

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**California Independent System
Operator Corporation) Docket No. ER16-2445
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**COMMENTS OF THE DEPARTMENT OF MARKET MONITORING FOR THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

The Department of Market Monitoring (DMM) for the California Independent System Operator Corporation (CAISO) files comments in the above-captioned proceeding. The CAISO is proposing to make permanent several tariff provisions previously approved by the Commission on an expedited and interim basis until November 30, 2016. One of these provisions allows resources to rebid commitment costs in the CAISO real-time market during hours for which the resource was not scheduled in the day-ahead market and has not already been committed in the real-time market.

DMM supported this provision on an interim basis as part of a package of measures to mitigate risks to reliability and market distortions posed by the limited operability of the Aliso Canyon natural gas storage facility (Aliso Canyon). However, DMM recommends that the rebidding rules currently in effect until November 30, 2016 be extended on only an interim basis, pending further assessment of other limitations on rebidding of commitment costs that may be appropriate and how these limits may be directly enforced through the CAISO market software. DMM supports a temporary extension of these rebidding provisions through summer 2017

so that further potential refinements and implementation issues associated with re-bidding rules can be addressed.

The CAISO is also proposing to make permanent provisions allowing scheduling coordinators to seek after-the-fact recovery of unrecovered commitment costs that are a result of actual marginal fuel procurement costs that exceed commitment cost bid caps as pursuant to an FPA section 205 filing submitted to the Commission. DMM supports extension of these provisions, but continues to believe that prior to implementing this provision on a permanent basis, it would be beneficial for the CAISO to work with stakeholders to develop more specific guidelines, requirements, and methodological details to be used in any cost recovery filings.

I. Background

On May 9, 2016, the CAISO proposed to implement a package of measures on an interim basis through November 30, 2016 to mitigate risks to reliability and market distortions posed by the limited operability of the Aliso Canyon natural gas storage facility (May 9 Aliso Canyon filing).¹ On August 19, 2016 the CAISO filed a tariff amendment to make permanent several tariff provisions previously approved by the Commission on an expedited and interim basis until November 30, 2016. The CAISO filing includes the following two provisions: (1) allow resources to rebid commitment costs in the CAISO real-time market except for hours with a day-ahead schedule or for the duration of the resource's minimum run time if committed in the real-time market; and (2) allow scheduling coordinators to seek after-the-fact recovery of unrecovered commitment costs that exceed the commitment cost bid

¹ http://www.caiso.com/Documents/May9_2016_TariffAmendment_EnhanceGas-ElectricCoordination_LimitedOperation_AlisoCanyonNaturalGasStorageFacility_ER16-1649.pdf

cap as a result of actual marginal fuel procurement costs pursuant to an FPA section 205 filing submitted to the Commission.

In its transmittal letter for the August 19 filing, the CAISO explains that it is filing to make these provisions permanent at this time because these provisions had been previously developed and approved for filing at FERC as part of the Bidding Rules Enhancements stakeholder process independent of the other measures developed to address the Aliso Canyon issue.

II. Comments

a) ***The proposal for re-bidding of commitment cost in real-time market requires additional review before permanent adoption***

It is DMM's understanding that the rule change incorporated in the March 2016 *Bidding Rules Enhancements Initiative Revised Draft Final Proposal* would allow resources without any day-ahead schedules to "updat[e] commitment costs across the day for [real-time] market runs until the resource is committed."²

This rule change was supported by stakeholders, including DMM, for providing more commitment cost bidding flexibility without creating opportunities for resources to inflate their bid cost recovery. However, the emergency May Aliso Canyon interim filing expanded the ability of resources to rebid their commitment costs in real-time significantly beyond these more limited conditions initially discussed during this stakeholder process and envisioned by DMM.

DMM understands that the May 9 interim filing expanded the March 2016 Revised Draft Final Proposal in two ways. First, the May 9 interim filing allowed

² *Bidding Rules Enhancements Revised Draft Final Proposal*, March 22, 2016, p.12:
<http://www.caiso.com/Documents/RevisedDraftFinalProposal-BiddingRulesEnhancements-GeneratorCommitmentCostImprovements-redlined.pdf>.

resources with day-ahead schedules during some – but not all – hours of the day to change real-time commitment cost bids. However, DMM understood that under the March 2016 *Revised Draft Final Proposal* only resources without day-ahead market schedules during *any* hour of an operating day to modify their commitment cost bid in the real-time market for that day.

In addition, the May 9 interim filing allowed resources that had been committed in real-time to change their commitment costs after the duration of the minimum run time for that resource (or MSG configuration). However, under the March 2016 *Revised Draft Final Proposal*, resources would not be allowed to change commitment cost bids in real-time during all hours after the resource had been committed.

