Pacific Gas and Electric Company®

Comments of Pacific Gas & Electric Company

Import Bid Cost Verification –
Issue Paper and Straw Proposal

Submitted by	Company	Date Submitted
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Pacific Gas and Electric Company (PG&E) offers the following comments on the California Independent System Operator's (CAISO) Import Bid Cost Verification draft straw proposal.

PG&E agrees that a requirement for suppliers to base import bids above $1,000/MWh on the supplier's expected or actual short-run marginal costs is appropriate and prudent. However, PG&E does not agree that imports should be allowed to bid up to $2,000/ MWh with only after-the-fact verification. Without verification of contemporaneously available information, bids above $1,000/ MWh should not be permitted to set prices, especially given California's reliance on imports, which have potential market power. If bid verification cannot occur until after the fact, imports should be eligible for a true-up, as is proposed for internal generators above the reasonableness threshold in CCDEBE. PG&E sees resolving this new issue as just one prong of a much more wholistic need to look at and address system market power in the CAISO.

FERC Order 831 raised the energy offer cap for ISO/RTOs from $1,000/MWh to $2,000/MWh. Under this order ISO/RTOs are required to verify costs for bids over $1000/MWh before the market run to able to set prices. Otherwise bids that are not verified would be capped at $1,000/MWh and provided make-whole payments after the market run if sufficient documentation is provided. Any bid over $2,000/MWh would be capped at $2,000/MWh and eligible for ex post verification of costs that would warrant make-whole payments. Due to the CAISO's reliance on imports and concern over system-level non-competitiveness that could lead to market power, verifying import bid costs over $1,000/MWh is an important measure the CAISO should take. Additionally, ex ante verification treats imports and internal generation equitably in their ability to set prices.

PG&E is concerned about the timing of import bid costs verification. Under the CAISO's proposal, import bids could bid over $1,000/MWh and set the marginal price of the market without sufficient documentation to warrant the bid over $1,000/MWh. PG&E believes this is an outcome the CAISO needs to avoid. It is unclear what would happen in this situation. Either a price correction in the day-ahead market or a claw back of market revenues from potentially all resources awarded high energy prices (based on the unsubstantiated high import bid) seem like very burdensome processes that should be avoided. Would a price correction in the day-ahead market even be feasible?

PG&E sees two ways to avoid this outcome. The first and more desired is for the CAISO to verify import energy bids greater than $1,000/MWh ex ante. The second way to avoid this outcome if ex ante verification is not possible is by capping import bids at $1,000/MWh rather than $2,000/MWh or using a DEB for imports, with the allowance for an after-the-fact true-up.

1) Verifying import energy bids greater than $1,000/MWh ex ante. Verification of bid prices ex ante is the most appropriate process to ensure competitive and reasonable market outcomes when raising the bid cap. Bids with sufficient justification to bid over $1,000/MWh should not be very common, as stated during the CAISO discussion on the frequency of high import bids. We think that the conditions in which a scheduling coordinator would bid justifiably over $1,000/MWh should be infrequent and thus not too burdensome on the CAISO to ex ante justify the bid. The SC should submit documentation simultaneously with the bid and allow the CAISO to make a determination before the market run. PG&E asks if the CAISO can please elaborate why ex ante bid cost verification would not be possible.

2) Capping Import Bids at either a DEB or $1000/ MWh

   A. Cap import bids at $1,000/MWh and then make-whole ex post. If ex ante bid cost verification is not possible, the CAISO needs to consider capping the import bids at $1,000/MWh to avoid market outcomes potentially too high. The CAISO has proposed that bids over $2,000/MWh are capped at $2,000/MWh and eligible for make-whole payments. The CAISO should use this same process but at $1,000/MWh instead. Increasing this cap to $2,000/MWh is an unnecessary risk to high and unreasonable market outcomes.

   B. Use a DEB for imports. PG&E believes that creating a Default Energy Bid (DEB) for import bids is ripe for discussion. While import bids are not tied to physical resources, the prices in the other major WECC areas are tied to specific hub indices, such as Mid-C or Palo Verde. One idea could be a DEB based on these trading hubs assuming these hubs are competitive, which would be reasonable and not onerous. The CAISO has used other indices to create DEBs for hydro resources in the Local Market Power Mitigation Enhancements initiative.

   Additionally, system market power will need to be resolved by the CAISO and eventually a DEB for imports will be necessary due to increased structural incidence of market power in the CAISO. While bids over $1,000/MWh are of additional concern, even capped bids at $1,000/MWh can yield incredibly expensive market outcomes that do not reflect the marginal cost of electricity.

Raising the bid cap over $1,000/MWh without ex ante verification could lead to inefficient market outcomes and inflated prices for all generators, in addition to having a different standard for imports and internal generation. PG&E would much rather have individual bids over $1,000/MWh made-whole after the fact if there are additional costs they need to recover rather than having the entire market clear at a price that high.

Finally, PG&E thinks that the proposed measure to prohibit bidding over $1,000/MWh for 60 days in the first instance and 180 days subsequently when documentation does not support high bids may not be sufficient to properly disincentive unjustifiably high bids. Rather than expending effort to determine whether a punishment is strict enough to prevent unreasonably high bidding with ex post verification, PG&E thinks it would be much simpler to cap those import bids and provide them with make-whole payments.

PG&E looks forward to working with the CAISO and other stakeholders to come up with a solution that treats imports and internal generation equitably, mitigates the risk of unverified bids setting market prices, and does not provide a procedural barrier to imports with true costs.