



DMM comments on commitment costs and DEB enhancements initiative

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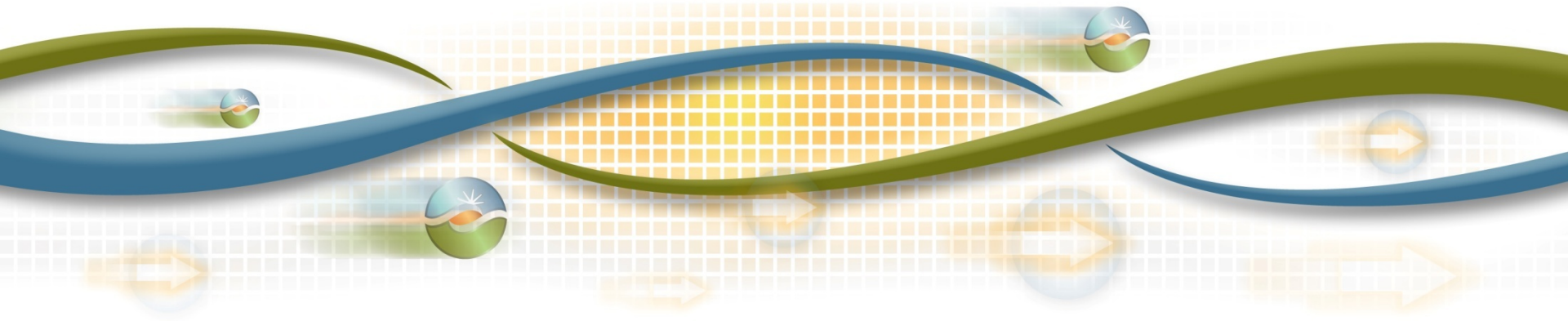
Manager Monitoring and Reporting

