



California ISO

After-Market Fuel Cost Recovery
Tariff Clarification

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California Independent System Operator

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1.0 Executive Summary

Section 30.12 of the tariff addresses the process for after-market cost recovery via ISO evaluation of fuel costs and FERC fuel cost recovery filings. The policy precipitating this section of the tariff created an opportunity for scheduling coordinators to recover costs through before-market reference level change opportunities that are intended to ensure both cost recovery for the market participant and over-all market efficiency. Tariff section 30.12 pays costs that were not recoverable through these processes.

Since the ISO's current tariff provisions became effective on February 15, 2021, the ISO identified several perceived ambiguities in how the text of this tariff section was meant to apply. The ISO is therefore proposing clarifications to more clearly align the tariff with the existing policy.

This paper provides background on reference level calculations and the reference level change request process, and identifies four existing policy goals that the tariff clarifications are meant to reinforce: 1) an after-market recovery request is only allowed if there has been a before-market reference level change request, 2) the ISO and FERC have the same standard of review for after-market recovery requests, 3) eligibility for supplemental uplift is limited to costs that could not have been recovered through pre-market processes, and 4) that pre-market cost adjustments follow the same standard as costs permitted through BCR.

2.0 Background

2.1 Calculating Reference Levels

The ISO calculates daily resource-specific default commitment cost bids and default energy bids. The default commitment costs are an upper limit on the resource's commitment cost bids, whereas the default energy bid serves as a bid mitigation floor when market power mitigation procedures apply to a resource's bid.¹ The default commitment costs and default energy bids are referred to generally as reference levels. The ISO calculates reference levels based on prevailing gas price information and imposes the accompanying limits to mitigate market power and promote market efficiency.

For most resources, the ISO sets commitment cost reference levels using a formula that reflects the resource's physical parameters and daily natural gas

¹ Energy bids are also subject to a soft cap of \$1,000/MWh and a hard cap of \$2,000/MWh. Existing tariff Appendix A, "Soft Energy Bid Cap" & "Hard Energy Bid Cap."

index prices.² Those index prices are further adjusted to reflect costs in the specific fuel region in which the resource takes delivery of gas or which the resource's scheduling coordinator notifies the ISO takes delivery of gas. The ISO's formula does not account for gas-related costs other than commodity and transportation costs, e.g., costs associated with intra-day gas purchases, hedging costs, other risk premiums, and certain non-gas-related variable costs.

The standard resource-specific costs used to calculate reference levels do not, and cannot practically, perfectly reflect the actual costs incurred by generators. Therefore, the ISO provides opportunities for scheduling coordinators to request reference level adjustments before the relevant market run.

2.2 Accounting for Gas Market Volatility: Before-Market Reference Level Changes and After-Market Fuel Cost Uplift

The ISO has recognized that gas market volatility can create circumstances where the price index information it uses to calculate reference levels do not reflect a generator's actual gas procurement costs. For example, should reference levels underestimate how resources can bid commitment costs, resources may be unable to recover their costs through the market and bid cost recovery.

To address this potential consequence of unrecovered market costs, the ISO tariff permits scheduling coordinators for generators to request both: (1) before-market reference level changes;³ and (2) after-market fuel cost uplift payments to supplement bid cost recovery payments.⁴

Scheduling coordinators have two options under the umbrella of before-market reference level changes, both of which require scheduling coordinators to support requests with contemporaneously available fuel cost information. Scheduling coordinators can make automated before-market reference level changes within reasonableness thresholds, subject to after-the-fact audit. Before-market requests that go beyond the reasonableness thresholds are permitted through the manual request process but are subject to manual review by the ISO before reflecting requested fuel costs in the market.

Changing the reference level upfront lets the resource more accurately reflect its true commitment costs and simultaneously supports efficient market results as the revised commitment cost is considered directly within the market

² Existing tariff sections 30.4.1.1.1(b), 30.4.1.1.2(b), 30.4.1.1.5, 30.7.9(c), and 30.7.10. The calculated proxy cost includes various cost components listed in the tariff, e.g., fuel input costs, auxiliary power costs, greenhouse gas cost adders, adders for major maintenance expenses, and operation and maintenance costs. Existing tariff sections 30.4.1.1.1(a) and 30.4.1.1.2(a).

