Comments on Aliso Canyon gas-electric coordination phase 3 initiative

Department of Market Monitoring

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The Department of Market Monitoring (DMM) appreciates the opportunity to review and comment on the ISO's Aliso Canyon Phase 3 Initiative. The changes proposed in this initiative are significant market design changes, and extend well beyond Aliso Canyon issues. For this reason, they need to be carefully considered by the ISO and the entire stakeholder community.

Recommendations

Gas price adders (Adjustments to DEBs and Commitment Cost Caps):

DMM believes that the ISO should reduce the current level of headroom included in the real time gas price adders for resources included in the Aliso Canyon constraints. Price data from the gas markets does not support the need for additional headroom above the levels normally included in bid caps for commitment cost bids and default energy bids. Without tight gas conditions, the extra headroom is distorting market dispatch and increasing both prices and bid cost recovery payments.

Max Gas Burn Nomograms:

Before extending the gas burn nomograms to EIM entities, the ISO should define and provide clear guidance on what constitutes a 'physical gas limitation' that might justify the use of a new nomogram. The proposal does not contain any detail on when and where these nomograms might be applied. Without some detail, evaluation of the proposal is difficult. DMM would also like the ISO to clarify how the gas burn constraints will interact with the sufficiency, capacity, and balancing tests currently applied to EIM areas.

Before the gas burn nomograms are made permanent or extended beyond their current reach, the ISO needs to ensure that the automated calculations of supply of counterflow include impacts of gas nomograms. These calculations are an important part of the Dynamic Competitive Path Assessment, which is a critical input to Local Market Power Mitigation. The current manual process is not sustainable in the long run, and may not be appropriate to transfer to a different footprint or different specific gas limitations. Automating this step will also provide greater transparency to market participants into how the system works.

Background and specific issues

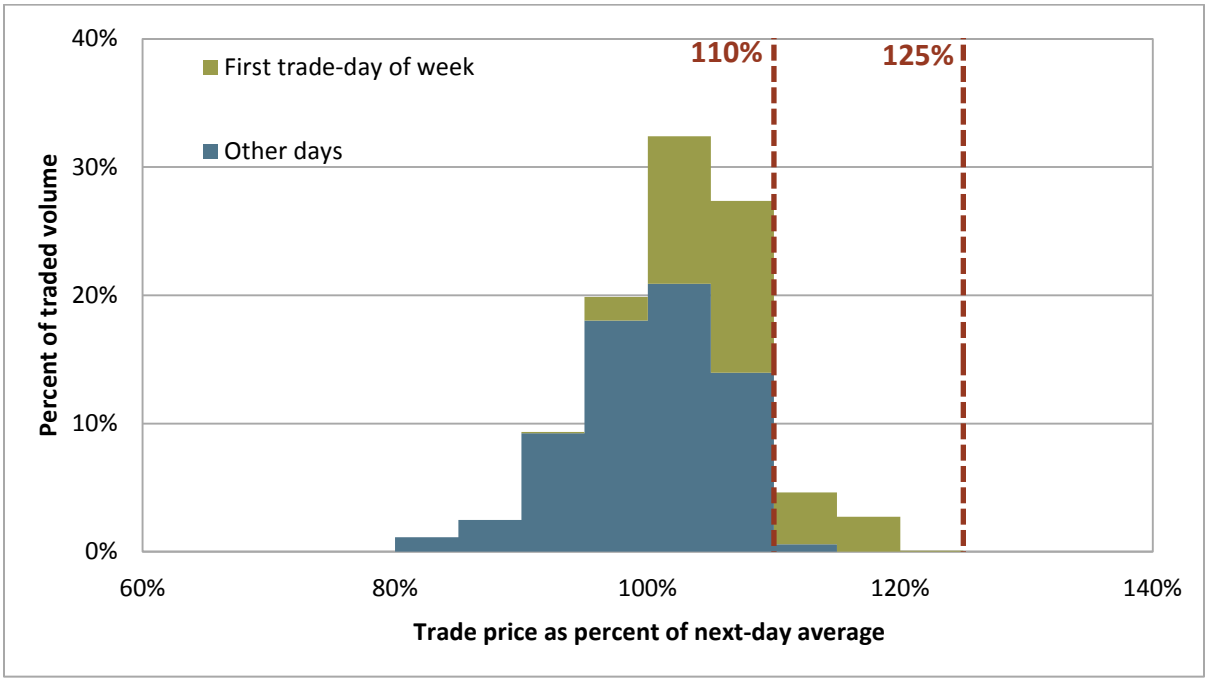
The loss of the Aliso Canyon gas storage facility was a large and sudden change to electric operating conditions and gas markets within California. The ISO designed several market measures to offset the loss and to try to prevent problems with electric/gas system reliability. DMM believes that these were all appropriate at the time. We also see the need to carefully evaluate the continuance or expansion of these measures.