Department of Market Monitoring

Commitment costs and DEB enhancements

Working group #2

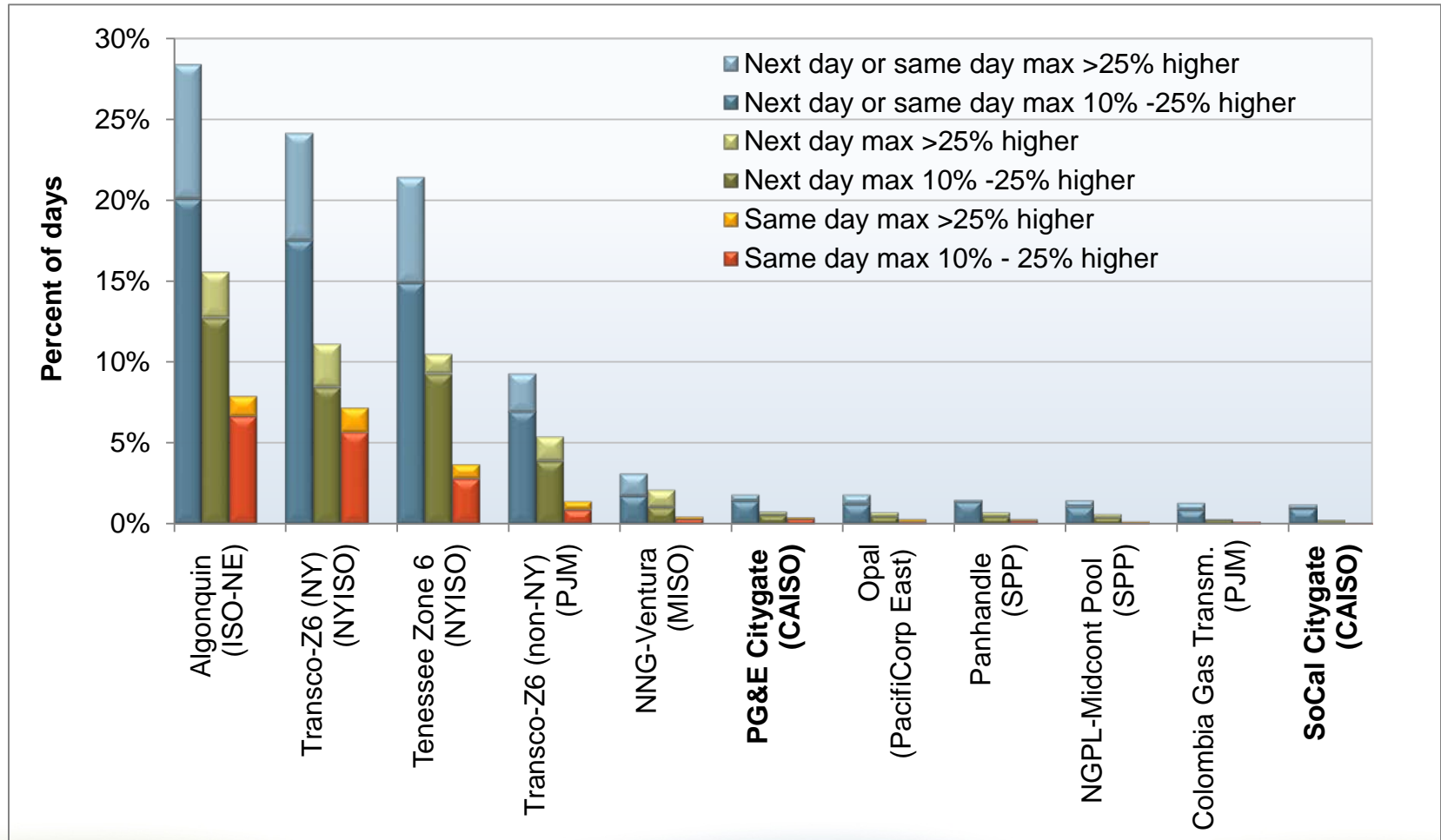
April 20, 2017



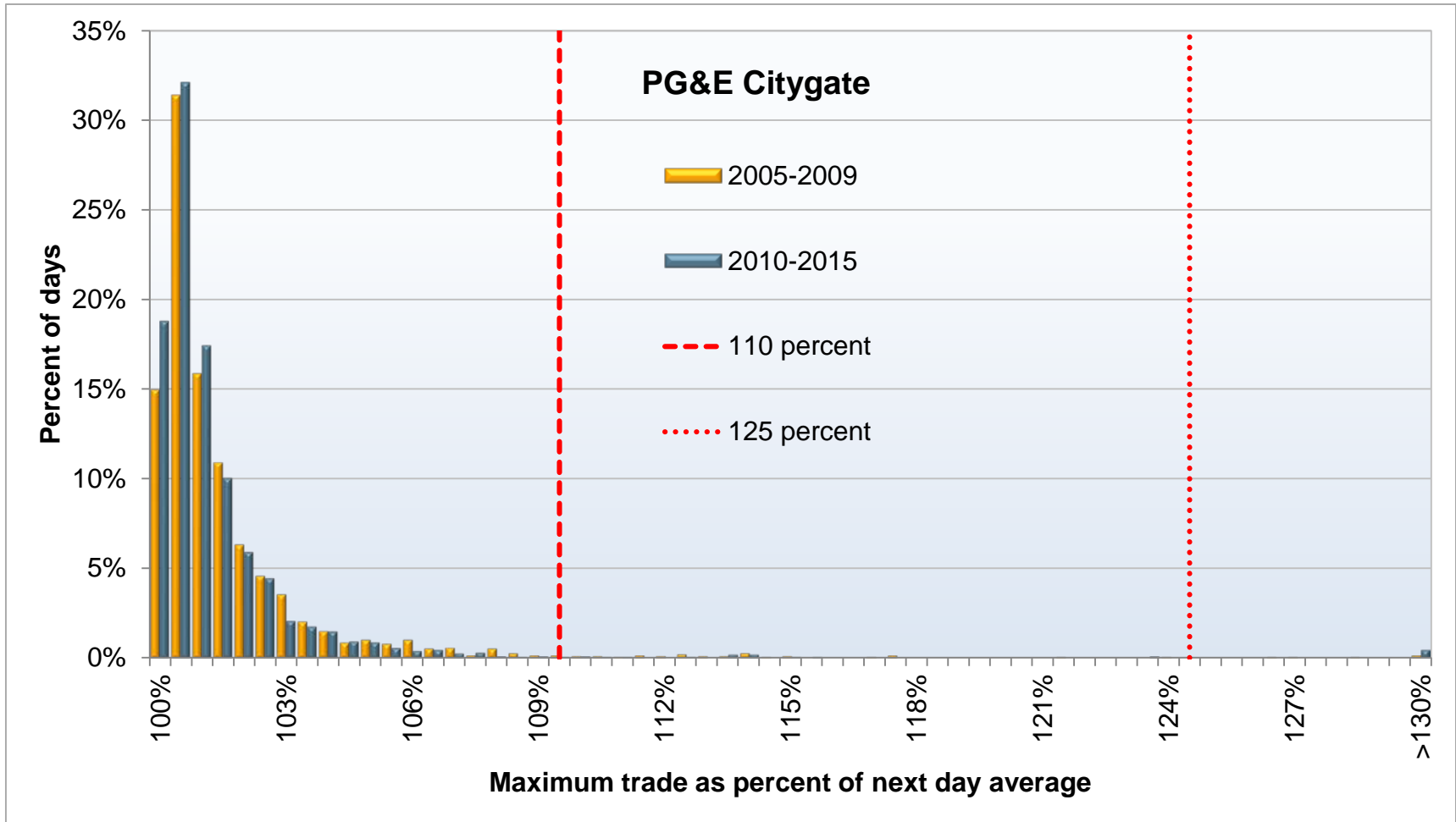
DMM's principles for initiative

- Current bidding headroom covers most upward gas price potential, but improvements can be made to increase flexibility to incorporate variable gas costs
- Need to balance multiple concerns
 - Flexibility
 - Market power/manipulation
 - Accuracy of cost estimates (under and over)
 - Costs to market (e.g. uplift)
 - Implementation challenges/timeline
 - Additional staff requirements
- DMM recommends phased approach

