

Western Power Trading Forum on the CAISO's Commitment Cost and Default Energy Bid Enhancements Resubmittal

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The Western Power Trading Forum

The Western Power Trading Forum (WPTF) is a California nonprofit, public benefit corporation. It is a broad-based membership organization dedicated to enhancing competition in Western electric markets while maintaining the current high level of system reliability. WPTF supports uniform rules and transparency to facilitate transactions among market participants. The membership of WPTF and the WPTF CAISO Committee responsible for providing these comments include CAISO and EIM entities, load serving entities, energy service providers, scheduling coordinators, generators, power marketers, financial institutions, and public utilities that are active participants in the California market, other regions in the West, and across the country.

Comments

WPTF appreciates the opportunity to submit these comments on the CAISO's Commitment Cost and Default Energy Bid Enhancements (CCDEBE) Resubmittal discussed with stakeholders on March 19, 2020. We commend the CAISO for being responsive to stakeholder requests by holding an additional call on the latest proposed draft tariff language for CCDEBE and walk through the proposed policy change. It is vital for stakeholders to understand proposed policy changes such that they can provide constructive feedback; this call provided such an opportunity and it is greatly appreciated, especially given the complexity and widespread implications of the proposed change.

WPTF supports the CAISO deferring the filing until all the elements of CCDEBE can be feasibly implemented together as it was originally discussed and designed throughout the entire stakeholder process. WPTF understands that the CAISO has a significant implementation schedule and, in some cases, is unable to feasibly implement all elements of a large policy change at once. While phased implementation for some policies have been successful in the past, in this case, it harms the overall objective of the CCDEBE policy.

One of the main goals throughout the CCDEBE policy process was to increase bidding flexibility and move away from a cost-based paradigm for commitment cost offers towards a market-based paradigm. The market based paradigm designed during the policy process consists of two main elements: (1) replace the current commitment cost bid hard cap of 125% with a "circuit breaker" cap of 300% and (2) subject commitment cost offers to dynamic market power mitigation. Throughout the entire policy process, it was never discussed (or envisioned) that the bid cap on commitment cost offers would decrease, further restricting bidding flexibility. The current proposed tariff language goes against the intended design of the policy by reducing bidding flexibility via a lower commitment cost bid cap imposed all hours of the day.

During the stakeholder process, the CAISO did a great job ensuring that as the market moves towards a market-based paradigm the transition was done in a way to (1) protect the market from adverse impacts while testing the effectiveness of the newly designed commitment cost mitigation approach and (2) ensure suppliers are not in a position where they are worse off than under the current cost based paradigm. This was effectively done by simultaneously stepping up the “circuit breaker” cap from 150% to 300% and lowering the level at which commitment cost bids would be mitigated to from 125% to 110% over an 18-month period. The current proposed tariff language essentially goes directly to mitigating all resources to 110% all hours of the day, even absent the potential for market power.

WPTF appreciates the CAISO’s intent for filing the latest proposed draft tariff language to provide suppliers the ability to request fuel cost adjustments used to determine its commitment cost bid caps. Providing this ability to suppliers is desired, especially during extreme gas price volatility conditions. However, due to the latest proposed tariff language, it now comes at the cost of having commitment cost offers mitigated to 110% of the CAISO’s estimated cost all other days.

Therefore, the question we must answer at this point is: *does the ability to update fuel costs during the extreme gas price volatility days outweigh the cost of now only being able to bid up to 110% of the CAISO’s estimated commitment costs on all other days?*

WPTF’s response is no; the costs do not outweigh the benefits. The benefit of the current proposal directly depends on how many days the market experiences extreme gas price volatility such that under the current bidding paradigm, suppliers cannot reflect their costs in the market. The cost of this proposal is that on all other days, suppliers are now further restricted to only bid up to 110% of the CAISO’s estimated start up and minimum load costs, compared to 125% today. Essentially, the resources will have their start up and minimum load cost offers mitigated to 110% of the CAISO’s estimated cost 24x7, except during the extreme gas price volatility days, even without the presence of uncompetitive conditions. Additionally, there is the administrative cost that comes with the documentation requirements placed on suppliers when they do seek updates to the fuel cost component.

Lastly, WPTF understands that there is concern with the CAISO having to meet FERC Order 831. Based on the stakeholder call, WPTF believes the CAISO has other options to addressing FERC Order 831 that does not require the resubmittal of the currently proposed tariff language. For example, the CAISO could file the ability for suppliers to update fuel costs used within the calculation of the default energy bids or ask for an extension as was done with the Import Bid Cost Verification filing.

Therefore, WPTF supports the CAISO defer filing all together and maintain the status quo until all elements of the original CCDEBE proposal can be implemented together as originally intended and approved by the Board.

Thank you for consideration of these comments.