Comments of Calpine Corporation on

Commitment Costs Enhancements

Issue Paper and Straw Proposal

Dated: April 30, 2014
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Summary:

Calpine supports the direction of the proposed Enhancements. Allowing daily bidding of commitment costs will support competitive outcomes while also providing a reasonable expectation of cost recovery in the DA market. A manual process that picks up where the maximum Proxy increase is exceeded is helpful. However, this proposal still leaves generators at risk for intra-day, excess gas costs when the ISO commits generation in RT or mitigates incremental RT energy using DA gas price.

Elimination of the Registered Cost Option

Calpine does not object to the elimination of the Registered Cost option, as long as the Proxy cost option maximum is not further reduced. The risks of volatility in gas price, emissions and other costs support a continuation of a Proxy cost cap of at least 125 percent.

Manual Process

Calpine supports the manual process suggested by the ISO and proposes that the manual process begin wherever the Proxy cost cap ends. As we understand it, the manual process would be very similar to that accepted temporarily by the Commission. If the current ICE morning index is greater than the Proxy maximum (in the case of the ISO proposal, 125 percent), then the market would be suspended for a finite period to allow re-bidding and the CAISO would use that single-index price to use in the optimizations.

In the proposal, the ISO has implied that there could be a gap between the Proxy maximum and the triggering level of the manual process. We do not see the need for such. First, the expected use of the manual process is very low, as supported by the ISO analysis. Given the infrequency and unpredictability of day-over-day gas price runs, it creates no material opportunity for strategic behavior. Second, establishing the "headroom" created by the maximum percentage applied to other costs (GHG, MMA, etc.) is a non-trivial factual and temporal matter. Estimating this headroom seems to fail any cost-benefit test.

As Jeffrey Nelson says, “use a pencil” and invoke the manual process as soon as the cap is exceeded.

Unrecoverable Intra-Day Gas Costs

The proposal seems to allow generators to ensure recovery of gas costs for deliveries nominated during the timely, day-ahead processes. However, as described at the MSC meeting on May 19, the proposal does little to ensure recovery of highly volatile intra-day gas costs. Recovery shortfalls can occur when units are committed in Real time, or when incremental dispatch is mitigated using a day-ahead gas price. Other shortfalls could occur because of the temporal mismatch between the gas-day (begin and end at 7:00 am) and the electric day.

That is, dispatches after the day-ahead market closes (whether “exceptional” or market-based) force a generator to buy incremental fuel in the intra-day gas market where volumes are generally low. This lack of liquidity translates into high gas prices when supply is tight and low gas prices when supply is plentiful. However, if commitments are necessary in or near RT and incremental energy is demanded, there is a logical connection between those conditions and supply tightness. Even though generators can beneficially bid incremental energy at prices which may reflect the higher intra-day costs, this re-bid for incremental energy does not protect exposure from commitment or from mitigation to default-energy bids (which are based on DA gas prices.)

While ICE does post intra-day transactions, Calpine is unaware of any index produced from intraday transactions, and even if so, such an index may suffer from liquidity affects.

Given these circumstances, Calpine’s preference has been to allow bidding of gas costs (and commitment costs as the derivative) both in DA and RT. Absent this bidding opportunity, over which DMM has expressed concern, Calpine has supported, and continues to support an opportunity to demonstrate uncompensated and verifiable intra-day gas costs associated with RT commitment or dispatch.

Calpine’s primary concern is related to procurement of unanticipated gas, the cost of which could be readily observable and documented with ICE screenshots. Other generators have also voiced concerns when the ISO DA commits and subsequent decommitments force them to dump gas at a loss. While that is not our common experience (largely because our units are generally infra-marginal) we can envision future circumstances in the belly of the duck when this may occur as well. Allowing verifiable losses to be submitted to the ISO should also be considered.

Thanks