

# Memorandum

**To:** ISO Board of Governors  
**From:** Eric Hildebrandt, Director, Market Monitoring  
**Date:** September 30, 2016  
**Re:** Department of Market Monitoring update

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***This memorandum does not require Board action.***

## EXECUTIVE SUMMARY

This memo summarizes comments by the Department of Market Monitoring (DMM) on the Aliso Canyon gas-electric coordination phase 2 proposal being submitted to the Board. DMM supports all the elements of the Aliso Canyon gas-electric coordination phase 2 proposal.

DMM is supportive of the ISO's proposal to extend – but not modify – the current gas cost scalars used to increase commitment cost and default energy bid caps used in the real-time market at this time. DMM believes that analysis of market data indicate these scalars – particularly the 75 percent scalar for commitment cost bids – have not played a significant role in helping participants manage real-time gas usage this summer. However, DMM agrees with the ISO that the scalars may provide such benefits in the future in the event gas and electric market conditions are different in the coming winter months. In addition, DMM has not observed any significant impacts of the scalars in terms of market power and excessive or unnecessary market uplift costs. In the event DMM observes significant detrimental cost impacts DMM would recommend lowering the scalars.

The remainder of this memo provides a more detailed summary of DMM's findings and recommendations relating to several key element the Aliso Canyon gas-electric coordination phase 2 proposal. More detailed comment and analysis is provided in DMM's comments on the *Draft Final Proposal*.<sup>1</sup>

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<sup>1</sup> *Comments on the Draft Final Proposal for Aliso Canyon Gas-Electric Coordination – Phase 2*, Department of Market Monitoring, September 28, 2016:

[http://www.caiso.com/Documents/DMMComments\\_AlisoCanyonGas-ElectricCoordinationPhase2DraftFinalProposal.pdf](http://www.caiso.com/Documents/DMMComments_AlisoCanyonGas-ElectricCoordinationPhase2DraftFinalProposal.pdf).

## Gas cost scalars

One of the key temporary provisions being requested is the authority to set scalars to increase gas cost estimates used in the real-time market to set bid caps for commitment cost and default energy bids used when congestion occurs on uncompetitive constraints. These gas cost scalars represent a percentage increase that is applied to increase cost indices normally used to calculate these caps.

The scalar for commitment costs was initially set to 75 percent, which is applied in addition to the 25 percent head room normally allowed for commitment cost bids. The scalar for default energy bids is set to 25 percent, which is applied in addition to the 10 percent head room normally allowed for default energy bids.

The proposal continues to call for these scalars to be set and adjusted to levels designed to meet the following three goals or criteria:

- Sufficient to enable the ISO market to dispatch generators on the SoCalGas/SDG&E systems only for local electricity needs and not system electricity needs;
- Accounts for systematic differences between actual day-ahead and same day gas prices that are likely to be more volatile for same day purchases on the constrained gas systems; and
- Needed to improve generators' ability to manage gas company requirements on the constrained systems to limit differences between individual generator's gas schedules and usage (*i.e.*, gas balancing requirements).

As indicated in Management's memo, the ISO monitors whether this level is effective in meeting the three objectives listed above. To date, the ISO has not observed the need to adjust any of these scalars.

DMM has performed significant analysis of the impact and need for these scalars in the real-time market based on actual spot market gas prices, use of the higher bid caps by participants, and resource dispatches and gas usage in the real-time market before and after implementation of the scalars. DMM believes that analysis presented in DMM comments on the *Draft Final Proposal* indicates that – in retrospect – the gas scalars did not end up to be needed based on spot market gas prices and did not have a significant impact in terms of helping to manage gas usage this summer.

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However, DMM agrees with the ISO that the scalars may provide such benefits in the future in the event gas and electric market conditions are different in the coming winter months. In addition, DMM has not observed any significant impacts of the scalars in terms of market power and excessive or unnecessary market uplift costs.

Thus, DMM is supportive of the ISO's proposal to extend – but not modify – the current gas cost scalars used to increase commitment cost and default energy bid caps used in the real-time market at this time. In the event DMM observes significant detrimental cost impacts without any evidence that the scalars were providing significant benefits, DMM would recommend lowering the scalars.

### **Updating day-ahead gas price index**

A second key market modification Management proposes to extend is to have the authority to update the gas price information used by the ISO day-ahead market to establish commitment cost bid caps and default energy bids for mitigated energy offers. The gas price information currently used by the day-ahead market is currently lagged by one day. This proposal will allow the ISO to eliminate this one day lag by calculating a gas price based on gas trades reported on the InterContinental Exchange each morning prior to the start of the day-ahead market.

DMM recommends that the ISO file to make this a permanent feature. The ISO has indicated that it may examine this issues as part of a bidding initiative it plans to initiate in the fourth quarter of 2016, which may result in modifications to be implemented in fall 2017. DMM believes that even if other changes to bidding rules are implemented in fall 2017, this measure represents a common sense element that should be included in the ISO market. This modification has universal support among stakeholders and neither the ISO nor stakeholders have provided any reasons why this measure should not be implemented on a permanent basis.

### **Cost recovery for energy bids**

In addition to permitting market participants to file with FERC to recover costs incurred that exceed commitment cost bid caps, Management's memo indicates that it is proposing "to extend the temporary measure to allow for similar recovery of costs that exceed the mitigated energy bid." In response to comments by DMM, the *Draft Final Proposal* indicates that this filing will "clarify eligibility for energy cost recovery is for any mitigated energy offer" (emphasis added). In other words, gas costs for energy bids are only eligible if the bids were actually limited by bid mitigation.

DMM understands that the ISO may intend for this provision to include natural gas costs for energy bids submitted by EIM entities which are required to submit market bids less than or equal to their default energy bids under special restrictions placed on these

entities by FERC. These market bids are not subject to any mitigation by the ISO under ISO the tariff unless congestion occurs on EIM transfer constraints that trigger the ISO's automated mitigation procedures. Thus, if the ISO intends these market bids by EIM entities to be eligible for cost recovery, DMM recommends that the ISO clarify this in the revised tariff language to be filed at FERC.

### **Exceptional dispatch mitigation**

DMM has also recommended that incremental and decremental exceptional dispatches related to the management of Aliso Canyon gas issues be considered non-competitive and subject to exceptional dispatch market power mitigation. The ISO's *Draft Final Proposal* notes that "several external stakeholders submitted comments supporting DMM's recommendations," but that "The ISO believes considering this would benefit from additional time and stakeholder process. The ISO will continue to consider these recommendations."<sup>2</sup>

Given that the ISO did not consider these recommendations in this stakeholder process, DMM supports future consideration of this suggestion. DMM does not believe this issue should be a major item to resolve. However, if the ISO believes that stakeholding this item would require significant resources, DMM would place a much higher priority on other market changes being recommended by DMM in the ISO's Stakeholder Initiatives Catalog process.

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<sup>2</sup> *Draft Final Proposal.*