



DMM comments on commitment costs and DEB enhancements

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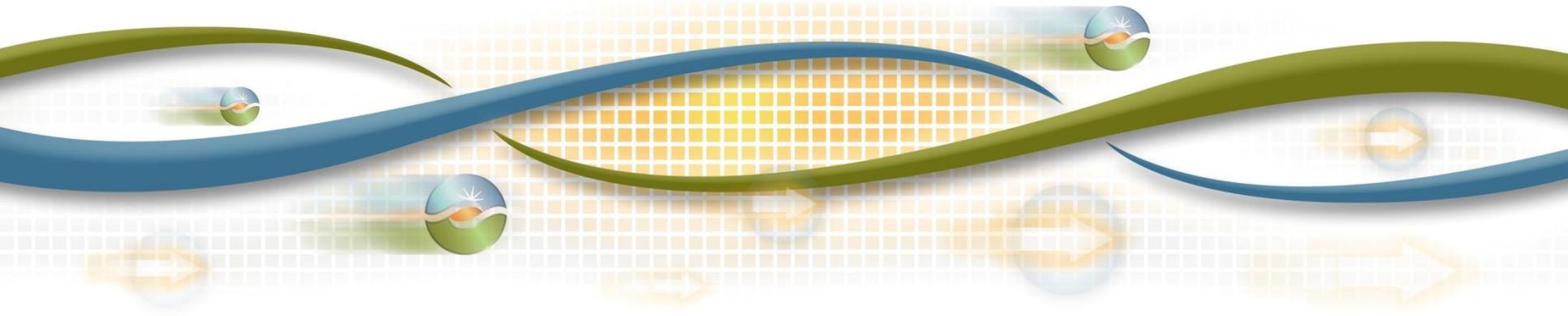
Manager Monitoring and Reporting