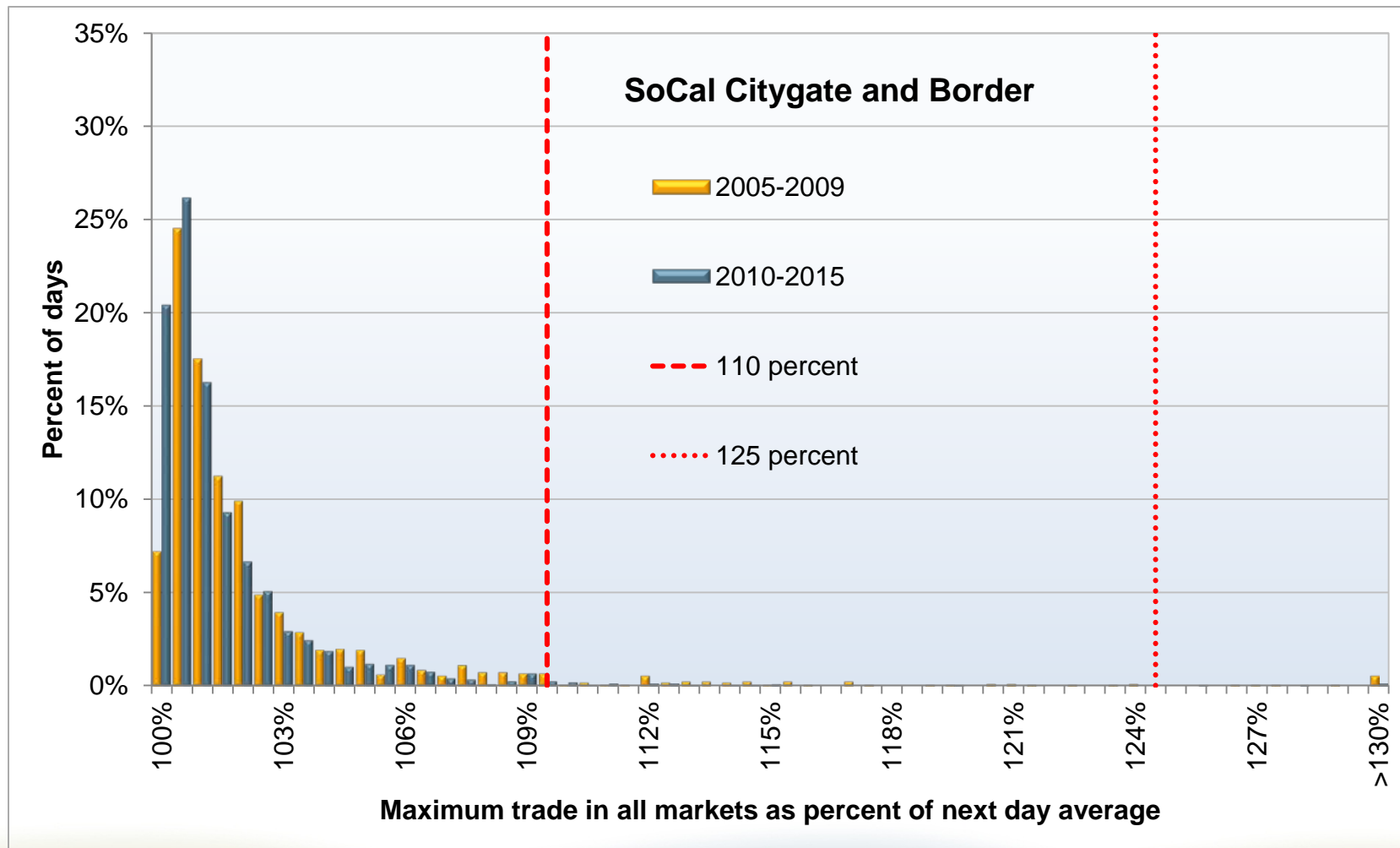
DMM analysis shows that historic volatility of western natural gas prices has been very limited



DMM analysis of maximum trade observed on ICE shows next day average very representative



