

Western Power Trading Comments on Commitment Cost Enhancements
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WPTF offers the following comments on the CAISO's second revised straw proposal dated July 15, 2014.

WPTF appreciate the ISO seeking input from stakeholders on separating out the opportunity cost element and on the intra-day gas issues in particular.

WPTF is supportive of substantial portions of the ISO's proposal. We remain concerned that a proxy cap at 125% of projected costs, especially if suppliers continue to face risks of unrecovered intra-day gas costs, will be insufficient to ensure cost recovery for suppliers. WPTF continues to believe that moving to a structure that allows participants to bid in their actual gas costs subject to verification is the optimal direction to take, and we trust that the proposed 125% measure is only interim in nature until the ISO begins its stakeholder process on bidding later this year.

WPTF has no strong objection to separating the opportunity cost aspects into their own process, in particular if it allows the ISO to develop opportunity costs for hydro and other non thermal resources thereby conforming treatment between the technology types. We expect, however, that the ISO will continue to work diligently to finalize the opportunity cost treatment and will not let these issues linger for an extended period of time.

With respect to intra day gas cost treatment we try to address the ISO's questions herein.

WPTF does not expect during this interim period that the ISO would make widespread changes to its cost recovery BCR algorithms. Rather, we would like the ISO to seek FERC approval for retroactive cost recovery to cover unexpected and extreme instances whereby the 125% proxy or manual proxy procedures cause a supplier to have significant under recovery. We have not at this time developed a specific procedure for what would trigger such an instance, but we would be pleased to work with the ISO to do so. WPTF does not expect that providing relief during these one-off events will hamper regular gas price hedging. Rather, some protection against extreme losses would likely reduce the overall costs of participating in the markets by reducing the risks. These cost reductions could result in savings for buyers.

We anticipate that the market participant would be required to file a recovery request for demonstrable excess intra-day costs, and that perhaps the independent evaluator would be tasked with verifying such cost submittals. Another possibility is to seek FERC approval for each instance when payment would be provided. This would provide other stakeholders input.

We are hopeful that the FERC effort to align the electric and natural gas markets will reduce the exposure to intra-day gas purchases for day-ahead positions, but it likely will have little effect on alleviating the exposure to gas cost for day-of dispatches.

WPTF looks forward to working with the ISO, in particular on these intra gas issues; we appreciate the consideration of these comments.