California Public Utilities Commission
Commitment Cost Enhancements
Revised Straw Proposal June 10, 2014

Submitted By	Company or Entity	Date Submitted
Ed Charkowicz, eac@cpuc.ca.gov, 415-703-2421 **Christopher Clay, Christopher.clay@cpuc.ca.gov, 415-703-1123**	CPUC	July 11, 2014

Summary:

The Independent System Operator's (ISO) revised straw proposal for commitment cost enhancements (CCE) is intended to improve the market commitment of resources by more accurately reflecting resource operational costs and allowing increased flexibility for daily changes in gas costs.

The revised proposal includes a manual gas price override when prices exceed a 150% day-over-day change, the elimination of the registered cost option[1], allowing resources to bid their commitment cost up to a 125% of their proxy cost on a daily basis to replace the registered cost option, and an opportunity cost adder for gas-fired resources with start and run-time use limitations.

CPUC Staff appreciate the opportunity to provide comments to the CAISO on the Commitment Cost Enhancement (CCE) revised straw proposal. In general CPUC Staff agree with the CAISO proposal to more accurately approximate actual costs used to make generation unit commitment decisions.

[1] The registered cost option, the gas price is based on a monthly forward projection and the total registered cost is limited to no more than 150% of the projected proxy costs. Resources selecting the registered cost option must remain under that option for 30 days, unless the proxy costs are higher than registered.

Specifically, Staff supports the elimination of the registered cost option, and the manual work around for gas price spikes. Initially, staff believes that the CAISO's proposal should be limited to allow units to bid up to 125% of the GHG and fuel cost components of their commitment costs. This would allow for any volatility in fuel prices and more closely align resource operational costs with market commitment decisions.

At this time CPUC staff does not have an opinion on the method for determining the opportunity costs for Use Limited Resources (ULRs). Because of the complexity of this new part of the proposal it is not clear that incorporating an opportunity cost adder for gas fired ULRs will be fully vetted within the stakeholder process in time to be implemented for the 2014/2015 winter season it should be separated from this initiative.

Background:

In the winter of 2013/2014, California generators experienced significant day-over-day gas price fluctuations for a few days. Some resources committed in the prior day's market under a much lower price were not able to recover the higher gas prices that they paid in real time. Because of the sudden increase in gas prices, the ISO was not able to reflect the gas price spike in its resource commitment decisions.

To address the potential for additional natural gas price spikes for the duration of the winter season, on March 6, 2014 the ISO filed with the Federal Energy Regulatory Commission (FERC) a proposed tariff waiver of the above referenced two sections until April 30, 2014. In the tariff waiver filing, the ISO also committed to commence a stakeholder process in April to address the issues raised by gas market conditions and to more comprehensively develop an interim solution that can be implemented in the fall if such solution does not require substantial system changes. FERC granted the ISO's tariff waiver on March 21, 2014.

The existing tariff calculates the start-up and minimum load costs for resources under either the "proxy cost" or "registered cost" option selected by the resource. For resources under the proxy cost option[2], the ISO is required to rely on at least two natural gas price indices published the day prior to running the day-ahead market. For

[2] Proxy Costs are made up of a generation unit's heat rate times the fuel index cost (e.g., average of two natural gas indices) plus GHG, major maintenance, and variable O&M cost adders.

the registered cost option, the gas price is based on a monthly forward projection and the total registered cost is limited to no more than 150% of the projected proxy costs. Resources selecting the registered cost option must remain under that option for 30 days, unless the proxy costs are higher than registered. Lastly, the ISO tariff specifies, that a registered cost option resource that switches to the proxy cost option must remain under the proxy cost option for the remainder of the 30-day period.

Comments:

The CAISO should retain the manual process used to adjust significant day-over-day gas price volatility.

CPUC staff supports the CAISO proposal to retain the manual gas price adjustment to update gas price indexes used in the day-ahead market included in the tariff waiver approved by FERC. Per the proposal, the ISO will monitor the gas prices in the morning for any significant movements in the gas price indexes from the prior day. The current process uses the prior day's gas prices for that day-ahead market run where under the proposal a significant day-over-day change would allow the ISO to use a single index for that day-ahead market run.

Because of the complexity of the opportunity costs for gas-fired use-limited dispatchable resources staff suggests separating this feature from the CCE initiative.

The CPUC Staff agree that it would be appropriate to consider opportunity costs for Use-Limited Resources (ULR) based on starts and run-hours limitations. It is important to reflect opportunity costs for many resources besides the gas-fired resources, which include resources with environmental or significant operational limits (e.g., demand response and storage). Even though the ISO seeks to just focus on the gas-fired ULRs with start, run and emissions limitations, it appears there are complexities within these run limitations that may require significant effort to define, and properly reflect the opportunity cost calculation within the tariff. It is important for the CAISO to demonstrate how the methodology proposed for calculating opportunity cost will work and incorporate stakeholder concerns that their resources will be either under or over stating the opportunity cost. Understating the opportunity costs increases the possibilities that resources will be committed too soon or often. On the other hand, overstating the opportunity costs could result in under-utilization of the resource.

Because the ISO is trying to get this initiative ready for its Board of Governor's approval in September, CPUC staff suggests that the opportunity cost adder for gas-fired ULRs be dealt with separately or added to the bidding rules initiative coming in the fall of 2014.

Conclusion:

CPUC staff supports the CAISO's proposal to eliminate the registered cost option. CPUC staff recommends allowing thermal fueled units to bid up to 125% of the GHG and fuel cost components of their commitment costs, because a premium on variable fuel related costs may be warranted to offset frequently fluctuating prices. The manual process for adjusting day-ahead gas prices for significant day over day gas price fluctuations should be retained in order to be able to more accurately reflect resource operational costs and allowing increased flexibility for daily changes in gas costs. Lastly, until the ISO can demonstrate that the opportunity cost adder and its related complexities can be accomplished by the September 2014 Board of Governor's meeting this aspect of the proposal should be separated from this initiative.