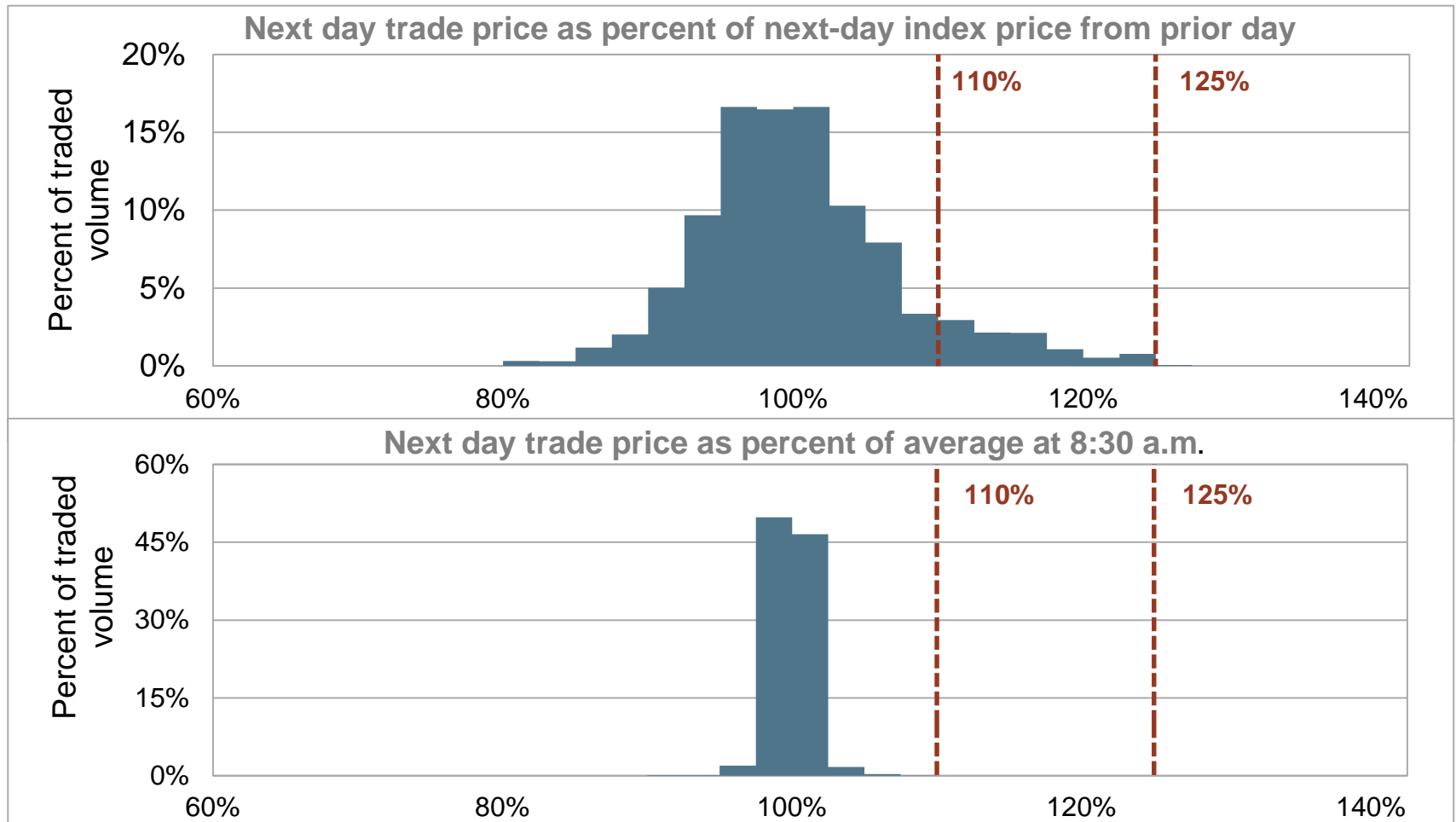
DMM analysis of maximum trade observed on ICE shows next day average very representative



Recommended approach for phase 1: Use available gas information (fall 2017?)

