Comments on the Gas Resource Management Working Group

Department of Market Monitoring

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DMM appreciates the opportunity to comment on the Gas Resource Management Discussion Paper.[1] The purpose of the Gas Resource Management Working Group is for stakeholders to assess existing market processes and to discuss ways to ensure the market accounts for accurate gas fuel costs in dispatch and uplift decisions. This is particularly important in the wake of WEIM expansion and the implementation of EDAM. This working group builds on a number of market changes the ISO made in the commitment costs and default energy bid enhancements (CCDEBE) initiative that incorporated more accurate gas index prices in the calculation of reference levels and mechanisms for market participants to adjust these reference levels when necessary.[2]

The discussion paper outlines a number of potential issues regarding gas costs that the market uses as inputs for calculating resources' reference levels. DMM has commented on these issues previously and reiterates the importance of maintaining reference level calculations that allow resources to reflect their costs appropriately without being unnecessarily high. If reference levels over-estimate the marginal costs of resources, this can allow resources to exert market power up to those reference levels. DMM recommends the working group focus on ways to make more targeted changes at cases in which gas costs may actually exceed the indices, rather than simply increasing the reasonableness thresholds. DMM recognizes that some WEIM entities may face unique situations and less transparent gas market conditions that may warrant more flexibility in how reference level calculations reflect their gas costs. To address this concern, DMM recommends the ISO develop a wider range of flexible options for participants to cover gas costs for their unique situation.

Some stakeholder-recommended solutions focus on increasing the reasonableness threshold to account for variation in costs of procuring incremental gas supply and dealing with critical events. DMM agrees it is important for the ISO's process to account for higher gas supply costs during critical events. However, DMM continues to highlight the importance of maintaining incentives for market participants to procure gas at the lowest possible cost.[3] If market participants can recover whatever gas cost they pay due to a high reasonableness threshold that accounts for the spread of gas market transactions, then participants lose the incentive to procure gas at lower costs, which could affect electricity prices.

Some stakeholders also noted generators may switch gas fuel regions due to operational constraints or in response to critical events, and are unable to reflect those costs in the market in a timely manner.

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[1] *Gas Resource Management Working Group Discussion Paper: Recommendations for Policy Development*, May 21, 2024: https://stakeholdercenter.caiso.com/InitiativeDocuments/DiscussionPaper-GasResourceManagement-May21,2024.pdf

[2] Commitment costs and default energy bid enhancements initiative page: https://stakeholdercenter.caiso.com/StakeholderInitiatives/Commitment-costs-and-default-energy-bid-enhancements

[3] *Phase 2 of Comments on the Commitment Costs and Default Energy Bid Enhancements – Issue Paper,* December 12, 2016: https://stakeholdercenter.caiso.com/InitiativeDocuments/AdditionalDMMComments_CommitmentCosts_DefaultEnergyBidEnhancmentsIssuePaper.pdf

One option recommended by stakeholders is to increase reference levels by taking the maximum fuel price or creating a weighted average of fuel prices from applicable regions for these resources. DMM supports participants recovering the full cost of fuel procured during critical events. However, the ISO needs to weigh the tradeoff between having a reasonableness threshold that is flexible enough to accommodate these events against reference levels that are inefficiently high on most days.

DMM's understanding is that the manual reference level request process can assist resources in reflecting higher costs during low frequency critical events. For resources that switch fuel regions more frequently due to operational constraints, DMM recommends the ISO consider a more targeted approach to modeling fuel costs, rather than applying this type of logic to all resources every day. While the solution could be a function of multiple fuel regions, it may require more nuanced logic into how operational constraints affect gas prices and should be informed by data provided by market participants.

In addition, when discussing potential improvements to resource-specific cost adjustments, the discussion paper notes that stakeholders have observed increased gas price volatility and more frequent Operational Flow Orders (OFOs). DMM continues to recommend not including OFO costs in reference level change requests. If participants can recover costs that signal gas system constraints through reference levels in the electric market, then their demand for gas may not be as sensitive to these price signals. DMM agrees with the findings from the Federal Energy Regulatory Commission that this could jeopardize the reliability of the natural gas pipeline and transmission systems. [4]

While DMM agrees that resources should be able to accurately reflect their gas procurement costs in their reference levels, DMM recommends that any changes to reference level calculations or increases in the reasonableness threshold be supported by analysis that shows how frequently resources' bids were limited by the current market rules. If resources are primarily limited during extreme events, DMM supports improvements to the reference level request process to make submitting requests simpler for market participants, rather than more drastic changes that may lead to inefficiently high reasonableness thresholds. If resources are limited by reference levels frequently enough that the manual process is inefficient, DMM recommends the ISO provide analysis that demonstrates this issue prior to making changes to the reasonableness threshold calculation.

[4] *California Independent System Operator Corporation,* 172 FERC ¶ 61,263, September 2020, pp 14-15: https://www.caiso.com/documents/sep21-2020-letter-order-accepting-commitment-cost-default-energy-bid-enhancements-ccdebe-er20-2360.pdf
New York Independent System Operator, Inc., 154 FERC ¶ 61,111, February 2016, p 18: https://www.ferc.gov/sites/default/files/2020-05/E-6_80.pdf