Department of Market Monitoring

Market Surveillance Committee Meeting

General Session

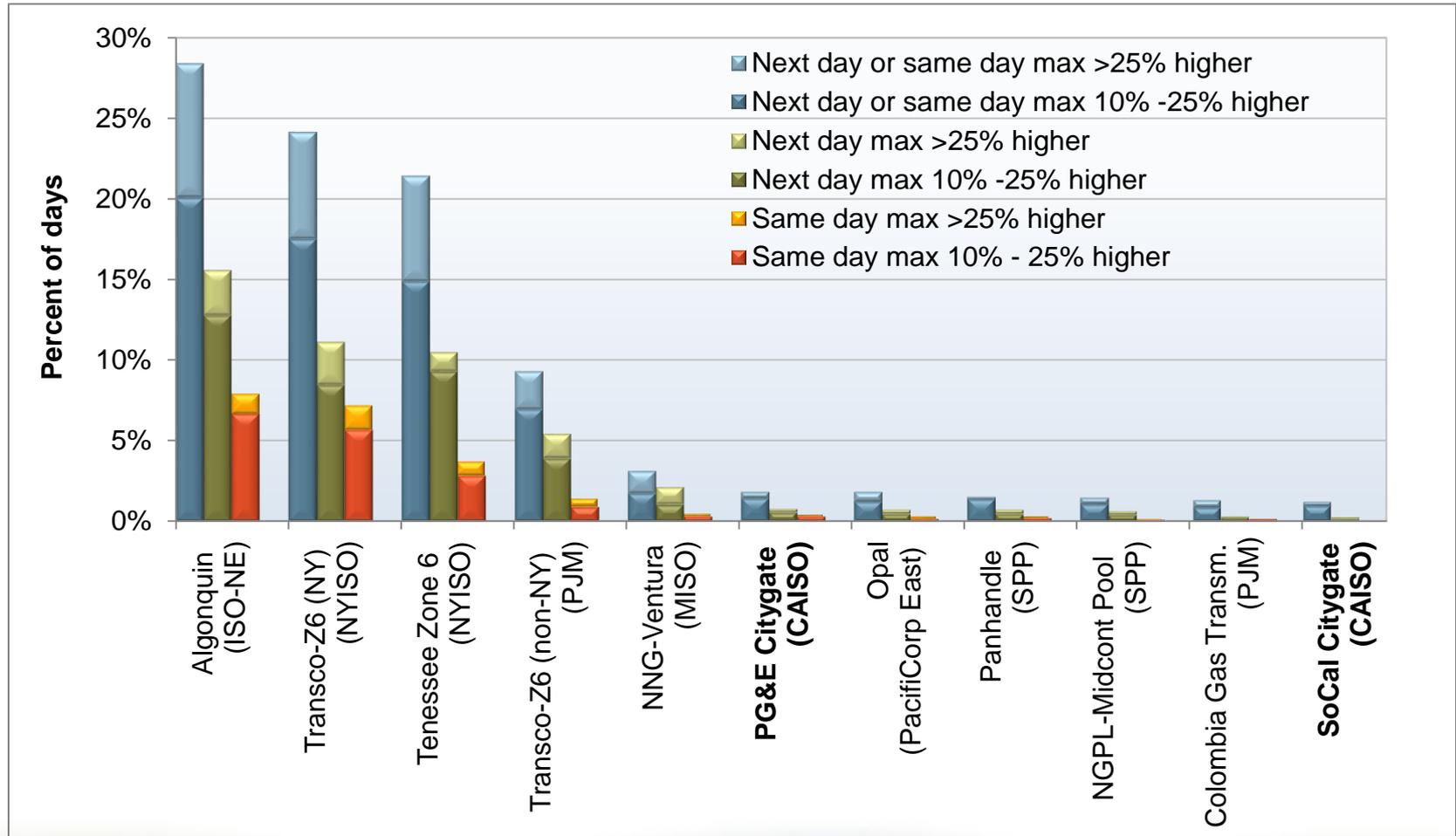
November 18, 2016



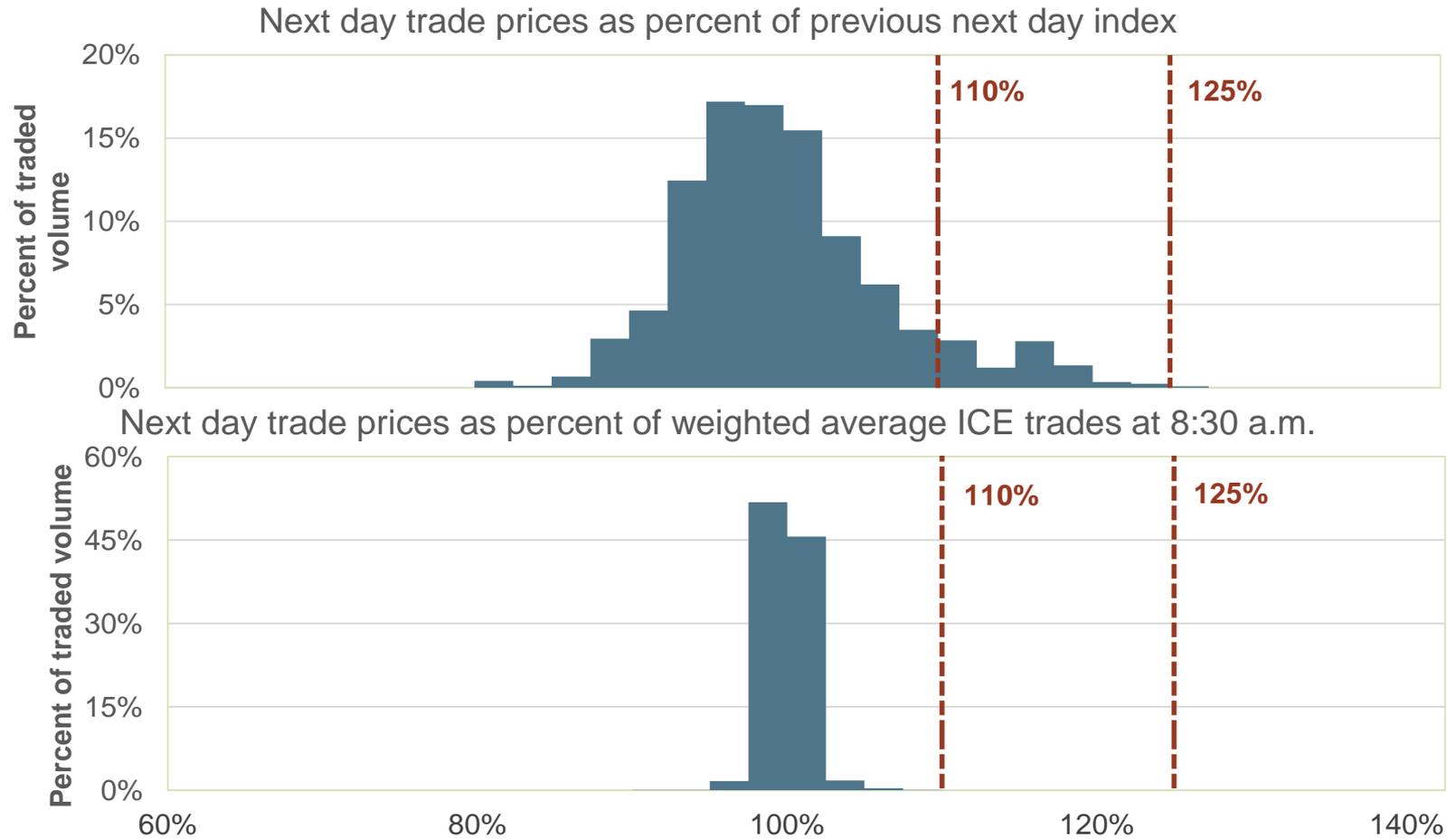
DMM's principles for initiative

- 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 (starting fall 2017)