³ Before-market requests are covered in California ISO tariff section 30.11.

⁴ After-market requests are covered in California ISO tariff section 30.12.

optimization. If the resource is then still subject to bid cost recovery, recovery under that mechanism will be based on more accurate costs.

If a resource uses the before-market reference level change request process and still has unrecovered fuel costs after the bid cost recovery calculations, then the resource can request an after-market uplift payment for those costs that otherwise would go unrecovered. The ISO tariff states the after-market uplift payment is for “amounts in a Reference Level Change Request that were not approved pursuant to Section 30.11.”⁵ Scheduling coordinators can submit an initial after-market request to the ISO or the Commission. If the ISO rejects the request or cannot validate the request, then the scheduling coordinator can submit a follow-on request to the Commission.

2.3 Goals for Tariff Provisions on After-Market Fuel Cost Recovery

The ISO’s current tariff provisions on before-market reference level change requests and after-market fuel cost uplift payments became effective on February 15, 2021. The ISO immediately received several requests for after-market recovery related to Winter Storm Uri in February 2021.⁶

In addressing these requests and more generally discussing tariff section 30.12 with stakeholders and internally, the ISO understands there are several perceived ambiguities⁷ in how the text of that tariff section was meant to apply.

The ISO is proposing the corresponding amendments to section 30.12 to resolve these ambiguities and ensure the tariff reflects approved policy. These revisions are meant to achieve four key goals:

1. Ensure that in all cases, an after-market recovery request is only allowed if there has been a before-market reference level change request.
2. Clarify there is no difference between ISO after-market review and FERC after-market review in terms of required information, substantive standard, or outcome if request granted.
3. Limit supplemental uplift for recovery of costs that could not have been recovered through BCR, rather than for costs that could have been recovered but were not because of the scheduling coordinator’s market participation choices.

⁵ California ISO tariff section 30.12.1.

⁶ *San Diego Gas & Elec. Co.*, Docket No. ER21-2193-000; *Sempra Gas & Power Mktg., LLC*, Docket No. ER21-2192-000; *EDF Trading North America LLC*, Docket No. ER21-2579-000.

⁷ One significant example is the Commission’s order in response to EDF’s petition, *EDF Trading North America LLC*, 186 FERC ¶ 61,174 (2024), and the CAISO’s request for rehearing of that order. *EDF Trading North America LLC*, Request for Rehearing of the California Independent System Operator Corporation, FERC Docket No. ER21-2579-000 (Apr. 8, 2024).

4. Clarify supplemental payments are only about adjusting inputs to the existing bid cost recovery mechanism and cannot include types of costs that are not recoverable through, or recognized in, BCR.

The ISO below discusses each goal and why it is necessary to ensure the ISO tariff clarifies these points.

2.3.1 Goal No. 1—Before-Market Reference Level Change Request is a Necessary Prerequisite for After-Market Uplift Requests

The requirement to make a before-market reference level change request (no matter where the after-market request is directed) creates a direct incentive for scheduling coordinators to try to reflect their true gas costs in the market clearing process to ensure least cost dispatch and market efficiency.

The requirement to request a before-market reference level change prevents one form of strategic bidding: absent the before-market requirement, generators have an incentive to bid at artificially low commitment costs to secure a commitment while facing limited downside cost recovery risk. If higher prices occur, then the generator can profit through the high prices. If higher prices do not occur, then the resource could still seek an uplift payment to make it whole through the bid cost recovery process. In the latter scenario, load would be forced to bear costs that would not have been incurred had the market had the opportunity to see the relevant costs and dispatch by least cost. The ISO policy never intended a market design that does not create incentives for resources to offer these costs.

The ISO intended a before-market reference level change request to be a prerequisite for making an after-market uplift request to either the ISO or the Commission. The ISO's view about the relationship between before-market and after-market requests is reflected in multiple places in the policy initiative leading to the tariff revisions that became effective in February 2021.⁸ Nevertheless, in a March 2024 order, FERC interpreted the ISO's tariff as only imposing this prerequisite for after-market uplift requests submitted to the ISO but not to such requests submitted to FERC.⁹

2.3.2 Goal No. 2—Same Standards Apply Regardless of Who Reviews the After-Market Uplift Request

⁸ *Cal. Indep. Sys. Operator Corp.*, Transmittal Letter, at 54, FERC Docket No. ER23-2360-000 (Jul. 9, 2020); CCDEBE Board Memo, at 8.

