



March 30, 2016

Cathleen Colbert  
Senior Market Design and Regulatory Policy Developer  
California ISO  
P.O. Box 639014  
Folsom, CA 95630  
Submitted to: [initiativecomments@caiso.com](mailto:initiativecomments@caiso.com)

**Subject: Comments from EDF on the March 23 Aliso Canyon Electric Gas Coordination Issue Paper**

Dear Ms. Colbert,

Please accept these comments on the March 23, 2016 paper addressing Aliso Canyon Gas-Electric Coordination.

We understand and appreciate the task before the CAISO to deal directly with gas supply, reliability, scheduling and market alignment issues for natural gas generators. At the crux of these comments is the need for CAISO to facilitate accurate price formation with respect to measures taken to maintain reliability in light of diminished storage at Aliso Canyon. The risks being introduced to gas customers, and in particular, electricity generators through the unilateral imposition of daily gas balancing requirements will impose new costs on electric generators. The integrity of the CAISO market design depends on those costs and risks being accurately reflected in incremental energy bids and in unit commitments by the ISO to maintain reliability.

The issues paper recognizes that medium, short and fast start units may be particularly at risk from the daily gas balancing requirements. These are the same units that the ISO relies upon to balance supply and load variation on short notice, and thus are a primary reliability resource for providing the flexibility called for in a system like CAISO's. Unless the full costs of providing flexible services are reflected in energy bids or commitment cost bid caps (and in the ancillary services markets being developed to enhance flexibility), ineffective price formation will diminish the impetus for market participation by resources that can provide it. Flexibility is a fundamental attribute for maintaining reliability and price formation is the core market element for calling forth flexibility providers.

A market design that values and accurately prices flexibility will optimize reliability, environmental, and economic outcomes – the ISO needs to take this issue head on now both to maintain the integrity of its market and to clearly signal how it will address the long term market implications raised by the Aliso Canyon incident. It should start by accelerating pending market refinements to more accurately reflect and compensate resources for short-run (e.g., hourly) marginal costs and provide a market true up mechanism for reflecting and providing after-the-fact cost recovery.

If necessary based on the results of reliability analysis, the ISO should consider seeking approval to conduct a competitive reliability resource procurement modeled on the ISO's RA backstop procurement authority. Such procurements have been successfully undertaken by ISO-NE when faced with natural gas deliverability limitations during winter peak gas demand periods and CAISO could seek to develop a solicitation for reliability resources in a manner similar to its Capacity Procurement Mechanism (CPM).

With CPM capacity being compensated based on a competitive solicitation process, the exercise of Cal ISO's backstop procurement authority can be expected to result in compensation driven by competitive least cost factors, reflecting market conditions, providing transparent price signals to market participants, and contributing to economically efficient outcomes.

The issues paper also recognizes the challenges arising from misalignment of the timetables in the gas and electric markets in California. The Federal Energy Regulatory Commission advanced efforts to optimize alignment so that DAM commitments preceded the timely nomination cycle (Docket PL 14-2-000) when gas markets are most liquid and in fact, EDF presented options for that alignment to address the unique timing challenges posed to California utilities and generators. With the limitations on short notice fuel supply resulting from a diminished Aliso Canyon, ISO and stakeholders must reconsider the effects of this misalignment in California, and take action to facilitate price formation when the gas market is more liquid (i.e., before the timely nomination cycle commences). EDF suggests considering seeking FERC approval for a common gas and electric day in California to better synthesize the two markets.

Viewed from a broader vantage point considering potential additional expansion of the CAISO balancing market footprint, and the implications of achieving the 50% renewable mandate of SB350, CAISO's response to the current reliability challenges should be designed to lay the groundwork for the future. Markets designed to reflect resource system value and provide market participants with accurate price formation, will facilitate market entry, innovation and ultimately, least cost solutions for energy customers. It is critical that the ISO focus on maintaining market integrity in the face of the immediate challenges posed by a crippled Aliso Canyon facility, and recognize that the duration of such challenges may extend further into the future than the upcoming summer season.

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

Naim Jonathan Peress  
Air Policy Director  
US Climate and Energy  
Environmental Defense Fund

Tim O'Connor  
Director, California Oil and Gas Program  
US Climate and Energy  
Environmental Defense Fund