



Finding the ways that work

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Submitted to initiativecomments@caiso.com

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Dear Ms. Colbert,

Aliso Canyon Gas-Electric Coordination Phase 3 Straw Proposal

Environmental Defense Fund (“EDF”) appreciates the opportunity to comment on CAISO’s Aliso Canyon Gas-Electric Coordination Phase 3 Straw Proposal dated June 2, 2017 (the “Straw Proposal”).

1. Consideration of Longer Term Market Refinements

CAISO proposes that the temporary measures designed to address the inoperability of Aliso Canyon be extended until long-term solutions to the gas-electric coordination challenges being considered under the Commitment Costs and Default Energy Bids Enhancements (“CCDEBE”) stakeholder process are implemented. EDF is currently participating in the CCDEBE process, and appreciates the CAISO’s efforts in initiating and managing discussions with stakeholders as part of that process.

However, the timeline for that process has been in flux. In its Issue Paper dated November 18, 2016, CAISO envisioned submission of a draft final proposal to the CAISO Board by July 2017. That timeline has shifted for several reasons. In recent CCDEBE stakeholder meetings, stakeholders have noted that substantial operational changes are likely to be needed to implement the enhancements under consideration, making it unlikely that they will be implemented by September 2018 as envisioned by CAISO. This delay is of concern given that it has been several years since FERC expressed its expectation that CAISO consider longer-term market design changes to its commitment cost rules.¹

In sum, there is uncertainty around the timeline for the CCDEBE process, even as the pressing need, emphasized by FERC², for longer term market design changes to address electric reliability concerns resulting from potential instances of constrained gas supply remains. Given this context, it is important to establish a backstop date, such that temporary measures proposed to be extended as part of Phase III expire by that date or the date of implementation of the CCDEBE enhancements, whichever is earlier. This will create the impetus for reconsideration of the need for, and efficacy of, temporary Aliso measures, considering the then prevailing context.

¹ Cal. Indep. Sys. Operator Corp., 149 FERC ¶ 61, 284 (2014) at P 32. “[W]e expect CAISO to abide by its commitment to consider longer-term market design changes for commitment cost bids....”

² Cal. Indep. Sys. Operator Corp., 157 FERC ¶ 61, 151 (2016) at p.1. “We [...] expect CAISO to honor its commitment to consider other types of longer-term market enhancements, such as the issues raised by EDF and NV Energy, in its stakeholder processes.”

Fundamentally, energy markets are too dynamic for administrative processes to keep up. Market rules that lead to correct incentives and disincentives and steer us towards a low carbon system, are the most efficient and sustainable.

2. Fuller Consideration of the Summer 2017 Joint Agency Technical Study

The CAISO Straw Proposal lacks a detailed consideration of the results of the summer 2017 joint agency technical study and an empirical analysis of the extent to which existing temporary measures need to be extended, and also whether new measures must be considered given the results of that study. As CAISO prepares to develop a draft final proposal, a fuller consideration of the specific results of the technical study, the extent of electric reliability risk identified in that study, and a more thorough examination of the implications for the temporary Aliso measures implemented by CAISO would be beneficial.

Notably, the California agencies have not yet completed a winter 2017 reliability analysis. At the IEPR Joint Agency Workshop on Energy Reliability in Southern California held on May 22, 2017, many parties, including the Southern California Gas Company expressed concern around energy system reliability during the upcoming winter months. Therefore, it is particularly important that CAISO create a mechanism to closely monitor the situation and formally review the efficacy of temporary measures in winter 2017 and beyond, as suggested above, and prepare to adjust its response accordingly, instead of assuming at the outset that the suite of existing temporary measures are both necessary and sufficient to meet all electric reliability concerns arising from the inoperability of Aliso Canyon beyond summer 2017.

3. Recommendations for Consideration of Broader Gas-Electric Reliability Challenges

As California transitions to higher amounts of renewables, it is also transitioning from ample gas supply deliverability to tighter deliverability conditions. With California's unique electric reliability challenges reflected in the "duck curve" and its ambitious renewables targets, no other state is as dependent on gas-electric coordination as California. As noted in the Straw Proposal, Aliso Canyon is likely to be inoperable for the foreseeable future and it is likely that other gas deliverability challenges may emerge in the near future, e.g. due to proposed regulatory changes relating to California gas storage facilities that are currently under consideration.

Given the need for enhanced gas-electric coordination on an ongoing basis regardless of the future of the Aliso Canyon facility, a broader, coordinated joint agency effort involving CAISO and other key California state agencies such as the CPUC is necessary to consider market based solutions (going beyond the CCDEBE process) to address these larger issues. In a recent set of comments filed with the California Energy Commission as part of the 2017 Integrated Energy Policy Report process, EDF outlined in detail a proposal for the creation of a gas imbalance market in order to address electric reliability challenges through wholesale gas market design changes. It is worth noting that of all the mitigation measures implemented by the joint agencies in response to the inoperability of Aliso Canyon, the implementation of tighter gas balancing rules was responsible for 95% of the reduction in gas demand in Southern California, underscoring the significance of market design changes in addressing gas-electric coordination challenges.

4. Transparent Application of Commission Approved Measures

EDF concurs with comments made by market participants in prior phases of the Aliso Canyon gas-electric coordination stakeholder process on the continued need for transparent

application of any Commission approved measures, allowing stakeholders visibility into CAISO's decision to deploy a particular type of measure.³

Thank you for considering these comments. Please feel free to reach out with any questions or comments.

Sincerely,

Simi Rose George
Manager, Energy Markets Policy
Environmental Defense Fund

³ Western Power Trading Forum Comments on CAISO Aliso Canyon Phase 2 Straw Proposal, at p. 1 (September 14, 2016), "Generally, WPTF supports the evaluation of whether the temporary measures need to be extended and refined, *and appreciates the ISO making the commitment to increase transparency where needed*"; NRG, Inc. Comments on CAISO Aliso Canyon Phase 2 Straw Proposal at p. 1 (September 14, 2016), "To ensure that that the CAISO's use of real-time contingency analysis to allow flows on Path 26 to exceed the Path 26 limit in real-time does not become yet one more way in which CAISO operators take actions to subjectively and opaquely affect market results, *the use of this method must be exercised in a transparent way and in accordance with criteria defined in advance.*" (emphasis added)