⁹ *EDF Trading North America LLC*, 186 FERC ¶ 61,174, P 59 (2024).

In providing scheduling coordinators the option to submit an after-market request to either the ISO or FERC, the ISO never intended to create any difference between ISO and Commission after-market review in terms of required information, substantive standard, or outcome if request granted.¹⁰ However, in an order FERC described requests posed to the ISO and to the Commission as “alternate pathways for after-market fuel cost recovery.”¹¹ Framing these as alternate pathways could suggest that requests are evaluated under different standards or based on different information submission requirements depending on whether the ISO or FERC considers the after-market request. Letting the requests be considered under different standards would create a strategic benefit to submit the request in one venue as opposed to the other, which was something the ISO never intended.

2.3.3 Goal No. 3—After-Market Uplift Payments Limited to Costs that Could Not Be Recovered from the Market

In reserving the opportunity for after-market uplift payments, the ISO’s intent was that scheduling coordinators would first have to take full advantage of all opportunities the market provided them before receiving an after-market uplift payment outside of bid cost recovery. That is, tariff section 30.12 pays costs that were not recoverable, rather than for costs that merely were not recovered.

In considering after-market requests, there has been some debate about whether after-market uplift is intended to compensate for: (a) any fuel costs that were not recovered through the market; or (b) only fuel costs that could not have been recovered through the market. This distinction can be an issue where, for example, a scheduling coordinator did not use the full headroom available under the commitment cost cap and reasonableness threshold. In this scenario, higher costs could have been recovered through bid cost recovery but were not.

The reasoning for requiring scheduling coordinators to fully use the opportunities available to them is similar to the reasons for making a before-market reference level change a pre-requisite. It would harm market efficiency if resources can receive an after-market uplift payment for costs that could have been reflected in the market, or would never have been incurred had the resource used the full opportunities available to it to ensure the market had information about the resource’s true costs. Permitting after-market recovery of costs that could have been, but were not, recovered also prevents providing scheduling coordinators a free option to submit low commitment cost bids to be dispatched hoping to profit from price spikes but also recovering any costs incurred if such price spikes do not materialize.

¹⁰ *Cal. Indep. Sys. Operator Corp.*, Transmittal Letter, at 54, FERC Docket No. ER23-2360-000 (Jul. 9, 2020).

¹¹ *EDF Trading North America LLC*, 186 FERC ¶ 61,174, P 61 (2024).

2.3.4 Goal No. 4—Tariff Section 30.12 Does Not Expand the Scope of Costs Recoverable Under Bid Cost Recovery

After-market recovery under section 30.12 was only meant to provide scheduling coordinators an opportunity to demonstrate the direct cost of procuring the fuel needed to meet their market awards in excess of the costs used in calculating their reference levels. A successful demonstration will result in the ISO recalculating bid cost recovery based on those demonstrated costs. When the ISO processes that recalculation through its settlements system, the difference between the initial bid cost recovery payment and the new bid cost recovery payment represents the “additional uplift payment” under section 30.12. The ISO had no intent to provide any other form of payment through section 30.12.

Some parties, however, have expressed the view that other extraneous costs related to fuel procurement practices are recoverable if they are not imbalance penalties, whose recovery is expressly prohibited under the tariff. For example, a generator may incur a cost if it procures more gas than needed to meet its market award and then has to sell the unused volume back to the pipeline or to a counterparty at a price lower than it was first procured. This type of cost does not reflect the direct costs of starting up, remaining at minimum load, or providing energy above minimum load.

ISO policy expressly intends to reinforce prudent procurement practices in line with industry standards. Allowing recovery of costs beyond the direct cost of procuring fuel need to meet ISO dispatch instructions could incentivize speculative, and costly, market activity. Allowing recovery for imbalance costs provides generators a free option to purchase extra gas with the potential to capitalize on high prices through incremental real-time market awards without downside risk. If the resource procures the correct amount of fuel, then it keeps the market rents. If the unneeded fuel must be sold back to the pipeline at a loss, ISO load would absorb those costs through the incremental after-market payment. It is inappropriate to expect ISO load to subsidize this participation strategy. Nothing in any underlying policy initiatives reflect the ISO intended to modify bid cost recovery in this way.

