

Comment on Aliso Canyon Gas-Electric Coordination Phase 2 Draft Tariff Language
Department of Market Monitoring
October 5, 2016

The Department of Market Monitoring (DMM) recommends that the ISO revise Section 30.11 of the draft tariff language to clarify conditions under which Scheduling Coordinators may seek to recover gas costs associated with energy bids dispatched by the ISO.

In response to comments by DMM, the *Draft Final Proposal* indicates that this filing will “clarify eligibility for energy cost recovery is for any mitigated energy offer” (emphasis added). In other words, natural gas costs for energy bids are only eligible if the bids were actually mitigated. Management’s memo to the Board seeking approval for the changes discussed in the *Draft Final Proposal* indicates that the ISO is proposing “to extend the temporary measure to allow for similar recovery of costs that exceed the mitigated energy bid.”

The draft tariff language states:

30.11 Filings with FERC to Recover Actual Marginal Fuel Procurement Costs

If a Scheduling Coordinator (including an EIM Participating Resource Scheduling Coordinator) incurs but cannot recover through the Bid Cost Recovery process any actual marginal fuel procurement costs that exceed (i) the limit on Bids for Start-Up Costs set forth in Section 30.7.9, (ii) the limit on Bids for Minimum Load Costs set forth in Section 30.7.10, or (iii) the limit on Bids for Transition Costs set forth in Section 30.4.1.1.5, (iv) the incremental fuel cost calculated under the Variable Cost Option for Default Energy Bids as set forth in Section 39.7.1.1.1, or (v) the incremental fuel cost calculated for Generated Bids as set forth in Sections 30.7.3.4, 39.7.1.1.1, and 40.6.8, the Scheduling Coordinator for the resource may seek to recover those costs through a FERC filing made pursuant to Section 205 of the Federal Power Act.

DMM believes this language needs to be modified significantly to clarify the following situations.

- 1. Energy bids submitted above Default Energy Bids are only eligible if these bids are mitigated (lowered) by the ISO’s mitigation procedures.***

Specifically, gas associated with energy bids for units dispatched by the ISO should only be eligible for cost recovery if these energy bids were (1) lowered through the ISO’s automated bid mitigation procedures; or (2) dispatched through exceptional dispatch and subject to mitigation (i.e. settled at a price less than the bid price) under the ISO’s mitigation procedures for exceptional dispatches.

For example, assume a unit has a default energy bid of \$40/MWh and bids this energy \$50/MWh, and is dispatched but not mitigated. Assume the supplier then claims marginal gas costs equating to a cost of \$60/MWh. The tariff should clarify that supplier cannot submit a claim to recover any of these gas costs. The draft tariff language suggests that under this scenario a supplier could file to recover any unrecovered gas costs up to the difference between its \$40/MWh default energy bid and the \$60/MWh cost of gas.¹

Simply adding language to the tariff saying that only “mitigated bids” are eligible for cost recovery is vague and could be interpreted in different ways. If the ISO intends for this to include resources offered by EIM entities subject to special bidding restrictions imposed by FERC not incorporated in the ISO tariff, the ISO should include language clarifying this, instead of considering that these are “mitigated bids” that are eligible for cost recovery (see Item 3 below).

2. Energy bids submitted at or below Default Energy Bids are only eligible if these bids are mitigated (lowered) by the ISO’s mitigation procedures.

If the rules described above are fully and clearly articulated in the tariff, so that bids are only eligible for cost recovery if they are *lowered* by mitigation, it should be clear that energy bids submitted at or below the resources’ default energy bid are not eligible for cost recovery.²

For example, assume a unit has a default energy bid of \$40/MWh and bids this energy \$10/MWh and is dispatched. Even if subject to mitigation, the unit’s bid would not be changed since it is below the default energy bid. Assume the supplier then claims marginal gas costs equating to a cost of \$60/MWh. The tariff should clarify that supplier cannot submit a claim to recover any of these gas costs. The draft tariff language suggests that under this scenario the supplier could file to recover any unrecovered gas costs up to the difference between its \$40/MWh default energy bid and the \$60/MWh cost of gas.

Again, if the ISO intends for cost recovery to extend special bidding restrictions imposed by FERC on the market bids submitted by EIM entities (which are not incorporated in the ISO tariff), the ISO should include language clarifying this, instead of considering that these are “mitigated bids” that are eligible for cost recovery (see Item 3 below).

This same principle should apply to commitment cost bids. If a supplier bids below commitment cost caps, but claim to have incurred gas costs above levels that would be recovered from the commitment cost caps, the supplier should not be eligible to recover these extra costs.

¹ Assuming the unit got paid a price of \$50/MWh in this case, the supplier could seek to recover \$10/MWh (\$60/MWh - \$50/MWh).

² One possible exception being for EIM entities that have bidding limits placed on them by FERC or perhaps another regulatory entity. This is discussed in more detail in our next point.

3. The tariff should clarify if EIM entities can recover costs in excess of bidding limits placed by FERC (or perhaps another regulatory entity) which are not part of the ISO's mitigation procedures or tariff.

The draft tariff language specifically includes EIM Participating Resource Scheduling Coordinators. However, the tariff should clearly address the issue of where cost recovery extends to bids by EIM Participating Resource Scheduling Coordinators which submit bids at the default energy bid level pursuant to special bidding conditions placed on entities by FERC (such as PacifiCorp, NV Energy and APS) that are not incorporated in the ISO tariff.

These EIM participants' market bids are not subject to any mitigation by the ISO unless congestion occurs on EIM transfer constraints that trigger the ISO's automated mitigation procedures. Thus, if the ISO intends these market bids by EIM entities to be eligible for cost recovery, the ISO will need to draft the revised tariff language filed at FERC accordingly.

Although this was not discussed in the stakeholder process to DMM's knowledge, DMM understands that the ISO intends for this provision to include natural gas costs for energy bids submitted by EIM entities which are required to submit market bids less than or equal to their default energy bids under special restrictions placed on these entities by FERC. DMM raises this issue because it appears unclear to DMM in the *Draft Final Proposal* and Management's memo. Management indicated to its Board that it would clarify this issue. This should be clarified in the actual tariff language.

DMM notes that in some cases EIM entities may submit market bids slightly less than default energy bids due to these entities' uncertainty about the exact value of the default energy bid. The tariff should allow for such discrepancies in the case of EIM entities.

4. Units under the Negotiated Cost Option should be eligible for cost recovery

The draft language limits recovery for resources that are on the Variable Cost Option for default energy bids and does not allow the potential for recovery for resources on the Negotiated Rate Option for default energy bids.