



Comments of Pacific Gas and Electric Company on the Commitment Costs and Default Bid Enhancements Issue Paper

Submitted by	Company	Date Submitted
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Introduction

Pacific Gas and Electric Company (PG&E) appreciates the opportunity to provide comments on CAISO’s Commitment Costs and Default Energy Bid Enhancements Issue Paper released on November 18, 2016.

In the Issue Paper, CAISO contemplates various design changes targeted at enhancing bid flexibility, reference level calculations, and mitigation methodologies. PG&E does not support moving forward with larger-scale design changes such as dynamic mitigation of commitment costs at this time without additional analysis and assessment of implementation requirements. PG&E sees value in a subset of design enhancements considered by the CAISO in this Issue Paper and supports the DMM’s suggested approach – to focus on simpler, enhancements that will effectively address shortcomings of the current bid and mitigation design first before committing to more complex design changes. The following points are described in detail in the subsequent section:

1. PG&E does not support large scale changes to bid or mitigation methodologies at this time.
2. PG&E agrees with the DMM’s comments that gas system penalties, imbalance charges, or cash out costs should not be incorporated into gas costs used to calculate bid caps.
3. PG&E agrees that it is important to balance the need to provide suppliers sufficient bidding flexibility and need protect the market from gaming. PG&E also agrees with the DMM that there are other factors to consider when developing new designs.
4. PG&E supports the DMM’s suggestion to create a phased approach to this initiative.
5. PG&E sees value in the development of mitigation measures for exceptional dispatches to address gas system issues.
6. PG&E sees value in the development of decremental exceptional dispatch mitigation.
7. In tandem with evaluating where current bid and mitigation rules are too restrictive, CAISO should also consider where the current design is lenient.

Comments

1. PG&E does not support large scale changes to bid or mitigation methodologies at this time.

Before committing to extensive design changes, the CAISO should help stakeholders understand the severity of concerns raised by other stakeholders under the current design. The following analyses would be helpful to evaluate the current framework:

- a. How often resources are mitigated to reference
- b. How often resources have sought after-the-fact cost recovery and financial risks attributed to mitigation below actual costs
- c. How close offers are to current bid caps and if there are differences between constrained/non-constrained regions or economic/uneconomic commitments

PG&E believes it would be prudent to defer larger scale design changes such as developing a process for fuel cost updates and designing dynamic bid mitigation to a later time if needed, and to re-evaluate the need for complex design changes if simpler enhancements can effectively resolve stakeholder concerns.

At this point, PG&E cannot conclude that CAISO's current reference level calculations or mitigation methodologies are too restrictive or pose excessive risk to suppliers. In addition, the DMM's analyses of day-to-day gas price volatility across other ISOs/RTOs show that western natural gas price volatility is significantly lower than experienced in other markets¹. PG&E appreciates CAISO's efforts to benchmark its reference and mitigation methodologies against other ISOs, but CAISO should consider that other ISOs may require bid flexibility or headroom commensurate with fuel price volatility. Since CAISO sees significantly less gas price volatility than other ISO regions, considering comparable levels of headroom to other ISOs or less restrictive mitigation methodologies may not be necessary and could make the market more vulnerable to market power.

2. PG&E agrees with the DMM's comments that gas system penalties, imbalance charges, or cash out costs should not be incorporated into gas costs used to calculate bid caps.

PG&E agrees with the DMM's comments on the Issue Paper² which state that these factors should not be included in reference levels because they cannot be reasonably estimated in

¹ "DMM comments on commitment costs and DEB enhancements". November 18, 2016. California ISO – Department of Market Monitoring.

http://www.caiso.com/Documents/Briefingoncommitmentcostsenhancementsanddefaultbidenhancements_K_Collins.pdf

² "DMM Comments on Issue Paper". November 30, 2016. California ISO – Department of Market Monitoring.

<http://www.caiso.com/Documents/DMMComments-CommitmentCostsandDefaultEnergyBidEnhancementsIssuePaper.pdf>



advance of an event, and do not typically represents hourly marginal costs. PG&E is also concerned by the use of the term "externalities" in describing these costs as this term implies that such costs are imposed on a party that is unrelated to the direct circumstances. While these costs are not directly tied to the CAISO real-time dispatch process, they are implicitly tied to a generator's known operational process. PG&E believes that these costs would be better described as fuel cost risks and is concerned that allowing gas system penalty charges to be reflected in references that already include headroom would not incentivize resources to avoid such penalties.

PG&E believes that the current 25% headroom above proxy cost is meant to capture additional risk that might be incurred by a supplier, including potential non-compliance charges related to gas system operations. Additionally, as part of Aliso Canyon Phase 1 enhancements, CAISO increased gas scalars used in the calculation of commitment cost and default energy bids (75% and 25% respectively) for resources connected to SoCal Gas and SDG&E gas systems to address increased risk³. The DMM monitored bidding behavior over a period in the summer after implementation and observed that several participants made very limited use of the additional headroom⁴. Given these increased scalars have been extended an additional year⁵, PG&E suggests monitoring resource offers further, especially through the winter, to assess the effectiveness of these increased scalars and determine if additional headroom in references or bid caps is necessary.

3. PG&E agrees that it is important to balance the need to provide suppliers sufficient bidding flexibility and need protect the market from gaming. PG&E also agrees with the DMM that there are other factors to consider when developing new designs.

