

## Comments of Calpine Corp. on the Aliso Canyon Gas-Electric Coordination Straw Proposal

Matthew Barmack  
Director of Market & Regulatory Analysis  
Calpine Corp.  
925-557-2267  
[barmackm@calpine.com](mailto:barmackm@calpine.com)

April 21, 2016

Calpine appreciates the opportunity to comment on the Aliso Canyon Gas-Electric Coordination Straw Proposal (“straw proposal”). Calpine supports most elements of the straw proposal but has significant concerns about the proposal to de-rate Path 26. These comments address each element of the straw proposal below.

### *Gas Availability Constraint*

Calpine supports the implementation of gas availability constraints in the day-ahead and real-time markets. As discussed at the April 19<sup>th</sup> MSC meeting, it would be helpful to get more clarity on the respective roles of the CAISO, generators, and the gas company in managing gas availability constraints. For example, is the gas availability constraint designed to capture physical limitations on gas delivery that are not otherwise reflected in gas prices and energy offers? If energy offers already reflect the cost of gas due to its limited availability, will energy prices already reflect gas availability constraints even in the absence of a constraint in CAISO markets?

In addition, if a gas availability constraint is in fact daily, Calpine suggests that it might be more appropriate to implement it as a daily/multi-hour constraint rather than translating it into separate hourly constraints as proposed in the straw proposal—although undoubtedly hourly constraints would be simpler to implement.

To the extent that a daily constraint is translated into separate hourly constraints, rather than allocating the constraint to specific hours based on load, it might make more sense to allocate it based on typical electric generation gas burn in an affected area, which may or may not be correlated with load. For example, an affected area may rely disproportionately on imports during high load periods.

Additional detail on how the constraint will be priced and under what conditions it will be implemented also would be helpful.

### *Reserve internal transfer capability*

Calpine is very concerned about the proposal to de-rate Path 26. The proposal could distort prices throughout the CAISO, and as the straw proposal acknowledges, exacerbate gas availability constraints

by committing and dispatching more generation in Southern California. Calpine has the following questions about the proposal: How would the magnitude of the de-rate be determined? Under what conditions would the de-rated capacity be released? In the event that the de-rated capacity is released, would its release be reflected in CAISO markets? If the de-rated capacity is routinely released, then real-time prices in the affected area routinely could fall below day-ahead prices. Could the existence of such systematic price differences actually lead to higher cleared load in real-time rather than day-ahead, aggravating the problem that the de-rate is designed to address? Could CAISO achieve the objective of preserving space on the ties into affected areas in a more surgical fashion, e.g., if there are greater gas delivery constraints on units in the LA Basin, as opposed to the entirety of SoCal Gas's system, could the CAISO develop nomograms that effectively de-rate capacity over a more limited set of ties into the LA Basin rather than Path 26?

#### *Increase access to information prior to day-ahead*

Calpine supports the provision of more market information prior the 2-day-ahead time frame as long as such information is purely advisory and does not constrain day-ahead or real-time results. Calpine believes that market results only should be physically binding when they are also financially binding. Calpine understands that the CAISO is not proposing to implement a financially binding 2-day-ahead market.

#### *Real-time gas balancing constraint*

Calpine generally supports the implementation of a real-time gas balancing constraint in CAISO markets. As indicated in our comments on the proposed gas availability constraint, Calpine questions whether it is appropriate to represent such constraints as hourly if they are in fact daily. Relatedly, to the extent that the CAISO decides to translate daily constraints into hourly constraints, Calpine requests additional empirical justification for basing the translation on load or net load, which may or may not be correlated with when gas is typically used in the affected area or when deviations from day-ahead expected gas use are likely to occur.

#### *Use of real-time gas price information in the real-time market*

Calpine strongly supports the proposal to allow generators to reflect real-time gas costs in real-time commitment costs and default energy bids. The CAISO proposes two options for implementing this proposal (1) Allowing generators to base their commitment costs and default energy bids on self-reported gas costs and (2) Indexing commitment costs and default energy bids to an intra-day gas price index developed by the CAISO. Calpine favors the first option. There is not sufficient intra-day trading to constitute the basis for a reliable intra-day price index. Further, intra-day gas prices can be highly volatile, especially in constrained environments with potential OFO penalties. Consequently, generators' actual gas costs could vary significantly from any real time gas index.

#### *Commitment Cost Enhancements*

Calpine supports accelerated implementation of the CCE proposals that already have been approved the CAISO Board.

*Improved day-ahead gas price index*

As with the CAISO's proposal to allow real-time commitment costs and default energy bids to reflect actual gas costs, Calpine favors allowing generators to specify their own gas costs. Calpine believes that market power concerns can be addressed by ex post review of generators' gas costs.