COMMENTS OF NV ENERGY
ON BIDDING RULES ENHANCEMENTS
GENERATOR COMMITMENT COSTS IMPROVEMENTS

CAISO STAKEHOLDER PROCESS

FEBRUARY 29, 2016

NV Energy has read the Draft Final Proposal dated February 10, 2016 and appreciates the efforts of this stakeholder process to improve bid flexibility and recovery surrounding unit commitment costs. As a Participating Resource Scheduling Coordinator in the Energy Imbalance Market, NV Energy does not currently have an issue with changing fuel prices after commitment of a unit in the day ahead market. NV Energy is interested in ensuring recovery for gas volatility, however, because intra-day gas volatility could affect commitments in the real-time market, as well.

Regarding the opportunity for after-the-fact cost recovery for unexpected and sudden gas price spikes, covered in section 7.1 of the draft final proposal, NV Energy objects to the proposal by CAISO to submit all requests for extraordinary gas costs to FERC for a decision on recovery. The CAISO has not adequately provided a basis for deferring to FERC on cost recovery for extraordinary fuel prices, and invoking FERC process is a not a just and reasonable mechanism for compensating for these costs.

First, the CAISO suggests it does not have the wherewithal to include in its tariff all circumstances or situations in which an entity incurred extraordinary gas costs due to volatility, and therefore it should not try to do so. CAISO does not need to include all circumstances under which it would consider recovery; it could, however, feasibly include the foreseeable situations in which it would want authorization to provide recovery. The tariff need not be an exhaustive list of all rare and unforeseen situations, but describing the more obvious circumstances in which volatility may occur and arguably warrant recovery would likely eliminate the need to seek recourse with FERC in most of the relevant instances of gas price spikes. CAISO could maintain in the tariff an allowance for an entity to go to FERC with a recovery request for any situation not described in the tariff, which would keep open the possibility of justified recovery in unforeseen conditions.

Second, the CAISO appears to defer to FERC as the higher and better arbiter of when recovery for gas price volatility may be warranted. NV Energy disagrees with this deference. The CAISO has not identified why FERC may have more or better-honed expertise on this subject. The circumstance of a fuel price excursion is fairly objective. The question of procurement and timing may be less objective and more difficult to evaluate, but FERC does not necessarily have a better perspective than would the CAISO on that question. In any event, the CAISO is arguably the better judge of when fuel prices beyond the commitment cost price cap warrant extraordinary recovery because it understands its market and how fuel prices may be affecting generator prices much better than FERC would. FERC would likely need data from the CAISO to analyze the basis for the recovery request. Indeed, the CAISO states its intention to detail in the tariff what an entity would include in a filing with FERC, and that the CAISO would contribute its own knowledge on the matter with a written statement of market events and conditions on the day of the recovery in question. Finally, the reference to FERC expertise on hedging instruments is also puzzling.

In sum, nothing in the draft final proposal persuades NV Energy that the question of recovery for fuel price spikes should or must be sent to FERC rather than rest with the CAISO. The only exception would be those bizarre or extremely rare circumstances that the CAISO cannot foresee at this time for the purpose of embedding into its tariff as an authorized basis to consider recovery.

Third, recourse at FERC presents a considerable disadvantage and no incidental benefits. A FERC proceeding would require an investment of resources and uncertain delay. Both of these factors would deter seeking justifiable cost recovery for exposure to price excursions of a short duration. Such a result would not be just and reasonable. Nor is the result called for precisely because the CAISO could create a tariff mechanism for recovery as described above. In addition, contrary to CAISO's postulate, seeking recovery from FERC rather than CAISO does not obviously protect the entities' confidential information about gas purchases and sales. Presumably, such information would be submitted only to the extent needed, and on a confidential basis to either CAISO or FERC. At FERC, that information would be subject to a FOIA request. Again, the cost and delay associated with seeking FERC authorization in the first instance is unfair and unwarranted when the CAISO tariff could outline when allowing recovery of extraordinary fuel costs would be appropriate. The tariff could outline the criteria for recovery, e.g., prudently incurred procurement costs, and either the tariff or the business practice manual could give examples of facts that satisfy the criteria.

NV Energy is in a position to be particularly concerned about the potential for incurring extraordinary fuel costs and the need to request recovery from FERC rather than through an authorized tariff mechanism. Although the instances of needing to seek recovery will presumably be rare, NV Energy is mitigated in all bidding to its default energy bid, which is capped at 10% rather than 25% beyond actual costs. This circumstance increases the potential number of occasions when a price excursion may cause NV Energy's costs to exceed the operative bid cap. In those instances, NV Energy does not want to invoke FERC process to obtain justifiable recovery of its fuel costs. Imposing that burden in each and every one of those instances would be unnecessary and not justified. NV Energy is happy to work with CAISO on tariff language that would provide for the combination of situations and information needed pursuant to which the CAISO could be authorized to make those recovery determinations without the help of FERC.