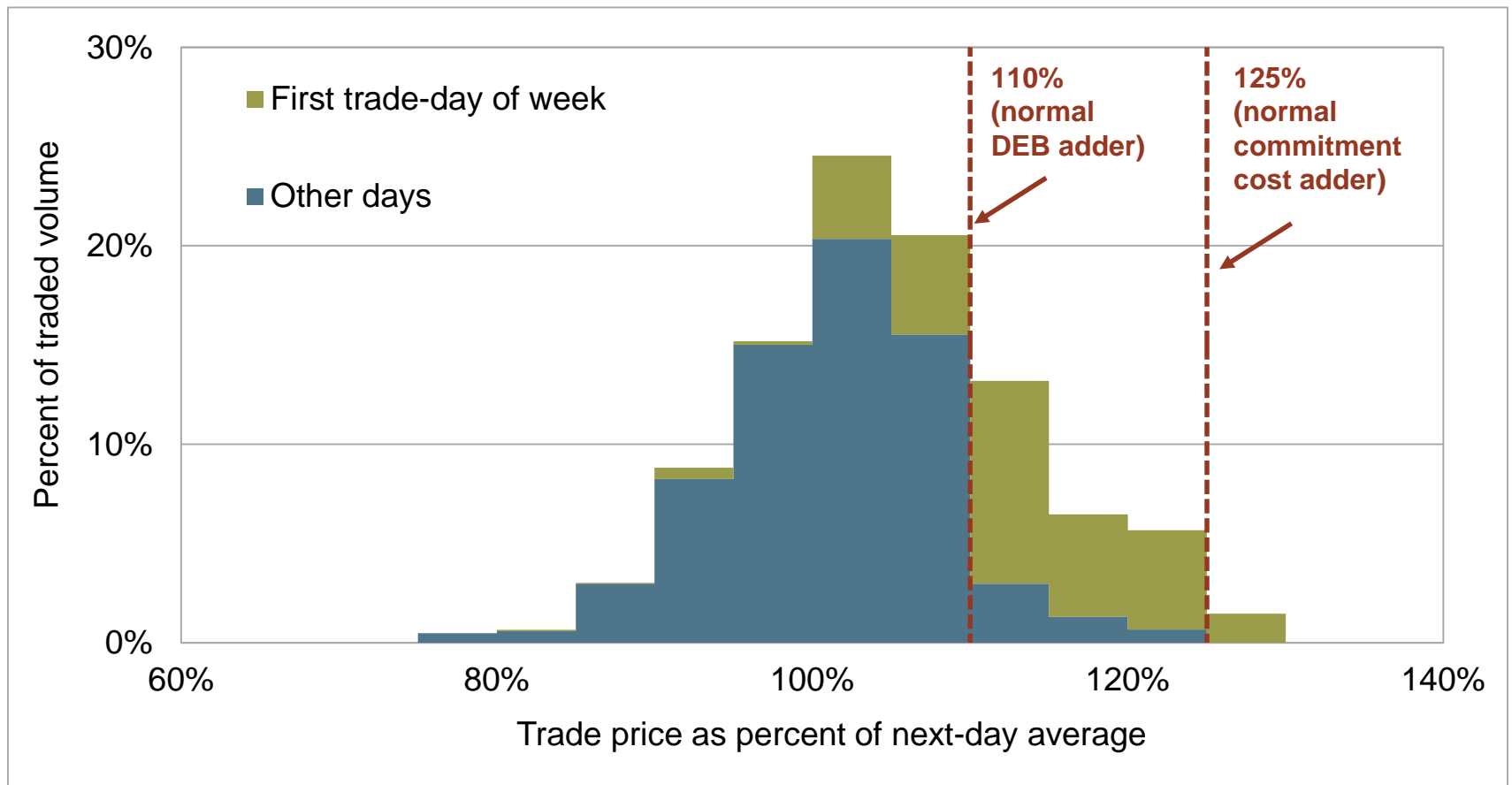
- Permanently update day-ahead indices with ICE information
- Use Monday only trading information on ICE to update day-ahead market index
- Update indices in real-time market with same day gas information
- Clarify after-the-fact recovery provisions

Updating indices before the day-ahead market removes a large source of variability



