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NRG 190125 Comments on 190111 Joint Agency Workshop

Additional submitted attachment is included below.

January 25, 2019

Comments of NRG Power Marketing LLC
on the January 11, 2019 Joint Agency Workshop
on Southern California Natural Gas Prices

NRG Power Marketing LLC ("NRG") offers these comments on topics discussed at the January 11, 2019 Joint Agency Workshop on Southern California Natural Gas Prices.

NRG is among the parties that have been adversely affected by the increased SoCal Citygate supply and price volatility resulting from the reduced operability of the Aliso Canyon Natural Gas Storage Facility ("Aliso Canyon") and the reduced Southern California Gas Company ("SoCalGas") transfer capability due to pipeline outages and restrictions. The misalignments between the gas and power markets – specifically, (1) the misalignment between the timing of the CAISO's day-ahead market and when most next-day gas trades, which often forces generators that cannot predict their CAISO day-ahead market awards to acquire gas in the same-day market, the prices in which are affected by the declaration of Operational Flow Orders ("OFOs"), and (2) the misalignment between the gas prices the CAISO uses to cap generators' bids and same-day gas prices – exacerbate the significant challenges facing gas-fired electric generators operating in in this area. In 2018, NRG generating units operating in the affected area incurred significant gas procurement costs that NRG could not recover from the CAISO's markets, and NRG has had to file, at significant time and expense, at the Federal Energy Regulatory Commission ("FERC") to recover those costs.

The panel discussions largely covered the causes of the problems in this area, including:

- Reduced operability of the Aliso Canyon storage facility;
- Reduced gas delivery capability due to pipeline outages and restrictions in the SoCalGas system; and
- The misalignments between the power and gas markets described above.

NRG observes that the increased frequency of OFOs, including High OFOs, has greatly increased the challenges associated with procuring gas to meet CAISO market awards and real-time dispatch noted above. When OFOs are declared, generators must balance their nominated supply with their burn within very tight tolerances *on the flow day*. NRG agrees with the panelists that when OFOs are declared, parties offering supply in the same-day market will "bake in" the OFO penalty price, and generators, faced with the dilemma of having to balance within tight tolerances that day or pay the OFO penalties, will pay the same-day prices with the OFO penalties baked in. The OFOs, which are an operational tool SoCalGas uses to manage the reliability of its system, are a consequence of the underlying problems with the physical gas delivery system and are not themselves the fundamental problem.

NRG now provides comment on some of the proposed solutions discussed at the workshop.

First, NRG agrees that fixing the fundamental, physical cause of the problem – the gas supply restrictions resulting from the reduced operability at Aliso Canyon and the reduced transfer capability in the SoCalGas system – is the solution that is likely to have the most significant and longest-lasting benefits. The SoCalGas representative at the workshop observed that returning Aliso Canyon to service was projected to reduce the number of OFOs by 80 percent.

Second, NRG does not support the proposal to truncate the stepped OFO charges at $5/dekatherm ("dth"). NRG agrees with the concerns expressed at the workshop that the stepped OFO charges are intended to send a price signal proportional to the amount of projected gas supply imbalance, and truncating the charges at $5/dth may make it more likely that SoCalGas will have to result to the declaration of an Emergency Flow Order, with $50/dth penalties and zero imbalance tolerance, to cure supply imbalances. This will result in even greater separation between the next-day and same-day gas prices, to the detriment of gas-fired generators in the area. Should this concern be realized, it will increase, rather than decrease, gas price volatility. NRG is open to re-examining the stepped OFO structure, but is concerned that truncating the stepped OFO charges to a relatively low level will exacerbate, not reduce, the potential for price volatility.

Third, the proposed CAISO market modifications resulting from the Commitment Cost and Default Energy Bid Enhancements ("CC-DEBE") initiative, which have already been approved by the CAISO Board (in March 2018) but which the CAISO postponed implementing from Fall 2018 to Fall 2019, should be implemented as soon as possible. While the CC-DEBE improvements are not a panacea, allowing generators to submit their gas cost expectations to the CAISO should provide the CAISO markets with better information about generators' true gas costs, which should lead to more efficient dispatch of gas-fired resources and fewer instances in which generators need to seek cost recovery at FERC.

Finally, in conclusion, NRG observes that it is not likely that California will be able to simply eliminate natural gas, either as a consumer fuel or as a fuel to support wholesale electric generation, in the near future. While one panelist observed that small amounts of natural gas impacting power prices would threaten California's decarbonization efforts, such comments neither reflect analysis conducted in the CPUC's Integrated Resource Planning process that shows that California can meet an aggressive 2030 GHG reduction goal with all of the non-once-through-cooled gas-fired generation remaining in operation, nor advance the serious and considerable work needed to transition away from fossil fuels while keeping electric power – currently California's Plan "A" for decarbonization – reliable and affordable.

Respectfully submitted,

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