PG&E appreciates CAISO's continued engagement with stakeholders to enhance its bid and mitigation designs in order to find balance between bid flexibility and adequate market power mitigation. PG&E agrees that a balance between these two capabilities is important, but also supports the DMM comments on the Issue Paper that there are other important factors to consider when evaluating design changes such as potential uplift costs introduced, implementation complexity, and additional staffing and resource requirements.

Before moving forward with significant design changes, CAISO should help stakeholders understand the level of resources needed to implement new processes and evaluate the impacts of proposed design changes against the benefits such changes would provide the market.

³ "Aliso Canyon Gas-Electric Coordination Revised Draft Final Proposal". May 4, 2016. California ISO.

http://www.caiso.com/Documents/RevisedDraftFinalProposal_AlisoCanyonGas_ElectricCoordination.pdf

⁴ "Comments on the Draft Final Proposal for Aliso Canyon Gas-Electric Coordination – Phase 2". California ISO – Department of Market Monitoring. September 28, 2016.

http://www.caiso.com/Documents/DMMComments_AlisoCanyonGas-ElectricCoordinationPhase2DraftFinalProposal.pdf

⁵ "Order Accepting Tariff Revisions, Subject to Revision". FERC docket no. ER17-110-000. Issued November 28, 2016.



4. PG&E supports the DMM’s suggestion to create a phased approach to this initiative.

PG&E agrees with the DMM’s position that a first phase should target enhancements that are simpler to implement and will be effective to capture the vast majority of upward gas price swings within current bid caps. PG&E supports exploring the following design enhancements proposed by the DMM in the first phase:

- a. Permanent day-ahead gas price index updates
- b. Monday gas price index updates using trading information from ICE for the first trade day of the week
- c. Real time gas price index updates each morning using same-day gas information

PG&E looks forward to stakeholder discussion around concerns and potential solutions identified by the DMM in its comments, such as how to address a lack of trade liquidity when determining final gas price indices.

The following designs could be explored in Phase 1 as well:

- a. Mitigation of exceptional dispatches to address gas system issues
- b. Decremental exceptional dispatch mitigation

5. PG&E sees value in the development of mitigation of exceptional dispatches to address gas system issues.

As stated in comments submitted for the Aliso Canyon Gas-Electric Coordination Enhancements Phase 2 initiative⁶, PG&E sees value in developing mitigation measures for exceptional incremental and decremental dispatches needed for gas system reliability proposed by the DMM⁷.

6. PG&E sees value in the development of decremental exceptional dispatch mitigation.

As stated in comments submitted for the Aliso Canyon Gas-Electric Coordination Enhancements Phase 2 initiative, PG&E sees value in developing mitigation measures for decremental exceptional dispatches.

⁶ “Comments of Pacific Gas and Electric Company on the Aliso Canyon Gas-Electric Coordination Phase 2 Revised Draft Final Proposal.”. September 28, 2016.

http://www.caiso.com/Documents/PG_EComments_AlisoCanyonGas-ElectricCoordinationPhase2DraftFinalProposal.pdf

⁷ “Aliso Canyon Gas-Electric Coordination Phase 2- Straw Proposal. Comments by Department of Market Monitoring.” September 15, 2016. California ISO – Department of Market Monitoring.

https://www.caiso.com/Documents/DMMComments_AlisoCanyonGas-ElectricCoordinationPhase2StrawProposal.pdf

7. In tandem with evaluating where current bid and mitigation rules are too restrictive, CAISO should also consider where the current design is lenient.

CAISO suggests that its current bid cap design is one that poses a low risk of exposing the market to market power but poses high risk to suppliers⁸. As CAISO examines its mitigation framework and benchmarks against other ISOs, PG&E suggests not losing sight of when current practices might be lenient compared to others especially when resources are persistently committed in constrained areas or for reliability – in these instances there would be little incentive for resources to bid less than the current bid caps. Though conduct and impact tests in other ISOs are often less restrictive than the CAISOs current bid cap methodology, there are also times where CAISO’s framework is less restrictive. For example, resources committed for reliability outside of economic evaluation in NYISO’s market will fail the conduct test if energy or minimum generation offers exceed references by a maximum of \$10/MWh or 10 percent⁹. Granted a price or guarantee payment impact test is still a determining factor in mitigating offers, these conduct thresholds are often tighter than CAISO’s 125% bid cap on commitment costs. Another example is NYISO’s enforcement of Load Pocket Thresholds in the New York City zone which is considered a constrained region. More stringent conduct and impact thresholds, often only a few dollars, override standard conduct and impact thresholds for resources in a load pocket if specific constraints bind that would effectuate the creation of a load pocket the resource is mapped to.¹⁰

Additional Consideration

Though not a priority, PG&E is interested in exploring the following design enhancements or a combination of these as they may be achieved concurrently:

- a. Hourly variation of commitment costs
- b. No load framework
- c. Increased flexibility to reflect intra-day Pmin variation

Before committing to any design changes, further research on these enhancements would be required to identify the scope of changes to market software, current processes, and downstream systems.

⁸ “Commitment Costs and Default Energy Bid Enhancements Issue Paper”. Pg 37. November, 18 2016. California ISO. http://www.caiso.com/Documents/IssuePaper_CommitmentCost_DefaultEnergyBidEnhancements.pdf

⁹ NYISO, Market Services Tariff (MST), Attachment H. Section 23.3.1.2.3.3

¹⁰ NYISO, Market Services Tariff (MST), Attachment H. Sections 23.3.1.2.2.1 and 23.3.1.2.2.2