

NRG Energy, Inc. Comments on the Commitment Cost Second Revised Straw Proposal

Submitted By	Company	Date Submitted
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In the July 15, 2014 Second Revised Straw Proposal ("SRSP") the CAISO:

- Removed consideration of the opportunity cost adder as part of this commitment cost initiative; and
- Updated discussions in Section 6.

NRG offers these comments on the SRSP:

- NRG strongly supports deferring consideration of the opportunity cost adder to the bidding rules stakeholder process. Consideration of the opportunity cost adder will be a detailed and lengthy process that would have threatened the CAISO's ability to implement daily bidding of start-up and minimum load costs in a timely fashion (i.e., prior to the next winter gas season).
- As noted previously, the CAISO must develop a mechanism that allows suppliers to recover their costs under all circumstances – including extraordinary events such as the December 2013 and February 2014 gas curtailments – not just under "most" circumstances. NRG supports the CAISO's proposal to allow daily bidding of start-up and minimum load costs above the proxy cost level. While NRG expects that this regime, when implemented, will allow it to better manage its gas exposure (including intra-day activities) under most conditions, the CAISO must also provide for recovery of gas costs (including intra-day costs) that occur under unusual or extreme conditions. It is our expectation that Western gas markets will see increased volatility as we move through time, driven by conditions outside of the CAISO footprint. We urge the CAISO to remember that generators must manage their gas supply based on the likelihood or the threat of an extreme pricing event occurring. Whether gas supply constraints resulting in sharp increases in pricing actually come to fruition is not known until after the system has been dispatched. There is no daily-index based magic elixir that can be implemented which will fairly insulate generators from the risks faced during periods of high price volatility while also fostering a competitive marketplace. While it may be difficult to provide mechanisms that allow for recovery of gas costs under **all** conditions, any system that does not provide the tools for suppliers to manage their risk under **all** conditions unfairly exposes suppliers to costs that cannot be recovered as their units follow often unpredictable CAISO dispatch instructions. This is an unacceptable outcome.
- On July 22, Southern California Gas Company ("SoCalGas") held a call to discuss its application [A.14-06-021](#) to implement low inventory Operational Flow Order ("Low-OFO") requirements. While NRG is still reviewing this proposal, at a minimum the new Low-OFO construct will introduce an increase in price volatility, due both to the market attempting to manage the *threat* of a Low-OFO as well as instances when one is actually called. Further, Low-OFOs will

most likely be declared after the Scheduling Coordinators have submitted their next-day generation offers to the CAISO, which will put additional stress on the intra-day gas markets. With the different stages of penalties or “Non-Compliance Charges” as described in the SoCalGas proposal, the amount of penalties generators are exposed to can go up as we move farther into a gas day. The penalties faced by generators will be increasing at the same time the liquidity of intra-day gas markets will be decreasing. (SoCalGas will be declaring Low-OFOs prior to Cycles 1 -4 of the gas day.) This all suggests that suppliers will continue to be exposed to high gas costs while trying to balance their gas transactions. While the winter balancing period is being moved from a 5-day to a 30-day period, the declaration of Low-OFOs along the real possibility of soon-following high inventory OFOs will likely increase the historical difficulties experienced by generators in balancing their gas supply. NRG respectfully urges the CAISO to review this proposal and to describe in detail how the CAISO proposes to modify its commitment cost proposal to address the new winter balancing scheme.

- As noted on Page 16 of the SRSP, NRG looks forward to the CAISO releasing its proposed OFO cost recovery tariff language as soon as possible and implementing that language on or before the commitment cost modifications are implemented.
- NRG provided responses to the CAISO’s questions in Section 6 in our last comments. NRG has already noted its willingness to provide additional intra-day gas cost information to the CAISO and is working to acquire and review that data now.