Comments of CalPeak Power, LLC and Malaga Power, LLC
Regarding Implementation of Order 809
Submitted May 27, 2015

CalPeak Power, LLC ("CalPeak") and its affiliate Malaga Power, LLC ("Malaga Power") (hereinafter collectively "CalPeak Affiliates") appreciate this opportunity to provide comments regarding implementation of FERC Order 809[1] and, in particular, responses to the questions the CAISO provided in the power point presentation that the CAISO prepared for a stakeholder meeting on May 15, 2015 (hereinafter referred to as the "Power Point"). The CalPeak Affiliates previously submitted comments with respect to implementation of FERC Order 809 on May 6, 2015 ("Initial Comments").

A. Background

CalPeak's subsidiaries, CalPeak Power – Border LLC, CalPeak Power – Enterprise LLC, CalPeak Power – Panoche LLC and CalPeak Power – Vaca Dixon LLC (CalPeak and its four subsidiaries are collectively referred to herein as the "CalPeak Companies"), operate four substantially identical peaker plants. Two of them, CalPeak Power Border Unit1 ("Border") and CalPeak Power Enterprise Unit 1 ("Enterprise"), are located in SDG&E's electric and gas service territories. The other two, CalPeak Power Panoche Unit 1 ("Panoche") and CalPeak Power Vaca Dixon Unit 1 ("Vaca Dixon" and collectively with Border, Enterprise and Panoche, the "CalPeak Units"), are in PG&E's electric and gas service territories. The PMax values range between 48 and 52 MW, depending on the unit.

CalPeak's affiliate, Malaga Power, LLC, acquired title to the Malaga Power Plant on April 14, 2015. This is a 98 MW peaker located near Fresno, California, in PG&E's service territory. This power plant was previously owned by Kings River Conservation District and operated under contract with the Department of Water Resources. The power plant is now a merchant participating generator in the CAISO.

Because the CalPeak Affiliates only operate peakers, the natural gas used to run the power plants is generally purchased only after the peakers are selected by the CAISO to run. If units are selected to run in the day-ahead market, arrangements to ensure an adequate supply of natural gas are generally made the day before the unit is to run. If the units are not selected to run in the CAISO day-ahead market, but are committed in the fifteen-minute or 5-minute real-time market, natural gas is often purchased for same-day delivery.[2]

When the CalPeak Affiliates purchase natural gas, they generally do so through their Scheduling Coordinator. The Scheduling Coordinator arranges not only for purchase of the natural gas, but also for shipment of the natural gas. Since the CalPeak units are all relatively dispersed small to

[1] FERC Order 809, 151 FERC ¶ 61,049 (April 16, 2015).

[2] Generally speaking, the CalPeak Units are not selected to run in the day-ahead market, but in the real-time market. The operating experience with the Malaga Power Plant thus far suggests that it will generally be called upon to run in the day-ahead market.

moderate-sized peakers, natural gas is purchased for each peaker separately - the CalPeak Affiliates have little to no capability to aggregate natural gas procurement and it is not typically possible to resell or reallocate natural gas to an affiliate. Due to the inherent variability of the schedule on which peakers run, it is not feasible to hedge natural gas price risks.

B. CAISO Presentation and Questions Presented

The CAISO Power Point begins with a table of "Observations" and "ISO Comments." Power Point at 2. The CAISO observes that gas trading is "most liquid from around 5:30 am PT to 7:00 am PT" and that it is "important to allow for participation in the gas market during this time." Power Point at 2. The CAISO also observes gas scheduling "is separate and will have deadline extended to 11:00 am PT" and the CAISO comments "California is not capacity constrained for the most part." *Id.*

In its Power Point the CAISO asked:

- What benefits could be provided by trading gas during a potentially illiquid portion of the Timely Cycle (*e.g.*, 10am-11am PT) versus the Evening Nomination Cycle? Can nominations be completed in an hour or less during this time (*e.g.*, 10am-11am PT)?

Power Point at 5.

