



Finding the ways that work

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Submitted to initiativescomments@caiso.com

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Dear Ms. Colbert,

Comments on CAISO's Aliso Canyon Gas-Electric Coordination Phase 2 Straw Proposal

Environmental Defense Fund ("EDF") appreciates the opportunity to comment on CAISO's Aliso Canyon Gas-Electric Coordination Phase 2 Straw Proposal dated September 9, 2016, considering the treatment of temporary measures approved for the summer period beyond the November 30th sunset date (the "Phase 2 Straw Proposal").

Proposed Schedule for Phase 2 Stakeholder Process

From a process standpoint, EDF notes that the exceptionally compressed timeframe established by CAISO does not afford stakeholders any meaningful opportunity for engagement. Given the truncated timeline, it also seems infeasible that CAISO could incorporate feedback from the September 16 technical conference at FERC, before the September 19 Market Surveillance Committee meeting. EDF strongly recommends that CAISO reconsider its schedule to allow stakeholders additional time to consider the CAISO's proposals and to allow CAISO additional time to respond meaningfully to stakeholders' concerns.

Need to Address Fundamental Market Design Gaps

At the very outset, EDF notes that the fundamental market design gaps at the heart of challenges arising from the temporary closure of the Aliso Canyon storage facility are yet to be addressed by CAISO. While some short-term measures may be needed to address near-term reliability challenges, these challenges will likely extend into the future, beyond summer/winter 2016, underscoring the need for lasting market refinements. During the Phase 1 Aliso Canyon gas-electric coordination stakeholder process, a host of stakeholders including the Western

Power Trading Forum¹, NRG Energy, Inc.² and EDF³, stressed the need for a new stakeholder process to address underlying market design issues. In its May 16, 2016 Comments⁴, EDF explained that CAISO's market design must be refined in order to more accurately reflect marginal costs in the energy market. In its September 9, 2016 Comments to FERC, EDF explained that intra-day needs of generators do not align with the day-ahead construct the CAISO uses to incorporate gas supply costs into market bids.⁵ A market misalignment results when generators are limited in their ability to reflect the cost of variable, sub-day fuel because market rules restrict their offers to daily index pricing for natural gas supply. Limitations on the ability of generators to reflect sub-day fuel supply costs undercuts price formation and price signals for the value of deliverability and consequently means that flexible alternatives have no meaningful pricing benchmark from which to make investment and market participation decisions going forward.

While FERC did not adopt a firm timeline for CAISO to implement market reforms allowing for accurate marginal costs to be fully reflected in CAISO market bids in its Final Order, it encouraged CAISO to "continue to work with stakeholders to refine how it calculates fuel costs in the various bid components". CAISO's August 19 filing before the Commission⁶, seeking to make permanent certain interim bidding rule enhancements approved by the Commission following the Phase 1 stakeholder process is a step in the right direction, but cannot stand in for the need to address cost recovery issues in full. EDF urges CAISO to immediately begin a stakeholder process, with a date certain for a FERC filing, to address these underlying market design issues.

Treatment of temporary measures approved by the Commission as part of Phase 1 stakeholder process:

The key question that CAISO has highlighted for discussion as part of the Phase 2 stakeholder process is the treatment of temporary reliability provisions approved for the summer timeframe beyond the November 30th sunset date. In order to address short term reliability challenges over the summer, CAISO implemented a number of changes, including several non-market measures. CAISO must establish clear metrics to evaluate whether these non-market

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- ¹ Western Power Trading Forum Comments on Aliso Canyon Policy Issues at 1 (March 30, 2016) ("issues being raised exemplify overall market design vulnerabilities"); Western Power Trading Forum Comments on CAISO April 26, 2016 Aliso Canyon Draft Final Proposal at 2 ("We encourage the ISO to re-establish its commitment to more appropriate and market based solutions to the Aliso Canyon gas storage system challenges and to the other structural problems with the CAISO's bidding rules.").
 - ² NRG Energy, Inc. Comments on Aliso Canyon Draft Final Proposal at 2 (April 28, 2016) ("The CAISO should, by the time it files the Aliso Canyon tariff language at FERC, commit to a stakeholder process to address the fundamental problems in its current market design that are set forth in Section 5 of the DFP.")
 - ³ EDF Comments on CAISO's Aliso Canyon Gas-Electric Coordination Draft Final Proposal at 1-2 (April 28, 2016) ("CAISO should proceed expeditiously to address existing market gaps and implement market refinements to facilitate accurate price signals, and ultimately bring least cost energy and reliability resources to the fore.").
 - ⁴ Motion to Intervene and Comments of the Environmental Defense Fund, Docket No. ER16-1649 at 9 (May 16, 2016).
 - ⁵ Supplemental Comments of the Environmental Defense Fund, Docket No. ER16-1649 at 4-5 (September 9, 2016).
 - ⁶ CAISO, Bidding Rules and Commitment Costs Enhancements, Docket No. ER16-2445 (August 19, 2016).

measures which were intended to be temporary in nature and conflict with CAISO's stated commitment to transparent market-based tools, are necessary to address winter reliability concerns.

Broader Solutions Available to Address Limited Availability at Aliso Canyon

As CAISO considers how to address the market vulnerabilities raised by the limited availability of Aliso Canyon, EDF submits that CAISO consider two broader solutions. First, as raised by FERC Staff in its discussion topics for the technical conference, the CAISO should consider potential benefits to aligning the day-ahead electric market results with the gas nomination timelines. As noted in EDF's supplemental comments dated September 9th⁷, the benefits of such a change in allowing published day-ahead market results to be taken into account for procuring and nominating gas during the first gas scheduling cycle may outweigh any potential costs.

Second, EDF requests that CAISO deploy demand side alternatives to the fullest extent possible, consistent with FERC's June 1 Order. Recognizing the importance of demand-side measures to address reliability challenges, the Commission's June 1 Order "encourage[d] all involved to deploy demand side alternatives to the fullest extent possible" highlighting the need to consider both near and long term measures to fully integrate demand response into the overall Aliso Canyon response. Unfortunately, the winter reliability plan focused almost entirely on near term measures such as issuing flex alerts, emergency electric energy storage procurements and changing gas balancing requirements. CAISO should develop and include a demand response procurement program element in order to give effect to the Commission's directive to deploy demand side alternatives to the fullest extent possible. Other California agencies are already moving in this direction. In a recent proposed decision outlining guidelines for demand response programs starting in 2018, the CPUC stated, "demand response shall be market-driven, leading to a competitive, technology-neutral, open-market in California with a preference for services provided by third parties through performance-based contracts at competitively determined prices, and dispatched pursuant to wholesale or distribution market instructions, superseded only for emergency grid conditions."

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

Sincerely,

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Environmental Defense Fund

Naim Jonathan Peress
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⁷ Supplemental Comments of the Environmental Defense Fund, Docket No. ER16-1649 at 9-10 (September 9, 2016).