Stakeholder Comments

Aliso Canyon Gas Electric Coordination Final Proposal

Submitted by	Company	Date Submitted
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Southern California Edison (SCE) presents comments on the California Independent System Operator's (CAISO) April 26, 2016 Final Proposal[1].

SCE generally supports the CAISO's proposal to mitigate gas impacts from Aliso Canyon subject to the changes proposed in these comments.

The key points of SCE's comments are:

- **The proposed gas availability constraint is critical to supporting gas and electric system reliability, and as such, should be utilized as a proactive measure in all hours in RT, rather than just as a reactive measure.**
- ***SCE also urges the ISO to keep ready the electric generation fleet RT balancing constraint as an additional control should it become needed.***
- **All resource bids, including energy and resource commitment costs, must reflect expected costs, including any gas penalty costs that result from ISO instructed commitment or dispatch.**
- **The economic impacts associated with bids that incorporate gas system penalty compliance costs may not be sufficient to address physical gas supply limitations.**

The proposed gas availability constraint is critical to supporting gas and electric system reliability, and as such, should be utilized as a proactive measure in all hours in RT, rather than just as a reactive measure.

[1] www.caiso.com/Documents/DraftFinalProposal_AlisoCanyonGas_ElectricCoordination.pdf

The proposed gas availability constraint is the only constraint in the CAISO optimization common to maintaining gas and electric system reliability. The CAISO should proactively apply the constraint for all hours in both DA and RT markets. Employing the mechanism only in a reactive manner, once a problem occurs, could allow accrued gas imbalances, up to the point the OFO or EFO is called, to be insurmountable and result in gas penalties. Additionally, failing to utilize the proposed gas availability constraint may lead to a higher number of days in which gas constraints are experienced. If the mechanism is instead used as a preventative measure, this potential is mitigated and joint gas/electric system reliability enhanced.

SCE also urges the ISO to keep ready the electric generation fleet RT balancing constraint as an additional control should it become needed.

As mentioned in its earlier comments[2], SCE supported the proposal to employ a balancing constraint in RT and believed the previous CAISO Straw proposal to be an effective means of ensuring reliability. SCE still believes that a gas balancing constraint will be useful in mitigating RT deviations from DA which is essential to preventing gas imbalances. SCE is willing to rely on the RT volumetric constraint (applied as a preventative measure) as proposed by CAISO, but urges the CAISO to keep ready the RT balancing constraint should circumstances arise where application of this constraint would be beneficial to joint system reliability.

All resource bids, including energy and resource commitment costs, must reflect expected costs, including any gas penalty costs that result from ISO instructed commitment or dispatch.

SCE is concerned the proposed enhancements to commitment costs are not sufficient to properly reflect the true commitment costs of gas units in all circumstances. Specifically, it is not clear in the proposal if OFO penalty costs would be included in the determination of max commitment costs (which penalty costs will far exceed 175% of the underlying commodity cost). If OFO penalty costs are not reflected in commitment costs (when appropriate), gas units will look more economic than they are, which puts them at risk of being committed ahead of other resources available to the CAISO's market. While this is an economic and cost compensation concern, it is first and foremost a reliability concern. For units not committed in DA, gas will likely not have been purchased and scheduled and the uneconomic commitment of such resources in RT markets could exacerbate gas system imbalances and lead to more frequent and severe Low OFO/EFO conditions. The CAISO's current proposal relies heavily on economic bids to manage the use of SoCalGas-connected gas-fired resources within acceptable tolerances. The CAISO final proposal should clarify whether and how gas penalties will be figured into commitment costs. As an adjunct concern, SCE requests that the ISO clarify how OFO penalty costs will be figured into default energy bids used for market power mitigation. Whether as-bid or default bid, the

[2] http://www.caiso.com/Documents/SCEComments_AlisoCanyonGasElectricCoordinationStrawProposal.pdf

true cost of resources must be presented to the market for CAISO's proposal to be effective at maintaining joint system reliability.

While the operation of the IFM appears to be sufficiently addressed in this proposal, it does not appear that the commitment and min-load costs can sufficiently cover market participants' potential costs. This issue could be exacerbated by RUC where RA resources have a zero dollar capacity cost along with startup and minimum-load costs that are below penalty cost. This could tend to make resources that are not committed in the IFM appear to be relatively cost effective, causing the CAISO to dispatch them. In such a circumstance, the generator will have likely not purchased gas and could thus be subject to gas penalties. Such an outcome can create gas use deviations not anticipated by SoCal Gas.

Given that potential penalties may be included in commitment costs and energy bids, the market power mitigation must account for this. These bids should not be mitigated by default as this would not reflect true potential costs, leading to inappropriate resource commitments.

Finally, rebidding commitment costs in RT should be limited to the hours in which a resource did not receive an IFM award. Allowing all resources to rebid their costs, even if committed in the IFM, could significantly alter the dispatch and therefore create potentially significant unanticipated gas use deviations.

The economic impacts associated with bids that incorporate gas system penalty compliance costs may not be sufficient to address physical gas supply limitations.

Simply allowing higher bid costs does not guarantee gas system reliability. Penalty prices for gas usage beyond scheduled gas deliveries does not result in additional gas supplies being available. Instead, it is intended to be a disincentive to utilize more gas. Nonetheless, generators need to incorporate potential gas penalties into their bids to provide the appropriate economics of their usage, assuming such gas is available for use. It may be necessary for the CAISO to take out-of-market actions to prevent gas and/or electric system reliability failures.