

Portland General Electric Comments on Commitment Costs and Default Energy Bid Enhancements August 2, 2017 Revised Straw Proposal

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Portland General Electric

On October 1, 2017, Portland General Electric (PGE) will become the fifth entity to join the Western Energy Imbalance Market (Western EIM). At that time, PGE will begin managing its diverse generation and transmission assets according to the rules of the Western EIM, while also continuing to participate in the California Independent System Operator's (ISO) forward intertie markets. As such, PGE has a vested interest in the policies of the ISO's full market and of the Western EIM.

General Comments

PGE strongly supports the end goal of the ISO's Commitment Costs and Default Energy Bid Enhancements (CCDEBE) Revised Straw Proposal (Proposal): to provide suppliers the flexibility they need to reflect costs and business needs, especially in light of the Western EIM, increasing instances of constrained conditions, and growth of its fleet to include increasingly diverse supply resources. PGE is aware of the significant ISO Staff time that has been allocated to this important initiative and appreciates the efforts that have been made to arrive at this Proposal in the limited time available such that the proposed changes can be brought forward for approval and implemented as soon as possible.

PGE believes the changes in this Proposal should improve the overall ability for suppliers to receive due compensation when participating in the ISO's markets. However, PGE does have some reservations about the ISO's Proposal and offers the following comments in support of certain aspects while questioning others.

PGE specifically supports:

- Permitting participants to submit market-based offers for commitment costs¹;
- Moving directly to full implementation, subject to any minor, sensible delays to align release schedules with other market enhancements;
- Allowing hourly minimum load cost bid submittal, including for Multi-Stage Generators;
- Maintaining existing real-time market re-bidding rules;
- Allowing resources to lower their minimum load energy bids, or otherwise update/submit them, after the commitment process has run within the optimization window;
- Exercising flexibility and discretion when identifying which constraints to test under certain conditions²;

¹ PGE believes this functionality is critical to supporting the participation of peaking (ie., flexible ramping) units in the Western EIM – without this change, it is likely the majority of these units, which include both hydro-electric and gas resources, will have to limit their voluntary market participation to prevent economic under-recovery or inefficient operations when being dispatched to provide flexible capacity and imbalance energy to other EIM areas.

² This flexibility and discretion is especially important for the EIM areas where there is limited, if any, relevant historical data in many cases, and where market fundamentals may change drastically with the integration of new

- Separating the mitigation of energy costs and commitment costs (as revised for the August 11 draft Proposal); and
- Adding a negotiated option for commitment cost reference levels that at a minimum would allow recovery of cost components included in the ISO's existing proxy commitment cost estimates, but would also take into account the resources unique circumstances, such as gas system constraints or risks of incurring gas system penalties as a result of ISO dispatch instructions.

Notwithstanding this support and without suggesting these issues should delay the ISO's implementation of its proposal, PGE questions the ISO's Proposal in a number of areas and offers the following comments:

- As was initially proposed, the ISO should lock bids at the exact price level of the last bid submitted, and should rely on the DMM to monitor for intentionally manipulative behavior;
- The "negotiated option" must in practice deliver on its promise to allow for appropriate flexibility to reflect unique resource circumstances, and must make allowances for the unique operational and economic circumstances of the complex hydro-electric generation systems in the Pacific Northwest³;
- The ISO's establishment of "reasonableness thresholds" must be informed by the experience of market participants, especially for the Western EIM where market fundamentals vary widely by sub-region and are often completely different than those the ISO and DMM have experience overseeing within California⁴;
- Likewise, the ISO's development of policies with regard to standards for supporting documentation to justify fuel price adjustments must be informed by market participants who are in the day-to-day practice of pursuing market price-discovery to support their transactions, and who are each to greater and lesser extents bound by codes of ethics, internal reporting and credit controls, and other constraints that prevent the development or submission of false or misleading information, and therefore are familiar with feasible reporting methods⁵;
- The ISO's proposal to set the commitment cost hard caps at 300 percent above the commitment cost reference levels established for the start-up, transition, and minimum load bid components may be inadequate in certain circumstances and may lead to reduced market participation in the Western EIM by peaking units⁶; and

market participants. PGE requests the ISO and DMM be as transparent as possible with stakeholders in identifying their process and outcomes in this area.

³ PGE is concerned that the "negotiated option" will only deliver adequate flexibility if those at the ISO and DMM involved in the negotiation approach the process with a truly open mindset and willingness to consider that, especially with regard to resource in the Western EIM, their existing understanding of market fundamentals may need to evolve to allow appropriate price formation in these areas.

⁴ PGE would support the ISO establishing a small working-group to address these issues with representatives from different resource-type owners to inform the ISO's own decision-making here.

⁵ PGE is concerned the ISO's proposed documentation requirements are both vague and unduly burdensome, and will simply result in entities not using the option provided for fear that they would not be able to defend their decisions if scrutinized. PGE notes that when the market is undergoing volatile conditions that would warrant price-level adjustments, there is little time to make extensive surveys for price information or to document every decision-making consideration going through a resource owner's mind – asking a deal-maker to do so creates an unjustified administrative hurdle to reliable and efficient resource management. Instead, DMM should allow significant flexibility and should monitor for the intent to manipulate pricing, investigating on a case-by-case basis if warranted.

⁶ The 300 percent reference level scalar cap is arbitrary and self-referential (if the ISO or DMM sets an unjustifiably-low reference level the scalar cap will likewise track to an unjustifiably-low level), and its

- The ISO and DMM's mitigation tests should be subject to reasonableness review after a certain period of time and should be adjusted where they are creating unreasonable barriers to justifiable requests for adequate cost-recovery, especially with regard to those resources voluntarily participating in the Western EIM that have market options for selling their output other than the Western EIM and so have pricing considerations more complex than those resources operating solely within the ISO's full-market that the ISO and DMM have more experience overseeing⁷.

Conclusion:

PGE reiterates its support for the positive step forward in market pricing this Proposal will bring and looks forward to working with the ISO, DMM, and stakeholders (once it has received Board approval) to ensure the implementation details and business practices maximize the value of the changes made.

appropriateness is highly dependent on the absolute value of the reference level (a 300 percent scalar on a \$500/MW reference level may not be adequate whereas 300 percent scalar on a \$5,000/MW reference level may be more than so). Further, unless the ISO proposes to copy the NY-ISO's market design in whole, it is somewhat irrelevant what scalar the NY-ISO allows – their chosen scalar and associated policies live in the context of their entire market design, which is significantly different than the ISO's full market, let-alone the unprecedented Western EIM.

⁷ In PGE's view, the Western EIM model is robust enough that if a resource offers a unit at an unjustifiably high price, they may find themselves priced out of the opportunity, and/or procuring power from a different supplier for their loads at a sub-optimal price; that is, the market design is motivates offers near the rational valuation of the resource. Further, PGE believes existing mitigation and monitoring practices (both current and proposed in this effort) are more than adequate to prevent and uncover intentional manipulation. In PGE's view, an overly restrictive bid cap (which even the 300 percent proposed may be) is unnecessary and potentially counter-productive.