Gas price adders

DMM supports the ISO maintaining the authority to increase real time gas price estimates when there is a concern that tight gas conditions may lead to gas supply problems. Since this provision was first implemented, the real time gas prices used for Aliso related resources have included, in real time markets, an additional 75% adder in commitment costs and an extra 25% in default energy bids. During the same period, observable conditions in the gas market have never reached the level of price increase included in commitment costs, and in general have not suggested a market that is tight enough to necessitate the adders that are in place. DMM believes that the ISO should re-examine the current setting of the adders and considering lowering them, possibly to zero for now.

DMM's most recent analysis of gas prices supports the view that the extra headroom is not necessary. Figure 1 shows same-day trade prices for the SoCal Citygate during January through May 2017 compared to the next-day average price. Only 7 percent of traded volume on ICE exceeded the normal 110 percent scalar adder at the SoCal Citygate and none of the traded volume exceeded the 125 percent adder. Figure 1 also shows that the majority of trades above the 110 percent level occurred on days that were the first trading day of the week, which was typically a Monday (as shown in green on the chart). The analysis suggests that any updates or increased headroom for gas prices should focus on the Monday issues. Applying the excess headroom arbitrarily to all days may be increasing BCR as well as market clearing prices.

Figure 1 Same-day trade prices compared to next-day index (January – May)



Concerns with the gas nomograms

Provide clarity on how and when new nomograms could be used

Before expanding the use of gas nomograms to broader areas, the ISO should clearly define 'physical gas limitations' and explain how the use of a nomogram in a new area would be implemented. Any new generation constraint could have different implications for the market in terms of pricing and competition than currently existing constraints. This is especially true in EIM, where competitive supply may be more limited than in Southern California. If the ISO does not want to make a list of potential nomograms, it should at least provide a description of how a new nomogram will be enacted and what circumstances may cause that to happen.

Include impacts of nomograms in DCPA

The existing manual DCPA override process was meant to function as an emergency stop gap measure. It is a reactive process that is both less transparent and less capable than an automated process would be. Including the impacts of any and all gas nomograms in the automated DCPA should be a necessary precursor to any decision to extend the nomograms beyond their current use and sunset date.

Including the nomogram effects in the automated DCPA will involve making some assumptions. Resolving a gas constraint that is not resource specific into limits on counterflow that can be supplied from individual resources is not trivial and needs to be carefully considered. This consideration should take place as part of the policy development and should include input from the stakeholder community. Any decision about what assumptions need to be made should be informed, as much as possible, by any and all potential gas nomogram definitions that are available.

Study relationship of gas constraint to sufficiency, balancing, and capacity tests in EIM

Gas nomograms will limit potential output from resources in a way that is not necessarily reflected in resource bids. DMM believes that the ISO should also consider how these limitations may impact the results of the sufficiency, balancing, and capacity tests for EIM BAAs.

Conclusion

DMM believes that the tools designed in the Aliso response can be important in managing gas related reliability issues. We support continued use of real time gas price adjustments when appropriate, but also stress the need to lower the levels when there is no evidence of a tight market. We also support the ISO's continued use of nomograms to restrict gas burn during tight conditions. However, the ISO has very limited experience with their use. In the few days that they were used, it is not clear how successful they were in managing the gas burn without the use of other tools. DMM would like the opportunity to consider, with the larger group of stakeholders, whether any refinements to the nomograms would be worthwhile.