

Western Power Trading Forum Comments on Aliso Canyon Policy Issues

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WPTF appreciates the ISO's fast response to generate ideas in response to potential gas pipeline constraints, added balancing requirements, and related gas market impacts.

The gas market is complex and gas supplies in the So Cal Gas system will be tightened as a result of the Aliso Canyon gas leak. The SoCalGas/SDG&E motion to impose 5% daily balancing on gas nominations removes significant real time flexibility the CAISO previously exercised. The gas system inherently provided flexibility through its ability to compress gas, and with allowances regarding scheduling. The motion removes much of this RT flexibility and requires the CAISO to more accurately forecast its net load curve, and dispatch energy in the DA market to meet this requirement. Further, it is incumbent upon the CAISO to ensure that its dispatch complies with the proposed narrow +/- 5% band, to avoid causing generation to be in violation of the new tariff requirements. The issues being raised exemplify overall market design vulnerabilities and may point to general market changes as well as certain pointed stop-gap measures. In generating this initial feedback to the ISO's proposed options, WPTF has considered what may mitigate impacts to LA Basin suppliers but also what is equitable considering other in-state suppliers, those that participate at the ties, and load serving entities.

Below are some initial responses WPTF offers at this time.

1. WPTF believes that to the extent suppliers are allowed to express their expected cost of gas and costs related to risks of managing imbalances in their bids that much of the gas supply cost risk could be managed by suppliers themselves with market impacts flowing naturally through bids and the market runs. That is, in the extreme if suppliers' bids were enabled to be as high as \$1,000/MWh or as low as -\$1,000/MWh then WPTF believes that suppliers' could self-manage many of the gas cost risks. WPTF would like more information from the ISO about the frequency with which the LA Basin units impacted by Aliso Canyon would be needed to run during periods of LMPM mitigation, as the more such units would be mitigated during this period then the more necessary it will be for the ISO to reconsider alternative compensation/default energy bid provisions.
2. Especially if the ISO expects Basin units will be frequently subject to LMPM, WPTF supports market reforms to ensure that suppliers can bid to cover their expected costs. WPTF supports higher caps on start-up and minimum load bid, higher proxy gas prices or percentage adders that represent intraday scarcity, and recognition of penalties in bid caps. Of course WPTF support for such is not new to this Aliso Canyon issue. However, the Aliso Canyon gas issue illustrates that existing caps and default energy bid proxies are insufficient to cover costs and risks associated with real-time deployment, and it is critical to get as many of these costs into bids that inform the market runs as possible. The ISO has to recognize that units with 2016 RA contracts likely had given the timing of the Aliso Canyon leak, and have for the balance of the year, no means to recover the added costs of proposed gas balancing charges through the bilateral RA process yet in 2016. LMP prices need to accurately reflect the value of energy at the nodes, including potential new gas constraints. Supplier costs should not be recovered in uplifts in a well-functioning market.

3. After-the-fact additional bid cost recovery mechanisms and reliance on FERC filings for cost recovery are inferior mechanisms to options that get the constraint impacts into the DA and RT markets.
4. Regarding the market timeline, the most beneficial market timeline the ISO could affect would be to shorten the ISO's own market run time. If the ISO could regularly clear the market in two hours, suppliers would have additional time to secure gas supplies to meet DA obligations. Even if occasionally clearing the market took longer than two hours, a time frame reduction of this order would be beneficial. We note that the ISO initially had reservations with offering a shorter market run time but also that the ISO does with some regularity clear its markets in approximately two hours.

Clearing the market earlier may be beneficial to suppliers who need to procure DA gas supplies. However, moving the market close earlier may adversely affect the ability to trade at the interties. As a result a much earlier market close, although it may benefit ISO-internal gas-fired generation suppliers, may adversely impact intertie liquidity. Deep energy offers at the ties will also be important as in-state gas supplies in state are constrained.

5. WPTF opposes any strategies to invoke binding two-day look ahead solutions. Two-day solutions will just act to widen the gap between the DA solution and the RT needs. Such approaches could produce harmful, distorted outcomes and unintended consequences, particularly with what the actual DA price represents relative to settling the financial and physical transactions. If the CAISO does pursue any look-ahead solutions full transparency about the results should be provided to market participants in a form comparable to that which is currently provided for the market runs.
6. WPTF supports further consideration of the use of outage cards to help minimize large swings of a generator's unit beyond the DA. A "gas outage card" could be utilized by a supplier when the quantity of gas nominated matches the ISO dispatch schedule. For example, to comply with the Intra-day 3 nomination schedule at 5:00 p.m., which becomes effective at 8:00 p.m., the ISO should finalize RT dispatch at 3:00 p.m. for HE1000 through HE0700. The supplier must procure gas and submit the nomination between 3:00 and 5:00 p.m. However, at this time, it is unknown if there will any gas trading this late in the day, and currently it is anticipated that Intra-day 2 will be the last liquid trading period, which will require nominations at 12:30 p.m. It is most likely that the ISO must finalize generation schedules per its net load forecast by 10:30 a.m. day-of to support trading and submission of revised nominations at 12:30 p.m.

Also, with respect to use of outage cards WPTF it seems reasonable that use of such outage cards would not subject a resource owner to RAIM penalties. Having said that, WPTF has not yet formulated a recommendation to ensure some level of comparability between units affected by Aliso Canyon and risks faced by other units and by out-of-state suppliers.

7. WPTF supports market modeling enhancements that recognizes daily gas burn limitations by unit or by sets of units. However, WPTF requests that the ISO be forthcoming with details about any such mechanism being considered.

8. Similarly, WPTF strongly urges the ISO to be forthcoming about how it would plan to mitigate impacts of the Aliso Canon constrained gas situation using the balance of its market. For example, will the ISO will retain import transmission capability (Path 26/Mead/Marketplace/Palo) for additional RT dispatch of resources outside of the SoCalGas and SDG&E gas service areas? If so, how will the costs/value of any such actions show through the ISO markets or otherwise? Perhaps it goes without saying, but WPTF members' positions may be very impacted by any of these policies and processes the ISO ultimately employs. As much information made available as soon as possible will reduce the regulatory risk the market has to bear.
9. WPTF does not support broad restrictions on convergence bidding under these potentially limited market conditions. Limitations on that hedge mechanism could significantly hamper parties' ability to hedge during a time when doing so is most needed. Further, the CAISO's markets are designed to adjust during the RUC process for any impacts convergence bidders may have, ensuring that the DA commitment is in accord with the ISO's actual demand forecast. As a result maintaining convergence bidding should not affect the ISO's ability to set up for RT operations.

Removing convergence bidding would simply act to remove a natural balancing mechanism that by design puts more or less load into the DA market when market participants anticipate it will occur in real-time, and at times convergence bidders can more accurately predict real time market impacts than does the ISO in its forecasts. It would not benefit the market to remove this market mechanism or this market signal. Lastly, WPTF's understanding is that the tariff provides that convergence bidding can be limited if a Market Disruption is declared. Suspension of virtual bidding should only occur in an affected area and only if a Market Disruption is declared. WPTF asks that the ISO provide clarification if WPTF is not interpreting the ability to limit convergence bidding properly.

To the extent the CAISO gives further consideration to such a limitation the CAISO should clearly define how it will determine the "affected areas" and how it defines "interim".

10. WPTF would support a request for accelerated treatment at FERC for the aspect of the CCE3 and bidding rules pertaining to rights of SCs to seek relief at FERC for costs not recovered through its markets.

WPTF appreciates the diligent pursuit of market mechanisms to help manage the gas supply limitations likely with Aliso Canyon.