3.0 Proposed Tariff Revisions

To reinforce the policy goals described in the previous section, the ISO proposes the following clarifications:

30.12 After-CAISO Market Process Cost Recovery

30.12.1 Applicability

Scheduling Coordinators may request an additional uplift payment to cover a resource's actual fuel costs or fuel-equivalent costs associated with Start-Up Bid Costs, Minimum Load Bid Costs, Transition Bid Costs, and Energy Bid Costs used in the Bid Cost Recovery mechanism, and that are for:

- (a) amounts in a Reference Level Change Request presented to the CAISO that were not approved pursuant to Section 30.11 that the CAISO did not approve; or
- (b) amounts in a Reference Level Change Request for a Default Energy Bid or Default Minimum Load Bid that exceeds the Hard Energy Bid Cap or the Minimum Load Cost Hard Cap, respectively.

Scheduling Coordinators may not request additional uplift payments under this ~~section~~ Section 30.12 to cover costs: (1) associated with gas company imbalance penalties; or (2) that were not specifically included in a Reference Level Change Request.

30.12.2 Notice

The Scheduling Coordinator must notify the CAISO within thirty (30) Business Days after the applicable Trading Day whether it will:

- (a) request a CAISO evaluation of its costs, pursuant to Section 30.12.4; or
- (b) submit a filing to FERC to recover its costs pursuant to Section 30.12.5 without having first made a request pursuant to Section 30.12.4.

A Scheduling Coordinator is not eligible to receive an additional uplift payment under this Section 30.12 if it fails to provide notice within this 30-Business-Day period

30.12.3 Supporting Documentation

For requests under Section 30.12.4 and Section 30.12.5, Scheduling Coordinators must submit supporting documentation to the CAISO or FERC, respectively, that demonstrates that submitted costs represent actually procured daily fuel costs or fuel-equivalent costs for a given Trading Day that exceed the fuel costs or fuel-equivalent costs the CAISO used to calculate the resource's Reference Levels. These fuel costs or fuel-equivalent costs must be reasonable and reflect prudent procurement practices. Permissible supporting documents include invoices for fuel purchased, or other appropriate documentation demonstrating fuel costs or fuel-equivalent costs

actually incurred that exceed the fuel costs or fuel-equivalent costs the CAISO used to calculate the resource's Reference Levels for the applicable Trading Days.

30.12.4 CAISO After-Market Evaluation of Fuel Costs

30.12.4.1 Process

If the Scheduling Coordinator requests that the CAISO evaluate the costs specified in _ within sixty (60) Business Days after the Trading Day for which the Scheduling Coordinator provides notice to the CAISO per this Section 30.12.4, the CAISO will:

- (a) provide the Scheduling Coordinator with a written explanation of any effect that events or circumstances in the CAISO Markets and fuel market conditions may have had on the resource's inability to recover the costs on the applicable Trading Day; and
- (b) notify the Scheduling Coordinator whether the costs are eligible for evaluation pursuant to this Section 30.12.4.

30.12.4.2 CAISO Evaluation

In evaluating a request submitted by a Scheduling Coordinator, the CAISO will verify that the submitted costs represent actual incurred fuel costs or fuel-equivalent costs, and that these costs are reasonable and reflect prudent procurement practices.