C. Comments

As the CalPeak Affiliates explained in their Initial Comments, the CalPeak Affiliates believe that the CAISO should respond to FERC Order 809 by agreeing to have the CAISO market run from 7:00 am PT to 10:00 am PT. The CalPeak Affiliates believe this is necessary to attain a key objective of FERC Order 809 - better coordination of the electricity and natural gas markets. Changing the time the CAISO market runs to 7:00 am PT to 10:00 am PT will make it possible for generators to know whether their units have been scheduled to run before the Timely Nomination deadline, which FERC has moved to 11:00 am PT. The CalPeak Affiliates believe that changing the time the CAISO market runs will reduce both the price natural gas generators pay and reduce the risks of having supply shortages, which will benefit CAISO ratepayers.

1. <u>Natural Gas Market Trading</u>

The CAISO has asked "What benefits could be provided by trading gas during a potentially illiquid portion of the Timely Cycle (*e.g.*, 10am-11am PT) . . . " The CalPeak Affiliates disagree with the assumption underlying this question - that the 10am-11am PT time period is "potentially illiquid."

The CalPeak Affiliates recognize that regardless of whether the CAISO changes the timing of when its market runs, it is likely that there will still be significant gas trading activity between 5:30 am PT and 7:00 am PT as there is now. After all, natural gas-fired generators are not the

only consumers of natural gas.[3] It appears very likely, however, that if the CAISO changes the timing of its market such that generators can know whether they are scheduled to run by 10:00 am PT, the demand for natural gas by generators serving the CAISO is large enough that there also will be significant natural gas trading between 10:00 am PT and 11:00 am PT. An hour should be sufficient time for generators to purchase the natural gas they need and for purchasers of natural gas to make nominations. Moreover, this should be enough time for many natural gas suppliers to simultaneously schedule natural gas deliveries, as they do now. Thus, having the CAISO market run from 7:00 am PT to 10:00 am PT will be an improvement over the status quo since the new market is likely to be significantly more liquid than the very small market before the current afternoon nomination cycle.

It appears to the CalPeak Affiliates that moving the CAISO market earlier will reduce the price generators pay for natural gas. As FERC has explained:

> [A] gas-fired generator's inability to know whether its bid in the day-ahead market has been selected prior to the deadline for the Timely Nomination Cycle might lead to instances in which gas-fired generators must sell off excess natural gas supply, procure more expensive natural gas supply, de-rate, or burn more expensive fuels. We are concerned that any of these scenarios could result in increased electricity costs . . . .On the other hand, if gas-fired generators know whether they were committed in the day-ahead electricity market prior to the Timely Nomination Cycle, these generators might have a greater opportunity to procure natural gas transportation in the Timely Nomination Cycle—when there is the greatest opportunity to procure pipeline capacity. This, in turn, could reduce the potential for gas-fired generators to engage in costly actions that raise real-time energy market prices. Thus, electricity market outcomes might better reflect expected operating costs if gas-fired generators were provided with day-ahead market results prior to the Timely Nomination Cycle.

See California Independent System Operator Corporation, 146 FERC ¶ 61,202 (2014) ("Show Cause Order"), at ¶ 15.

2. Natural Gas Supply Risks

The CalPeak Affiliates also disagree with the observation in CAISO's Power Point that "gas scheduling is separate" and "California is not capacity constrained for the most part." Power Point at 2. The CalPeak Affiliates believe that gas trading and scheduling are necessarily connected and that having the CAISO market close earlier in the day will enable generators and their natural gas suppliers to make both purchasing decisions and delivery arrangements earlier in the day. Moreover, this is important since, contrary to what the CAISO suggests in its Power Point, California generators do face natural gas pipeline capacity constraints.

[3] The California Energy Commission's Energy Almanac indicated that as of 2012, 45% of the natural gas consumed in California was used for generating electricity. *See* http://energyalmanac.ca.gov/naturalgas/demand_by_sector.html (pie chart showing demand for natural gas by sector).

FERC indicated in Order 809 that an important reason that it believes electric markets should close before the Timely Nomination deadline is to ensure that generators are able to get natural gas supplies. As FERC explained:

> While during many periods of the year, gas-fired generators may be able to obtain natural gas and interstate natural gas capacity throughout the day, their ability to procure natural gas and transportation in the most liquid Timely Nomination Cycle may be critical to their ability to provide service during periods when the pipeline is constrained.

FERC Order 809 at ¶ 77. FERC further explains:

> If gas-fired generators know whether they were committed in the day-ahead electric market prior to the Timely Nomination Cycle, they may have a greater opportunity to procure natural gas transportation in the Timely Nomination Cycle—when there is the greatest opportunity to procure pipeline capacity.