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

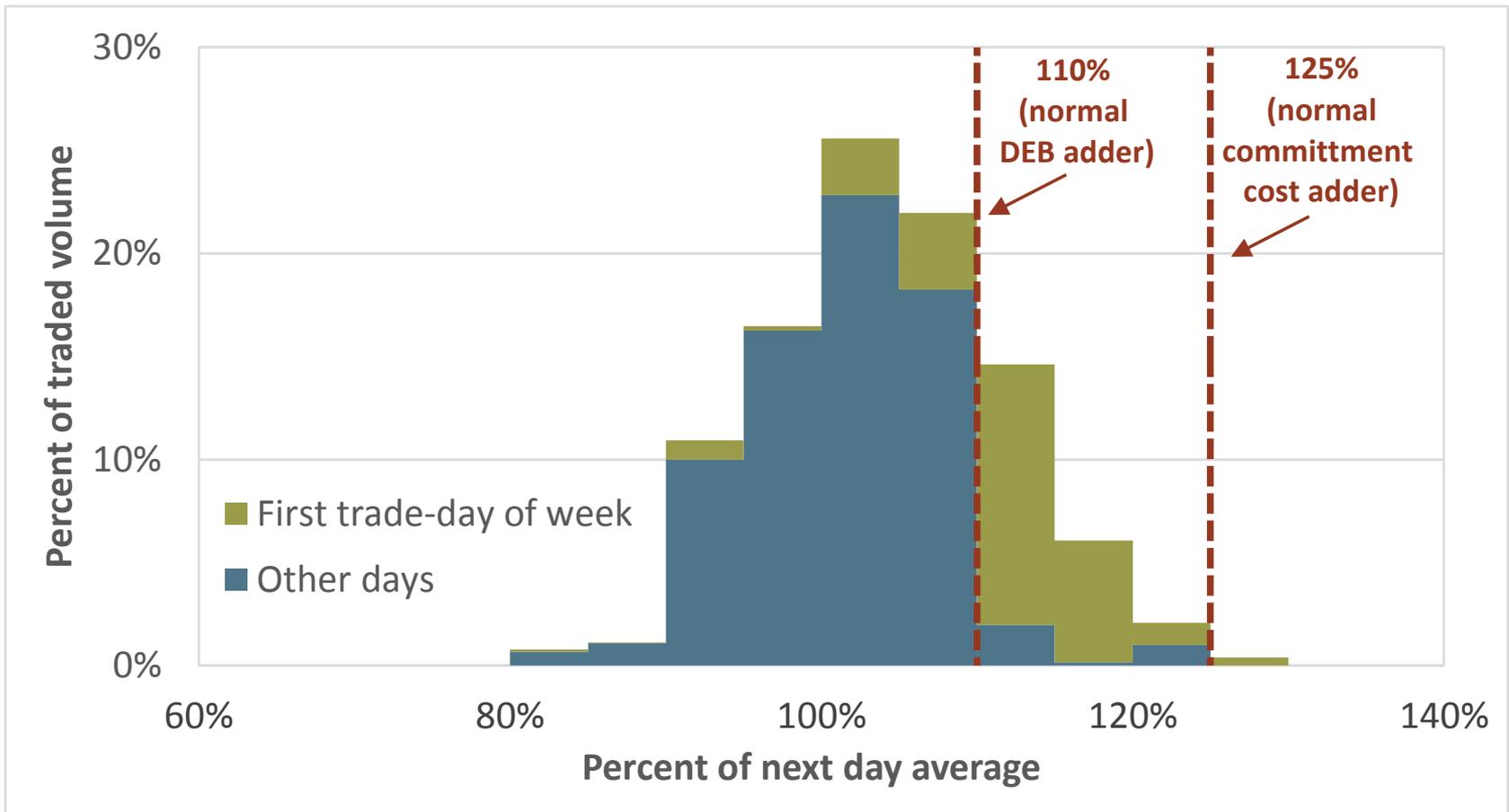


Updating indices before the day-ahead market would remove a large source of variability



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

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

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 September 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
- Consider how to develop dynamic criteria for mitigating commitment cost bids
 - Developing robust screens for local market power and software gaps related to unit constraint appears computationally complex

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.