30.12.4.3 ~~[Not Used] Settlement of Recoverable Amounts~~

~~To the extent the CAISO's evaluation results in verification that the resource's actually incurred costs claimed by the Scheduling Coordinator were not recovered through the Bid Cost Recovery process, the CAISO will resettle Bid Cost Recovery and Exceptional Dispatch using revised Bid Costs and revised Default Energy Bids, as applicable, for the resource and will issue Recalculation Settlement Statement(s) within the normal Recalculation Settlement Statements timelines specified in Section 11.29.~~

30.12.4.4 ~~Extensions~~ CAISO Inability to Verify Costs

If the CAISO is unable to verify within the sixty (60) Business Day period that the resource's incurred costs are eligible for ~~evaluation~~ recovery pursuant to this Section 30.12.4, then the Scheduling Coordinator may submit a filing to FERC under Section 30.12.5 to recover costs. ~~CAISO will provide the Scheduling Coordinator with an extension of thirty (30) Business Days to~~

~~submit a filing to FERC to recover costs.~~

30.12.4.5 Ineligibility

If the CAISO determines the resource is ineligible to recover its fuel-related costs through this Section 30.12.4, then the Scheduling Coordinator may submit a filing to FERC under Section 30.12.5 to recover costs. ~~submit a filing for fuel cost recovery to FERC pursuant to Section 30.12.5.~~

30.12.5 FERC Fuel Cost Recovery Filings

30.12.5.1 Process

A Scheduling Coordinator may request that FERC evaluate the costs specified in Section 30.12.1 based on the documentation specified in Section 30.12.3.

If the Scheduling Coordinator provides the CAISO with timely notice under Section 30.12.2 of its intent to submit such a filing without having first made a request pursuant to Section 30.12.4, then the Scheduling Coordinator has ninety (90) Business Days after the applicable Trading Day to submit its filing for fuel cost recovery to FERC.

If the Scheduling Coordinator first requested CAISO review pursuant to Section 30.12.4 but the CAISO informed the Scheduling Coordinator it is not eligible to recover its fuel costs through Section 30.12.4 or that the CAISO was unable to verify the costs, then the Scheduling Coordinator has ninety (90) Business Days after being informed of its ineligibility or the CAISO's inability to verify the costs, respectively to submit its filing for fuel cost recovery to FERC.

A Scheduling Coordinator is not eligible to receive an additional uplift payment under this Section 30.12 if it fails to file with FERC within the applicable 90-Business-Day period.

~~If the Scheduling Coordinator provides notice of its intent to submit a filing for fuel cost recovery to FERC, or if the CAISO has determined that the Scheduling Coordinator is not eligible to recover fuel costs through Section 30.12.4, the Scheduling Coordinator will have ninety (90) Business Days after either the applicable Trading Day or the date the CAISO informs the Scheduling Coordinator that it is not eligible to recover its fuel costs through Section 30.12.4, whichever is applicable, to submit its filing for fuel cost recovery to FERC.~~

30.12.5.2 Settlement of FERC Approved Amounts [Not Used]

~~To the extent FERC issues an order finding the resource actually incurred costs claimed by the Scheduling Coordinator that were not recovered through the Bid Cost Recovery process, the CAISO will resettle Bid Cost Recovery using revised Bid Costs for the resource so that these costs can be recovered through the Recalculation Settlement Statement(s) within the normal timelines specified in Section 11.29.~~

30.12.6 Allowable Recovery and Settlement

If the CAISO (per section 30.12.4) or FERC (per section 30.12.5) validate that the Scheduling Coordinator did not recover through the Bid Cost Recovery mechanism the actual incurred fuel costs or fuel-equivalent costs specified in Section 30.12.1, then the CAISO will resettle Bid Cost Recovery and Exceptional Dispatch for the resource using Bid Costs and Default Energy Bids, as applicable, that are revised to reflect the validated fuel costs or fuel-equivalent costs. The validated costs are not recoverable outside of Bid Cost Recovery and any validated costs that are not otherwise recognized in Bid Cost Recovery will not be part of an uplift payment under this Section 30.12. The CAISO effectuates the resettlement by issuing Recalculation Settlement Statement(s) within the normal Recalculation Settlement Statements timelines specified in Section 11.29 or by issuing an Unscheduled Directed Recalculation Settlement Statement if the normal timelines have elapsed.

Provided, however, the increase in Bid Cost Recovery payment for a Trading Day cannot exceed the difference between the Bid Cost Recovery payment for the resource based on the validated costs and the maximum Bid Cost Recovery payment the Scheduling Coordinator could have received using the fuel and fuel-equivalent costs in place for market bidding processes on the Trading Day.

4.0 Next Steps

The ISO has scheduled a stakeholder call on December 12th, 2024 to discuss the draft revisions to tariff section 30.12.