

Submitted By	Company	Date Submitted
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**Level of the Bidding Cap.** As noted in prior comments, NRG still prefers increasing the proposed cap on daily bidding to 150% of proxy cost. This would provide additional margin to account for movement in gas prices as well as for recovery of intra-day gas costs, while leaving a cap in place to protect against the potential exercise of market power.

**Ex post recovery of gas costs.** The CAISO proposes not to create any opportunity for generators to invoice the CAISO for *ex post* recovery of extraordinary gas costs that they are unable to accurately reflect to the market due to CAISO bidding rules. NRG understands the CAISO's position that *ex post* gas costs cannot be incorporated into the bids used in the market optimization, and therefore would lead to (1) optimization results that do not reflect actual costs, and (2) compensation that does not come about as a result of the CAISO's market optimization. NRG nevertheless holds that the CAISO proposal, even including the manual process from last February's tariff waiver, still leaves suppliers exposed to being unable to recover gas costs associated with following CAISO market awards and real-time dispatch instructions, in significant part because suppliers cannot reflect extraordinary costs to the market optimization because of the current bidding rules. Generators should never be exposed to not being able to recover costs incurred from following CAISO instructions. While NRG does not want the CAISO to delay implementing the proposed modifications prior to next winter's gas season, NRG urges the CAISO to adopt rules that ensure that generators are never left exposed to gas costs they cannot recover as soon as possible.

**Recovery of Operational Flow Order (OFO) charges.** The August 12 Draft Final Proposal notes (at 17-18, emphasis added):

The ISO has noted that its discussion of intra-day gas costs is limited to commodity costs. Several comments mention recovery of penalty costs, which brings up a broader policy question about whether a penalty designed to increase the reliability of the natural gas system should be reimbursed in the electricity market. Doing so may undermine the use of these penalties and requires close coordination between the electric and gas industries. This issue is being discussed in a limited scope under the ISO's proposed tariff revisions to address resources' ability to recover OFO penalties. **The ISO clarifies it will do so as part of an OFO policy tariff development that we plan to be concurrent with the policy development portion of this stakeholder initiative, likely beginning late July or August.** Outside of this narrow OFO discussion, the ISO will not be able to sufficiently address the broader question of reimbursement for penalties in this interim stakeholder initiative but can consider it in the longer-term bidding rules initiative.

To date, there has been no discussion with regards to generator recovering OFO penalties incurred as a result of following CAISO dispatch instructions as part of this stakeholder process. As NRG has pointed out in previous comments, even if the CAISO allows generators to recover OFO penalty costs separately and directly invoiced by gas companies, generators can incur substantial costs procuring gas to follow

CAISO dispatch instructions so as to *avoid* incurring OFO penalties – costs that there is no clear way for generators to seek to recover through the CAISO's markets. Again, while NRG does not want to delay the implementation of the proposed modifications, NRG urges the CAISO to address this issue as soon as possible. The CAISO has noted the problematic incentives associated with allowing generators to directly pass on OFO costs; increasing the bidding cap to provide additional bidding headroom is an alternative and might be the best way to deal with this issue. Further inaction, however, is not an effective way to deal with this issue.

**Timing.** NRG urges the CAISO to submit the proposed tariff language to FERC as soon as possible following the September CAISO Board of Governors meeting, or seek to shorten the time required for FERC action, so that the proposed amendment can be implemented no later than November 20, 2014. This will ensure the proposed amendments are in place prior to Thanksgiving.

**Conclusion.** NRG applauds the CAISO for its proposal to allow daily bidding above the proxy cost level. While there are aspects of this proposal that NRG would seek to change (as noted above), NRG does not want the better to be the enemy of the good, and again urges the CAISO to ensure that the proposed modifications are implemented as soon as possible, certainly before the week of Thanksgiving 2014. NRG also urges the CAISO to launch the bidding rules stakeholder process, and to deal with issues not fully resolved by this proposal (especially ensuring recovery of all gas costs), as soon as possible.