated Suppliers' assertion that the ISO's proposal "would do nothing to make generators whole when they acquire natural gas after being committed and are then de-committed"[18] is also mistaken. Because the ISO's proposed

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17 Indicated Supplier Waiver Petition at 16.

18 *Id*.

solution will ensure that prices in its day-ahead market reflect prices published for the same trading day when a price spike occurs, the ISO's software will be much less likely to commit units for minimum load in lieu of dispatching them for incremental energy under these circumstances, because both would reflect the most up-to-date gas prices.

Indicated Suppliers also attempt to draw a parallel between their petition and those waivers granted by the Commission for PJM and the New York ISO. This comparison, however, fails because the relief requested by Indicated Suppliers here is much broader than that granted by the Commission to PJM and NYISO. In both cases, PJM and NYISO made clear that generators' ability to recover gas-related costs above the applicable bid cap would be limited to those production costs eligible for recovery under existing tariff mechanisms.[19] Here, Indicated Suppliers are asking for recovery of gas costs that go well beyond those that are eligible for direct recovery under the ISO tariff's cost recovery provisions (as well as those of PJM and NYISO), and would require entirely new mechanisms in order to calculate and allocate these costs.

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[19] *See* Petition for Temporary Tariff Waivers, Request for Shortened Comment Period, and Request for Expedited Commission Action by January 31, 2014, Docket No. ER14-1138 (January 22, 2014) at 3, 4 (stating that "[a]dditional costs incurred to commit Generators that are needed for reliability will be recovered in accordance with the rules set forth in Rate Schedul1 of the NYISO's OATT" and that "[e]ligibility . . . will be limited to demonstrated, actual production costs incurred"); Request of PJM Interconnection, LLC for Waiver and for Commission Action by January 24, 2014, Docket No. ER-14-1144 (January 23, 2014) at 7-8 ("The seller's marginal costs must be as determined and documented in accordance with the cost development guidelines and procedures in PJM's Manual 15. Specifically, section 2.3 of Manual 15 sets forth the 'Fuel Cost Guidelines,' which PJM will apply *unchanged* to the sellers subject to the requested waiver.") (emphasis in original); *see also PJM Interconnection, LLC*, 146 FERC ¶ 61,078 at P 5 (2014); *New York Indep. Sys. Operator Corp*., 146 FERC ¶ 61,061 at P 4 (2014).

3. Indicated Suppliers' Waiver Request May Have Negative Consequences to ISO Market Participants and May Undermine Mechanisms Relating to Gas System Reliability

Indicated Suppliers assert that granting their requested waiver will not result in undesirable consequences, claiming that although it may increase costs borne by customers "no customer can claim to have suffered any legally cognizable harm . . . because no person can legitimately claim a right to rates that are unjust and unreasonable and thus unlawful under the FPA."[20] This is a conclusory assertion with no evidentiary support. Indicated Suppliers nowhere demonstrate that their proposed cost recovery mechanism, which would allow generators to bill the ISO for costs which the ISO tariff does not permit recovery of, is just and reasonable, or that the ISO's existing tariff rules are unjust and unreasonable. Indeed, as explained above, the relief requested by Indicated Suppliers is substantially broader than that permitted by the Commission for the NYISO and PJM markets.

Moreover, Indicated Suppliers proposal to require the ISO to compensate generators for gas imbalance charges has potential ramifications with respect to the efficiency of the ISO markets as well as the reliability of the natural gas system. As explained above, committing generators based on the commitment cost rules set forth in the ISO tariff but paying generators based on a broader set of costs could lead to market distortions as well as creating potential gaming opportunities. Also, the underlying purpose of gas imbalance charges and

[20] Indicated Suppliers Petition at 20.

penalties is to incentivize customers to consume gas in accordance with their nominations in order to protect the reliability of gas pipelines and other infrastructure under tight supply situations. Therefore, allowing generators to simply bill the ISO when they incur any balancing charges or penalties relating to ISO market activities could potentially undermine these incentives, to the detriment of gas system reliability. This issue has been the subject of extensive discussion and careful consideration by the ISO in its stakeholder process relating to commitment cost refinements, and will be included in the stakeholder process that begins in April. Given the lack of evidence provided by Indicated Suppliers, and the relatively short-term nature of the immediate problem, the Commission should decline to grant the extremely broad and potentially harmful relief sought by Indicated Suppliers.

IV. COMMUNICATIONS

All service of pleadings and documents and all communications regarding this proceeding should be addressed to the following:

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V. CONCLUSION

For the reasons explained above, the ISO respectfully requests that the Commission deny Indicated Suppliers' petition.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for the above-referenced proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010 (2012)).

Dated at Washington, D.C. this 11th day of March, 2014.

/s/ Michael Kunselman

Michael Kunselman
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