Phase 2 Revised Straw Proposal

Changes to Restrictions on Bidding Start-Up and Minimum Load

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1 Introduction
The new market launched by the California Independent System Operator (ISO) in April 2009 commits generating units based on their Start-Up (SU) and Minimum Load (ML) cost elections that must be in place for six months. Many market participants have stated that this has caused their resources to be committed more frequently than good utility practice would dictate, to be held at minimum operating levels and to be de-committed. Participants observe that this causes extra wear and tear on their generating units, uses up fixed numbers of unit starts and emissions allocations, and makes it difficult for unit owners to recoup their operating costs.

In order to try to alleviate these issues, the ISO undertook a two-phased approach to changing SU and ML bidding restrictions. The first phase, which was implemented in July 2009, enabled generation owners to modify their SU and ML elections to switch between the registered and proxy cost options for SU and ML more frequently. The second phase, still under consideration, proposed to implement SU and ML cost bidding, and a mechanism for resources to capture opportunity costs for units that face use limitations.

It is the ISO’s current proposal that the stakeholder process on this Phase 2 portion of the initiative be extended over a longer period of time than originally proposed. This is recommended for several reasons.

- Stakeholder feedback has indicated that more time to evaluate the efficacy of Phase 1 implementation is warranted.
- Stakeholder feedback has also indicated that additional discussion on the Phase 2 proposal is more desirable than implementation on a short timeline.
- The rate of unit commitment has dramatically improved since the launch of the new market systems. This is attributable to improvements and fixes made to market software as well as to a decrease in the number of planned and forced generation and transmission outages.
- Additional concerns with respect to the Phase 2 issues have been raised in the contexts of Convergence Bidding and Multi-Stage Generating Unit Modeling. Until the policy is finalized on the former, and implementation hurdles are fully understood for both, the ISO has concerns about adding SU and ML changes into a changing Tariff, and changing market structure. Furthermore, the ISO has to balance with priority of this initiative with other planned market enhancements to take into account limited policy and implementation resources, internally, with vendors, and for Market Participants.

In light the above, the ISO proposes to defer any further development of this initiative in the near term.
2 Criteria for Evaluating Potential Solutions

- Proposed changes should be mindful of the costs of implementation, both for stakeholders and for the ISO. The benefits and costs of market changes should be weighed along with other, competing enhancements to market systems.
- The proposal for changing the way SU and ML costs are bid into the ISO markets should be designed to address the problems of excessive starts and resources being held at minimum load.
- The proposal for changing the way SU and ML costs are bid into the ISO markets should also include a longer-term solution to enable participants to accurately reflect their SU and ML costs in their market bids given the way the new ISO markets commit units.

3 Elements of the Phase 2 Proposal

The ISO’s proposal for the second phase of the stakeholder initiative to allow more bidding options for start-up and minimum load costs involves adding a cost component, and enabling bidding. Specifically, the ISO proposes to enable daily bidding of SU and ML costs. The ISO previously proposed to allow the registration of an operations and maintenance (O&M) cost component which would be fixed in the master file for six months. While the proposal for daily bidding of SU and ML still stands, with the addition of a system-wide cap on those bid-in values, the ISO has revised the proposal with respect to the “opportunity costs” based on stakeholder feedback. The elements of the straw proposal are described in more detail below.

3.1 Fixed Operations & Maintenance Component of SU and ML Costs

Although considerable interest was raised by Market Participants and the Market Surveillance Committee (MSC), the ISO received sparse response to its request for information on the magnitude or components of the proposed O&M component of commitment costs. The rationale for this O&M component is that units bear “wear and tear” costs as well as opportunity costs due to limitations on the number of starts they are allowed, or a cap on allowable emissions for examples.¹

The “wear and tear” values are reflective of the costs of routine maintenance of generating resources. An adder for these maintenance costs is already included in the cost-based option for SU and ML, and is very much in line with the maintenance values received via comments from Market Participants, and through bench-marking against PJM and information from generating unit manufacturers. Rather than define a separate cost component for these “wear and tear” values, the ISO proposes that the existing adder used in the cost-based option for SU and ML continue to be used to capture and reimburse those costs as applicable.

¹ O&M costs are not proposed to include costs associated with bi-lateral contractual arrangements. While such contracts impose real costs, it would be inappropriate for those costs to be eligible for Bid Cost Recovery (BCR), and thereby bourn by other market participants.
The opportunity cost component is more variable, and more difficult to pin down. Given the waning interest in this portion of the proposal, the ISO proposes not to engage in the considerable effort necessary to develop and implement guidelines for “opportunity cost.” In the event that daily bidding of SU and ML is enabled, those generation owners that face such costs – due to use limitations, for example – should seek a negotiated “default” SU and ML value to be used when the unit is subject to Local Market Power Mitigation (LMPM).

### 3.2 Bidding and Mitigation of Start-Up and Minimum Load Costs

The ISO proposes to modify SIBR to enable daily bidding of SU and ML costs. The daily bid is to cover costs other than those encompassed in the O&M costs. Daily SU and ML bids will be subject to a system-wide cap equal to 400% of the cost option. In the event that a unit is subject to LMPM, a default SU and ML bid be inserted in place of the bid-in value, as noted above.

A market participant will still submit either its election to the cost-based option or a registered-cost value for SU and ML costs to the master file. These values will be used as the in the event that the participant does not submit daily SU and ML bids. Daily SU and ML bids will be subject to a system-wide cap equal to 400% of the cost option. The ISO proposes that the ability to change between the cost-based option and the registered cost option, or to revise the registered cost will be limited to once every 6 months. The rationale for the reversion back to a 6 month restriction is made to deter unduly high registered costs, and to ease the administrative burden of more frequent changes to master file data. In addition, it is presumed that the need for a 30-day option to change master file entries is obviated given that SU and ML costs can be bid in daily.

### 4 Process and Timetable

These changes to the restrictions and functionality of bidding SU, ML and O&M costs are proposed as a direct result of feedback from stakeholders and the MSC. The ISO appreciates that collaboration, and looks forward to its continuation as we move forward in the stakeholder process. A conference call to discuss the proposal is planned for September 24, 2009. Although comments or questions on this proposal are welcome and encouraged at any time, formal written comments are due on October 8, 2009. Based on the outcome of the conference call and on the comments received to this proposal, the ISO will work with stakeholders to determine the next steps to be taken on this initiative.

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