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Comments of Northern California Power Agency
Commitment Costs Enhancements Initiative
June 10, 2014 Commitment Costs Enhancement Revised Straw Proposal

July 1, 2014

Northern California Power Agency ("NCPA") appreciates the opportunity to provide the following comments in response to the CAISO's revised straw proposal posted June 10, 2014 and its subsequent conference call on June 17, 2014.

Increase in the proxy cost option cap

NCPA believes it is important to retain market participants' ability to bid below the calculated proxy cost value particularly in light of the increased proxy cost cap. NCPA supports this element of the CAISO's proposal. Further, NCPA supports the proposed increase in the proxy cost option cap from 100% to 125%. NCPA believes that CAISO's proposal is a good interim solution in conjunction with a modified version of the tariff waiver enabling the CAISO to use the current trade-date's ICE price for natural gas when the trade-day's index is over 125% of the lagged composite index. NCPA supports the change from the 150% threshold to the 125% threshold.

NCPA requests clarification with regard to the regional triggering 125% threshold for the tariff waiver enabling the CAISO to use the contemporaneous day's ICE index for the day-ahead market optimization. NCPA would appreciate confirmation that either (1) all market participants would be able to re-bid, but that the only participants bidding at pricing nodes within the triggering natural gas region(s) would have a different proxy cost cap; or (2) only participants bidding at pricing nodes within the triggering natural gas region(s) would be able to re-bid.

Periodic review of the proxy cost cap

Many changes are occurring and are anticipated in the natural gas and electricity markets. Among these are the FERC NOPR regarding the alignment of the electricity and natural gas markets, and the need for flexible gas-fired generation to help integrate intermittent resources. As such, NCPA appreciates that the CAISO has included in its potential "topics for the bidding rules initiative" the creation of a process through which the CAISO would periodically review the cost cap to ensure that it still enables headroom for market participants to accurately reflect their natural gas costs.

Elimination of the registered cost option

In principle, NCPA supports the CAISO's proposal to eliminate the registered cost option and to instead incorporate opportunity costs into the proxy cost calculations of commitment costs. However, if the implementation of the opportunity costs element of the proposal is delayed or removed altogether from the proposal, the elimination of the registered cost option will differentially impact a subset of generation resources. This runs counter to the clear intent of the instant proposal to include opportunity costs for use-limited generators, and NCPA believes that as such the CAISO should carefully examine the impacts to use-limited resources if the registered cost option is eliminated and the opportunity cost element of the proposal is delayed or removed entirely.

Changes to the day-ahead market run under tariff waiver

In the helpful outline of the provided in Section 5.3, there is a note in 2.c.iii that the CAISO would "notify participants that the day-ahead market is open for (re)bidding and new time for close of the day-ahead market." NCPA requests clarification of the means of communication and on the duration of the delay during which market participants would be able to reformulate and resubmit their day-ahead market bids. In addition, NCPA requests that the CAISO clarify that market participants *may* submit new day-ahead bids, but are not required to do so, and that if they do not submit new bids then the originally submitted bids will carry through.

Opportunity Costs

As a general comment, NCPA supports the CAISO's proposal to incorporate opportunity costs for use-limited resources into proxy commitment costs, though as noted below NCPA has concerns about the complexity of the proposed methodology. That point made, this initiative to enhance the proxy cost calculations is an ideal situation in which to prove out the opportunity costs calculation methodology ultimately approved. As the CAISO notes on page 15 of the Revised Straw Proposal, implementation of opportunity costs as part of Commitment Costs Enhancements will enable fine-tuning prior to implementation of must-offer obligations for use-limited resources as part of the Reliability Services Initiative.

Shadow settlement

NCPA has significant concerns about the feasibility of "shadow settling" the opportunity costs model as proposed. The underlying concept is described in the MSC presentation and the "sandbox" application of the methodology is well laid out the paper. It is inevitable, however, that implementation will compound complexity and create additional uncertainty and difficulty in predicting and validating CAISO market outcomes. As such, NCPA urges the CAISO to consider a less theoretically pleasing methodology in favor of a more transparent and tractable methodology. Opportunity cost approximations such as price duration curves that are being used in other aspects of the CAISO market have already been time-tested and are far more transparent to market participants than the elaborate methodology proposed here.

Year-over-year real-time price volatility

NCPA urges the CAISO to be cautious with the assertion made on page 17 of the Revised Straw Proposal that the proposed methodology "will allow the implied heat rate to inherently capture real-time price volatility…" At the two use-limited resources NCPA surveyed for the years of available LMPs, there has been significant price volatility as well as significant changes in that price volatility from year to year. NCPA appreciates the 10% adder which is partially incorporated in recognition of this potential forecast error and encourages the CAISO to vigilantly monitor the forecast accuracy if this methodology is ultimately implemented.