

Comments on the Gas Resource Management Working Group

Department of Market Monitoring

December 18, 2023

The Gas Resource Management stakeholder initiative aims to understand gas management challenges faced by stakeholders, particularly in the wider Western Energy Imbalance Market (WEIM) footprint.¹ Prior to this working group, the ISO developed a number of market changes in the commitment cost and default energy bid enhancements (CCDEBE) stakeholder initiative that allowed market participants to better reflect gas prices in their reference levels.² This included incorporating more accurate gas indices used to calculate reference levels along with the ability for market participants to submit reference level change requests.

During the CCDEBE stakeholder initiative, DMM recommended the ISO update the gas prices used to calculate reference levels in both the day-ahead and real-time market with the gas prices available around 8:30 am each morning, rather than the gas prices available the night prior.³ The ISO did update the gas prices used in the day-ahead market, which are now based on next-day trading that occurs on the morning of the day-ahead market run. The real-time gas prices, however, are still based on next-day gas market trades from the previous day. DMM had recommended the ISO use an average of same-day trades that are available at 8:30 am that day and provided data indicating this would result in less variability between the price indices.⁴ The ISO stated they did not consider using this same-day gas price data to calculate reference levels in the real-time market due to significant regulatory concerns and lack of oversight to mitigate risk of artificial prices.⁵ DMM reiterates our previous recommendation that it is better to improve the gas price indices used to calculate the reference levels, rather than implement higher than necessary reasonableness thresholds for the automated reference level change requests.

DMM highlighted concerns that reference level changes based on supplier submitted costs would not incentivize market participants to incur gas costs at or below market value, and that suppliers with market power may in fact have the incentive to incur artificially high marginal gas costs.⁶ DMM voiced concern about relying too heavily on about the automated reference level requests that allow for higher bids and are subject to after-the-fact review.⁷ Determining the reasonableness of these gas costs would involve a significant degree of judgement and subjectivity. Further, bids based on these gas prices

¹ *Gas Resource Management Discussion Paper*, September 2023:

<https://www.caiso.com/InitiativeDocuments/DiscussionPaper-GasResourceManagement-Sep6-2023.pdf>

² Reference levels include default energy bids used for incremental energy mitigation and commitment cost bid caps.

³ *Comments on CCDEBE Issue Paper*, Department of Market Monitoring, November 2016, p 3:

[DMMComments-CommitmentCostsandDefaultEnergyBidEnhancementsIssuePaper.pdf\(caiso.com\)](https://www.caiso.com/InitiativeDocuments/CommentsOnCCDEBEIssuePaper.pdf)

⁴ *Ibid*, Figure 2, p 12.

⁵ *CCDEBE Straw Proposal*, California ISO, June 2017, p. 13:

http://www.caiso.com/Documents/StrawProposal_CcommitmentCosts_DefaultEnergyBidEnhancements.pdf

⁶ *Additional Comments on CCDEBE Issue Paper*, Department of Market Monitoring, November 2016, pp 1-4:

https://www.caiso.com/InitiativeDocuments/AdditionalDMMComments_CcommitmentCosts_DefaultEnergyBidEnhancementsIssuePaper.pdf

⁷ *Comments on CCDEBE Working Group*, Department of Market Monitoring, May 2017, p 2:

https://www.caiso.com/InitiativeDocuments/DMMComments_CcommitmentCosts_DefaultEnergyBidEnhancementsWorkingGroupMar30_Apr202017.pdf

would irreversibly impact market prices and unit commitment even if the gas costs were later determined to be unreasonable.

Lastly, DMM would like to reiterate the recommendation not to include operational flow order (OFO) costs in reference level change requests. DMM agrees with the finding from the Federal Energy Regulatory Commission that allowing generators to recover these penalties could jeopardize the reliability of the natural gas pipeline and transmission systems.⁸

⁸ *California Independent System Operator Corporation*, 172 FERC ¶ 61,263, September 2020, pp 14-15