Western Power Trading Forum comments on Commitment Cost Enhancements

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WPTF appreciates the opportunity to submit these comments on the CAISO's May 7, 2014 proposal to improve the CAISO's commitment cost determinations. WPTF offers comments in the following areas.

- **The CAISO should re-examine its commitment to ensuring cost recovery.** While the CAISO suggests that it supports proposals that allow recovery of costs, for reasons stated below the CAISO's proposal results in a substantial likelihood that at least certain generators may not recover operating costs for their units. If the CAISO is in fact committed to ensuring cost recovery additional consideration needs to be given to certain commitment cost and proxy gas cost design elements.

- **The CAISO's proposal does not address intra**-day gas price volatility. The CAISO-presented data during the May 7 web conference only demonstrates that a 125% proxy cap would address the predominant next-day gas costs. Intra-day gas costs are much more volatile than next-day gas cost. Under the CAISO proposal generators that are committed after the DA IFM or otherwise have to procure gas in the intra-day market could still lose significant money from unrecovered gas costs. The attached figure shows some sample ICE data reflecting the volatility in the intra-day gas market. The figure shows same-day gas trades for 2/6/24 relative to the Platts Gas Daily index and the average Next Day ICE trading price. Whereas a few of the intra-day transactions cleared below the DA index price, the bulk cleared significantly higher than the index. If for example a supply would have purchased their gas through one of these transactions, they could be as much as $33 MMBTU out of the money, given that they would have purchased gas upwards of $40/mmBTU, and the CAISO could have used an index price of as low as $7/mmBTU.

- **The 125% proxy cost proposal is a significant improvement to provide a means for DA gas cost recovery**. WPTF appreciated this proposal and encourages the CAISO to consider including it as part of its proposal. The increase of the proxy cap to 125% seems to afford a much improved opportunity for participants to recover commitment and minimum load costs from DA IFM commitments. However, in light of the fact that the CAISO's proposal does not address the costs of procuring gas in the intra-day markets (see below), WPTF believes further dialog as to whether the proposed 125% cap is adequate is needed. Similarly, if the CAISO wishes to eliminate the Registered Cost option it should consider a Proxy Bid cap of 150%.

- **The CAISO should lower the threshold for using a single index from 150% increases to 125% increases**. FERC approved the CAISO's emergency filing to establish a mechanism by which the ISO could use single gas price indices and more quickly adjust its gas price assumptions for significant gas price increases within a day. However the requested and FERC-approved threshold of requiring a 150% increase in gas prices leaves open the possibility that participants will have losses for gas price increases of less than 150%. To accompany the current proposal to allow a proxy price cap of 125%, WPTF requests the ISO consider an adjustment of the single index trigger from 150% increases to 125% increases.

- **The CAISO should find a mechanism for a different treatment/adder for intra-day gas.** The use of next-day indices does not assure equitable compensation for within the day commitments and dispatches that are mitigated to proxy prices. The CAISO must find an alternate compensation means for these situations. WPTF would like the ISO to explore means by which this could be accomplished in the short run and the longer run.

- **At a minimum the CAISO must modify its tariff and allow a mechanism for a supplier to seek after-the-fact recovery for demonstrable costs that exceed the gas compensation offered by the CAISO.** Whereas it is not expected that such a mechanism would be employed regularly nor employed for nominal losses for intra-day gas purchases, the current proposed mechanism of using a next-day index leaves generators significantly exposed should intra-day gas prices well exceed the next day index used. It is unreasonable for the ISO to deny compensation for these situations. The CAISO should seek FERC authority to compensate suppliers in such instances based on demonstrated supplier costs.

We thank you for consideration of these comments.

Attachment – Sample Intra Day Gas Data