

NRG Energy, Inc. Comments on
August 23, 2017 Commitment Costs and Default Energy Bid Enhancements Draft Final Proposal

Name	Company	Date Submitted
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NRG provides the following comments on the CAISO's August 23, 2017 Commitment Cost and Default Energy Bid Enhancements Draft Final Proposal ("DFP").

Proposal to reduce the Commitment Cost "Circuit Breaker" Offer Cap from 300% to 200%

NRG objects to the CAISO's proposal to reduce the commitment cost offer cap level from 300% of proxy cost to 200% of proxy cost.^{1,2} While neither the 200% or 300% level reflects a true "circuit breaker" cap level, the 300 percent level better reflects the CAISO principle that "Competition should discipline markets since it limits market power while providing profit-maximizing incentives."³

While NRG strongly opposes this proposal, should the CAISO move forward with this proposal, the CAISO must also codify in its tariff a process with unambiguous timelines for re-evaluating this 200% offer cap. The rebuttable presumption for this process must be that the 200% offer cap is only a temporary measure implemented at the same time the CAISO is also implementing new and untested market power mitigation functionality, and the offer cap should be increased to 300% at a reasonable date certain absent an affirmative determination, supported by publicly-available evidence, that doing so would be detrimental.

Providing Information on Constraints that Will Be Tested for Market Power

NRG remains concerned that the CAISO's proposal to test for local market power mitigation "...all binding constraints and a selection of non-binding constraints needing commitments to resolve a binding constraint..."⁴ will lead to more, rather than more focused and more rational, mitigation. NRG appreciates the CAISO's commitment to identify and provide (1) the set of constraints that would be evaluated for market power and (2) the study results leading to that designation.⁵ The CAISO should make this identification and provide this information to market participants as soon as possible. Without this information, market participants may have to oppose the CAISO's proposal to evaluate more than binding constraints simply because they won't know what universe of constraints will trigger market power mitigation evaluation.

Including Net Buyers' Portfolios in the Three Pivotal Supplier Test (3PST)

¹ (DFP at 69-70, 73-74)

² The Presentation for the August 30, 2017 Commitment Costs and Default Energy Bid Enhancements – Draft Final Proposal observes, at slide 10, that there is broad support for allowing market-based commitment cost offers subject to caps if the cap is set at 200%. NRG does support adopting market-based offers for commitment costs but does not support setting the offer cap at 200%.

³ DFP at 39.

⁴ DFP at 70.

⁵ DFP at 71.

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The CAISO's argument that the supply portfolios of net buyers should be included in the 3PST as potentially pivotal suppliers because net buyers have an incentive to inflate Bid Cost Recovery (BCR) payments for their units because BCR uplifts are spread across load in the CAISO Balancing Authority Area, so net buyers could benefit if the BCR uplifts were not proportional to the share of BCR allocated to their load,⁶ is compelling. NRG's initial support for including net buyers in the 3PST evaluation acknowledged this incentive.

Upon further reflection, however, NRG is greatly concerned that because the net buyer Investor-Owned Utilities control so many resources through tolling contracts, including net buyer portfolios as potentially pivotal suppliers in the 3PST analysis could lead to conditions in which the 3PST always fails, leading to more mitigation than is currently experienced. While NRG agrees with the CAISO's analysis that net buyers may have an incentive to inflate BCR costs, NRG is even more concerned that including net buyer portfolios in the 3PST will lead to more frequent mitigation.

The fundamental problem in this situation is the allocation of BCR costs. Rather than evaluating the portfolios of net buyers as potentially pivotal suppliers in the 3PST, the CAISO should instead remove the incentive that net buyers have to inflate BCR uplifts by allocating the BCR uplift costs for resources in net buyer portfolios only to demand in the net buyers' load portfolios. This would ensure that net buyers have no incentive to engage in bidding behavior that would inflate uplift costs, and would prevent increasing the frequency of local market power mitigation by including the net buyers' portfolios as potentially pivotal suppliers in the 3PST.

The CAISO should clarify certain principles in CC-DEBE

There was some discussion at the September 8, 2017 Market Surveillance Committee Meeting as to whether market power can be exercised at the system level. In past meetings, the CAISO has clearly stated that a principle underlying the current market design is that market power cannot be exercised at the system level, though the CAISO has declined to explicitly codify that principle in its tariff or any other controlling document. Though the CAISO has articulated (but not codified) important principles implicitly underlying its market design – principles such as (1) market power cannot be exercised at a system level and (2) non-Resource Adequacy capacity is not required to submit offers to the CAISO, other codified provisions, such as Tariff section 39.3.1, which applies to all Electric Facilities as defined by the CAISO, not just to resource Adequacy resources, appears to subject all capacity, not just RA capacity, to evaluation and sanction for economic and physical withholding.

NRG agrees with the CAISO that (1) market power cannot be exercised at the system level and (2) there is no obligation to submit offers from non-Resource Adequacy capacity. However, these fundamental principles are not codified anywhere in the CAISO Tariff. Because these critically important principles are not codified in the CAISO tariff, ambiguity remains. This ambiguity all accrues to market participants' disadvantage. While NRG appreciates the CAISO revising its bidding rules to adopt the more rational structure that all other ISOs have already adopted, NRG urges the CAISO to take this

⁶ DFP at 77.

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opportunity to clarify beyond any doubt what bidding obligations apply to non-RA units and whether market power can be exercised at the system level.

Implementation Costs

Given the importance of implementation costs in this initiative, NRG respectfully urges the CAISO to identify the implementation costs and provide that information to market participants as soon as possible.