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**Comments of Northern California Power Agency  
Commitment Costs Enhancements Initiative  
April 30, 2014 Commitment Costs Enhancement Issue Paper & Straw Proposal**

**May 21, 2014**

Northern California Power Agency (“NCPA”) appreciates the opportunity to provide the following comments in response to the CAISO’s issue paper and straw proposal posted April 30, 2014 and its subsequent conference call on May 7, 2014.

Further, NCPA appreciates the CAISO’s undertaking this initiative in a timely fashion in response to stakeholder concerns following dramatic natural gas price volatility earlier this year.

**Increase in the proxy cost option cap**

NCPA supports the proposed increase in the proxy cost option cap from 100% to 125%. NCPA believes that CAISO’s proposal is a good interim solution in conjunction with the recently FERC-approved tariff waiver enabling the CAISO to use the current trade-date’s ICE price for natural gas when the trade-day’s index is over 150% of the lagged composite index.

NCPA believes it is important to retain market participants’ ability to bid below the calculated proxy cost value particularly in light of the increased proxy cost cap. NCPA supports this element of the CAISO’s proposal.

**Elimination of the registered cost option**

NCPA is concerned about CAISO’s proposal to eliminate the registered cost option as that option enables market participants to reflect opportunity costs for Resource Adequacy (“RA”) resources that are limited in their number of starts and/or run hours during a set period of time. RA resources are subject to a must-offer obligation and hence can’t choose to submit bids into the markets only when they anticipate the prices will enable recovery of opportunity costs. As a result, lower commitment cost values may result in sub-optimal dispatch of use-limited RA resources. NCPA is cognizant, however, that the CAISO is building an opportunity cost component into the flexible

capacity resource adequacy must-off obligation within the Reliability Services Initiative and that this could alleviate this concern for RA resources against which flexibility capacity is claimed. NCPA strongly recommends that this Commitment Costs Enhancements initiative be coordinated with the Reliability Services Initiative proposal to ensure equitable treatment of use-limited resources.

### **Periodic review of the proxy cost cap**

Many changes are occurring and are anticipated in the natural gas and electricity markets. Among these are the FERC NOPR regarding the alignment of the electricity and natural gas markets, and the need for flexible gas-fired generation to help integrate intermittent resources. Accordingly, NCPA recommends that the CAISO consider establishing an obligation for the CAISO to periodically review the cost cap to ensure that it still enables headroom for market participants to accurately reflect their natural gas costs.