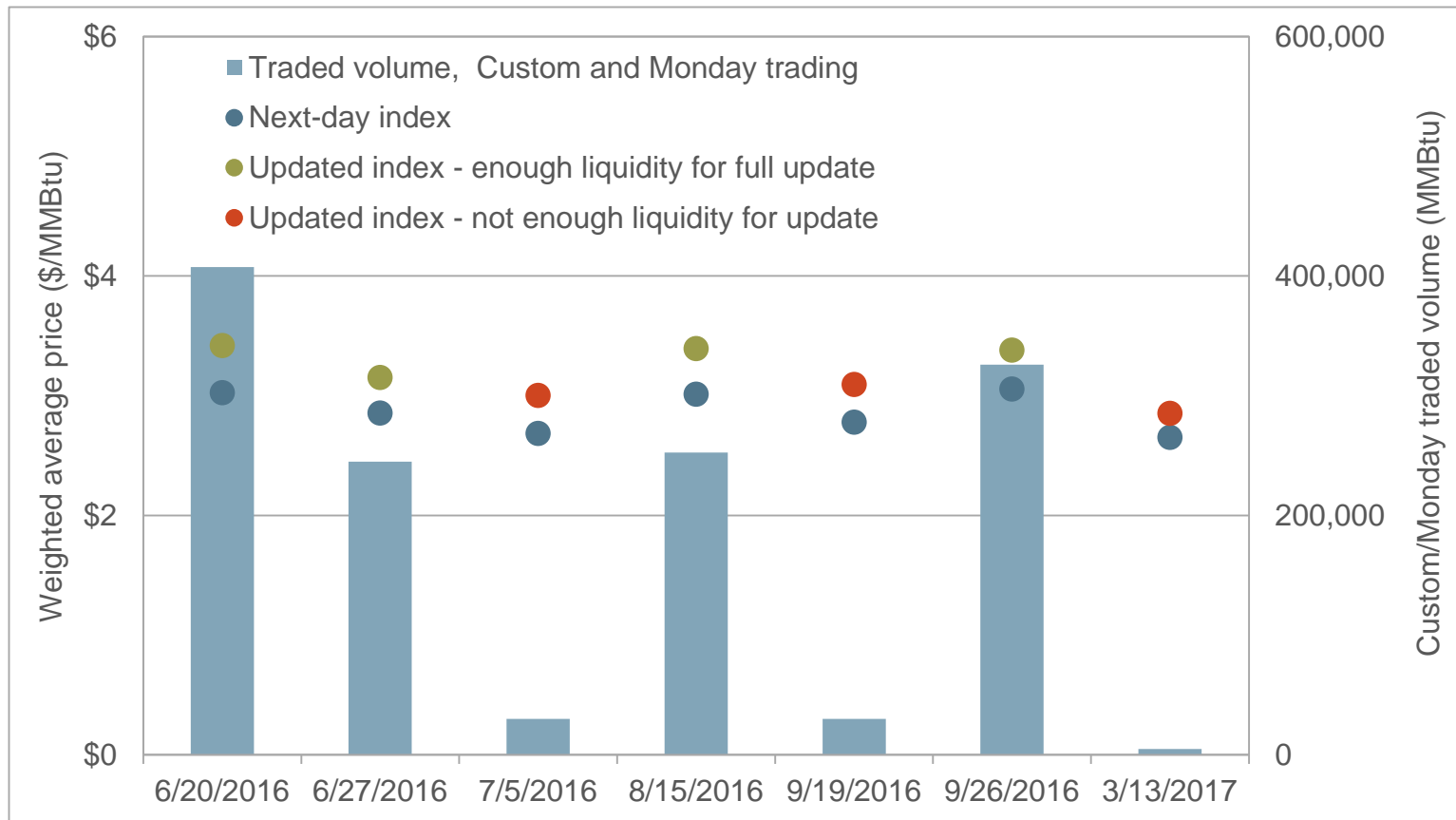
Time period analyzed was from June 2016 through December 2016 at the SoCal Citygate hub

Since Aliso limitations in place, most upward volatility in same day markets is on Mondays