FERC Order 809 at ¶ 80. [4]

The CalPeak Affiliates agree with FERC that organized markets should close before the Timely Nomination deadline to facilitate securing adequate pipeline capacity. Generators that know they have been scheduled to run will be in a position to both buy and arrange for delivery earlier than under the status quo. Under the status quo in the CAISO, since generators do not know whether they will be dispatched until after the Timely Nomination deadline, generators and natural gas suppliers often do not make arrangements to secure pipeline capacity until late in the day.

Notwithstanding FERC's position, however, the CAISO's Power Point suggests that it may not be necessary to move the CAISO' s market to earlier in the day since "California is not capacity constrained for the most part." Power Point at 2. The CalPeak Affiliates believe, however, that while it may be true that organized markets in the East have been more acutely affected by capacity constraints than the CAISO in recent years, there certainly are significant capacity constraints that can affect generators in the CAISO and that having the CAISO market end before the Timely Nomination deadline will help to reduce the potential impact of these capacity constraints.

In order to assess the adequacy of pipeline capacity, it is important for the CAISO to look far beyond the boundaries of California. Since California imports virtually all of the natural gas consumed in the State, generators in California are heavily dependent on the natural gas

[4] *See also* Show Cause Order at 9. ("If the ISO or RTO does not provide gas-fired generators with their schedules prior to the Timely Nomination Cycle for the applicable natural gas operating day, then the generator will not be able to obtain natural gas supply and transportation capacity during the time period when these markets are the most liquid. While during some periods of the year interstate natural gas pipelines might have available capacity to provide transportation service to gas-fired generators, during periods when pipelines are constrained, the ability of these generators to arrange transportation service when the market is most liquid might be critical to these gas-fired generators' ability to provide reliable service.")

pipelines in other states that serve not only California, but other parts of the county.[5] Thus, constraints on any part of the natural gas pipeline system can have an impact on generators in California.

There also are natural gas capacity constraints in California which can affect generators, such as inadequate physical pipeline capacity and the need for generators to comply with operational flow orders.[6] For instance:

- Physical Capacity: It appears that there is inadequate pipeline capacity in southern California since SoCalGas and SDG&E have filed an application to build a new "North-South" pipeline project to add or upgrade almost 100 miles of pipeline at an estimated cost of $629 million.[7]

- Constraints on Use of Pipeline Capacity: PG&E has long issued operational flow orders which are designed to make sure that the natural gas supply in its pipeline system does not become too low or too high and the CPUC recently issued a proposed decision which authorizes SoCalGas and SDG&E to issue similar operational flow orders.[8] When operational flow orders are in effect, generators that are called upon by the CAISO can find it difficult to make arrangements for delivery of natural gas in a manner that is consistent with the operational flow orders and avoids imposition of penalties.[9]

The CalPeak Affiliates believe that the CAISO should recognize, as FERC has, that having the electricity market close before the Timely Nomination deadline will help facilitate making sure that generators and their natural gas suppliers are able to secure adequate pipeline capacity. This is important for the CAISO since generators and their natural gas suppliers do in fact face natural gas pipeline capacity constraints. As the CAISO well knows, when generators face natural gas pipeline constraints, there can be serious adverse consequences for both the natural gas and electricity markets.

[5] The California Energy Commission's Energy Almanac indicates that California imports 90% of the natural gas consumed in California. *See* statistics available at http://energyalmanac.ca.gov/naturalgas/.

[6] Pipeline capacity can also be constrained by reducing allowed pipeline pressures, as PG&E was required to do after the pipeline rupture in San Bruno. *See* CPUC Decision 14-06-011, issued June 19, 2014, at 2-6, (explaining history of required pressure reductions).

[7] *See* "Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) For Authority To Recover North-South Project Revenue Requirement In Customer Rates And For Approval Of Related Cost Allocation And Rate Design Proposals," filed December 20, 2013, in CPUC Docket No. A. 13-12-013, at 13-15 (description of North-South project).

[8] *See* Proposed Decision issued May 1, 2015, in CPUC Docket No. 14-06-021.

[9] Moreover, the CAISO does not currently permit cost recovery for penalties for violation for an operational flow order.