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**Comments of Middle River Power on the Joint Agency Workshop on
Southern California Natural Gas Prices**

Additional submitted attachment is included below.



Comments of Middle River Power on the Joint Agency Workshop on Southern California Natural Gas Prices

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Middle River Power

Middle River Power, LLC (“MRP”) is the asset manager for approximately 1,600 MW of generating facilities in California. MRP’s California portfolio consists of a nominal 1,150 MW of Combined Cycle Gas Turbine Units (High Desert Power and Tracy), 200 MW of Peaking capability (Hanford and Henrietta) and 270 MW of geothermal. MRP is also developing a 100 MW solar PV facility with an integrated battery energy storage system adjacent to our High Desert facility in Victorville. MRP also manages assets outside of California, including gas fired assets in PJM, providing MRP with experience with gas issues in that region that informs our views on Southern California natural gas markets.

Comments

Alignment of Gas Trading Markets and CAISO Day-Ahead Awards

MRP is pleased to have the opportunity to submit comments related to the January 11, 2019 Joint Agency Workshop on Southern California Natural Gas Prices. MRP applauds the agencies for demonstrating an interest to better understand the multiple natural gas issues on-going in Southern California, which have similarities to gas / electric integration challenges across the country. As demonstrated by the discussions at the Joint Agency Workshop, the informed and prudent management of the natural gas system in the Southern California is critical to the reliability of both the natural gas system and the electric grid.

MRP agrees with the key items addressed in the Independent Energy Producers Association (“IEP”) presentation. In particular, the alignment of the gas trading markets and power markets continues to be an issue across the country that FERC has tried and failed to fix. This misalignment is even more challenging in CAISO given the pricing limitations imposed on generators and the reliance on gas indexes to establish generator assumed gas prices.

The CAISO has proposed a partial solution to fix the weekend gas misalignment in its January 11, 2019 White Paper, “Use of More Updated Gas Index for Mondays in Temporary Day-Ahead

Markets” (the “CAISO Gas Report”).¹ MRP supports the CAISO Gas Report’s initiative as an important first step.

The CAISO Gas Report acknowledges a key issue in the white paper:

The CAISO understands that the three-day weekend package price the CAISO uses in the Day-Ahead market runs on Sunday for the Monday Trade Day is often a poor indicator of the price of procuring Monday-only gas, either through the Monday-Only Gas package that trades on Friday or through the Monday same-day market. (CAISO Gas Report, p. 2.)

The CAISO’s proposes to address this problem by using the Monday-Only Gas price if it is available when the CAISO runs its Monday Day-Ahead market on Sunday. Although MRP supports the CAISO’s proposal above, we also believe a broader fix is necessary to better align the gas trading markets and CAISO Day-Ahead awards on all trade days.

There is currently a substantial divergence in the timing to procure gas for the Day-Ahead power market awards. MRP recommends that the timing of the Day-Ahead power market award better align with the timing for the previously established day ahead gas trading period. Being able to procure timely gas supply once the Day-Ahead market clears will help avoid same-day gas purchases. Timing Day-Ahead power market clearing with established gas pricing better aligns the markets and alleviates the divergence, creating a more efficient market. Currently, gas fired units must estimate their fuel costs for the subsequent day which exposes them to substantial financial and operational risks. With a better aligned gas and power day, gas fired generators would be able to offer the plants into the market with better knowledge of their true marginal cost, which, in turn, will result in more efficient outcomes and lower market prices.

This proposed modification will help better manage gas supply and alleviate shortages which cause Operational Flow Orders (“OFO”). In addition, if a generator understands their Day-Ahead run profile as awarded by the CAISO, they can procure the appropriate amount of natural gas in the Day-Ahead market and potentially eliminate the possibility of unrecovered costs associated with same-day gas purchase in an OFO event. Further, appropriate planning due to market alignment will help (a) avoid same-day gas purchases during normal operation which subject generators to higher gas prices based on market conditions and available volumes and (b) avoid a sell off of day-ahead gas purchased if the generator is not run after anticipating a run cycle but not cleared in CAISO Real-Time market under current misalignment conditions.

¹ Available at: <http://www.caiso.com/Documents/WhitePaper-TemporaryUse-GasPriceIndex-Day-AheadMarket.pdf>.

MRP Opposes Reduced Penalties for OFO Non-Compliance

MRP acknowledges that many of operating constraints have been caused by pipeline outages and maintenance as well as storage limitations. Repairs are underway and should be expedited to resolve the current issues. However, proposals to fix these constraints with short term stop gap measures may further exacerbate the problem.

For example, MRP is concerned SCE's proposal to, "Reduce the \$25/MMBTU component of the OFO Stage 4 and 5 penalty events to \$5/MMBTU on an interim basis while SCG operations are limited." This proposal may create further concerns for gas and electric system reliability. The graduated OFO penalty system is a reasonable approach that aligns incentives with system reliably needs. Reducing the overall penalty for non-compliance may cause certain stakeholders to disregard OFOs, potentially causing excessive draws on the system. This reduction in penalties for non-compliance can lead to system emergencies and potential curtailments of key generating facilities necessary for grid reliability. MRP opposes reduced penalties for noncompliance

MRP Supports a Robust Stakeholder Process to Ensure System Reliability and Market Certainty

MRP suggests that any proposed stop gap mechanism, whether short or long term, be carefully evaluated via a stakeholder process with notice and meaningful opportunity to be heard before being implemented. Understanding market and overall reliability impacts from the perspectives of all stakeholders is critical before interim measures are implemented.

In summary, MRP believes repair of the overall Southern California gas system constraints while aligning the gas trading markets and CAISO Day-Ahead awards will solve many of the OFO and pricing concerns. Suggested interim measures should be thoroughly vetted via a stakeholder process to understand overall market impacts.