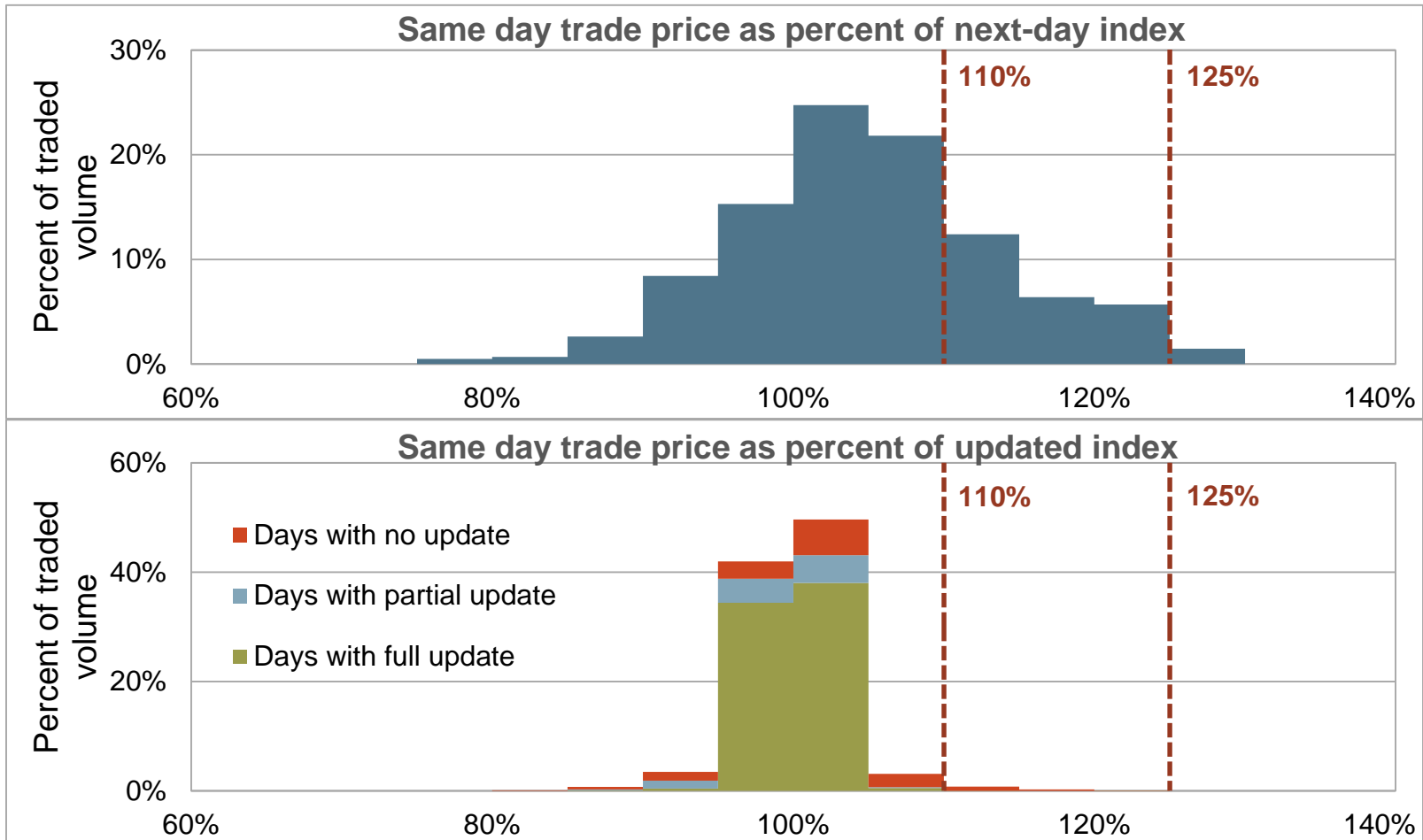
Time period analyzed was from June 2016 through December 2016 at the SoCal Citygate hub

Updating Mondays in day-ahead is infrequent, but can provide significant benefits when needed



Time period analyzed was from June 2016 through March 2017 at the SoCal Citygate hub

Real-time DEBs and commitment costs could also be updated each morning based on same day gas information



Time period analyzed was from June 2016 through December 2016 at the SoCal Citygate hub

Recommended approach for phase 2 (2018→)

- Consider NYISO/MISO/ISO-NE style approach that includes:
 - Automated pre-validation of gas cost submitted by participants
 - Special process for pre-validating/approving gas cost requests in excess of automated thresholds
 - Requirements for *ex post* support/review of gas cost requests
 - Penalty guidelines should there be inconsistencies or biases in requests and actual results

Summary

- Focus on improving flexibility and protecting market, but also consider what is feasible from a technical and resource perspective.
- First focus on using all available gas information to update indices.
 - Allowing DEBs to be updated anytime during the operating day will require significant system changes, but provides foundation for flexibility enhancements.
- Then focus on what may need to be done later to provide further flexibility.
 - This second phase would require significant commitment to additional processes and FTEs on an on-going basis.