The rules in the May 9, 2016 interim filing were proposed as an emergency interim rule change related to Aliso Canyon. DMM submitted comments on the May 9 Aliso Canyon filing supporting these rule changes related to commitment cost rebidding on an interim basis, and noted the following:

DMM will be closely scrutinizing changes to commitment costs in real time that coincide with bid cost recovery payments. However, DMM notes there are inherent difficulties and shortcomings in relying on behavioral monitoring to differentiate between (1) legitimate uses of real-time commitment cost bidding flexibility; and (2) potential exploitative uses of real-time commitment cost flexibility to inflate bid cost recovery payments. In this case, DMM supports relying on monitoring of real-time market bidding behavior during the interim period – as opposed to more restrictive rules -- in order to allow the potential benefits of re-bidding of higher real-time commitment costs that include gas cost adders.

Thus, DMM recommends that the real-time rebidding rules currently in effect under the CAISO's May 9 Aliso Canyon filing be extended on only an interim basis, pending further assessment of other limitations on rebidding of commitment costs

that may be appropriate. As discussed below, DMM believes it is important that any bidding limitations adopted on a permanent basis be directly enforced in the CAISO market software.

b) Limits on re-bidding of commitment cost in real-time market need to be directly incorporated in the market software.

Based on the stakeholder process leading to the March 2016 *Revised Draft Final Proposal* DMM understood that rules would be modified to allow resources to change their commitment costs in real-time only under a specific set of circumstances which would be relatively straightforward to directly incorporate in the market software. However, the expanded rules adopted on an interim basis in the May 9 Aliso Canyon filing could not be directly incorporated in the market software, and are therefore enforced only through after-the-fact monitoring by the ISO and DMM. As noted in DMM's comments on the CAISO's May 9 Aliso Canyon filing:

DMM supports these rules. However, market participants and FERC should be aware that the second rule above is unlikely to be able to be automatically enforced by the ISO's software. Therefore, market participants will be *physically* able to adjust a generator (or configuration) commitment cost in real-time during the generator's (or configuration's) minimum up time. The adjusted commitment cost will be used by the optimization and in settlements. However, DMM understands that it will be considered to be a tariff violation for the scheduling coordinator to execute this change to the generator's real-time commitment cost.

The CAISO's August 19 filing notes that continued reliance on after-the-fact monitoring by the ISO or DMM would be needed and does not include any requirement or commitment that bidding limitations be directly incorporated in the market software.

While DMM supports continuation of re-bidding of commitment costs as a permanent feature of the CAISO markets, DMM believes that all limitations on re-

bidding needed to protect from excessive bid cost recovery payments or other detrimental market outcomes should be directly enforced by the market software. Thus, DMM does not support continued reliance on non-automated after-the-fact monitoring and enforcement by the CAISO or DMM beyond a reasonable interim period (e.g. end of summer 2017).

c) Additional guidelines and methodological principles for cost recovery filings should be developed.

The CAISO is also proposing to make permanent provisions allowing scheduling coordinators to seek after-the-fact recovery of unrecovered commitment costs that a result of actual marginal fuel procurement costs that exceed commitment cost bid caps. As noted in DMM's memo to the CAISO Board on this issue:³

DMM is supportive of providing a mechanism for participants to seek after-the-fact reimbursement for any prudently incurred gas costs due to unit commitments in excess of commitment cost bid caps that are not recovered through market revenues. As part of this initiative, DMM performed extensive analysis of historical gas price data which indicates that the actual need to rely on this mechanism should be very infrequent – but could be important in the case of extreme events.

Even though the proposal calls for FERC to assess any gas reimbursement filings by generators, DMM has encouraged the ISO to continue to work with stakeholders – and personnel with additional expertise in gas markets and procurement – to develop more specific guidelines, requirements and methodological details. DMM believes this additional detail would help reduce potential uncertainty about how this provision will be implemented for participants and avoid potential disputes.

DMM continues to believe that prior to implementing this provision on a permanent basis it would be beneficial for the CAISO to work with stakeholders to develop more specific guidelines, requirements and methodological details. Indeed,

³ Memorandum to ISO Board of Governors, Re: Market Monitoring Report, Eric Hildebrandt, March 21, 2016, p. 5, http://www.caiso.com/Documents/Department_MarketMonitoringUpdate-Mar2016.pdf

feedback from some participants to DMM suggests that the uncertainty associated with this provisions reduces their view of its effectiveness at ensuring cost recovery.

IV. Conclusion

For the reasons stated above, the DMM recommends that the Commission approve an extension of the rebidding rules currently in effect under the CAISO's May 9 Aliso Canyon filing on an interim basis, pending further assessment of other limitations on rebidding of commitment costs that may be appropriate and how these limits may be directly enforced through the CAISO market software.

DMM supports the CAISO's proposal to allow scheduling coordinators to seek after-the-fact recovery of unrecovered commitment costs, but recommends that prior to implementing this provision on a permanent basis it would be beneficial for the CAISO to work with stakeholders to develop more specific guidelines, requirements and methodological details concerning filings for recovery of commitment costs.

Respectfully submitted,

/s/ Dr. Eric Hildebrandt

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Dated: September 9, 2016

CERTIFICATE OF SERVICE

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

Dated at Folsom, California this 9th day of September 2016.

/s/ Anna Pascuzzo
Anna Pascuzzo