

Western Power Trading Forum Comments on Commitment Costs and Default Energy Bid Enhancements Issue Paper

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WPTF appreciates the opportunity to provide comments on the Commitment Costs and Default Energy Bid Enhancements Issue Paper posted on November 18, 2016. It is clear the CAISO has put a lot of work into considering different ways give suppliers additional commitment costs bidding flexibility.

WPTF supports the CAISO's conceptual proposal to differentiate between actual commitment costs and minimum load energy costs.

WPTF supports a straw proposal that makes fundamental changes to the current commitment cost paradigm. Ideally the new design would distinguish between (1) commitment auxiliary power and costs, i.e. the energy and associated costs needed to synchronize the resource to the grid; and (2) minimum load energy, i.e. energy that is fundamentally a forbidden region that cannot be dispatched up to Pmin.

Commitment costs, or costs to synchronize a resource to the grid, have and should continue to be under a cost-based structure. WPTF believes that these costs can be best represented in a structure that allows a supplier to bid up to a higher cap because the current proxy cost structure may fail to allow suppliers to reflect actual costs. This higher cap; however, should be accompanied by differentiating between actual commitment costs and what the CAISO today calls commitment costs.

Today all minimum load energy is considered a "commitment cost" and therefore assumed to be optimally recovered under a cost-based structure. Because many resources are continually run at Pmin for long hours across the day, this structure unfairly prevents resources from making any sort of return on equity or recovering fixed costs.

Therefore, WPTF believes that minimum load energy, unlike true commitment costs, should be compensated under a non-cost-based rate, and the ISO should explore how to set the price based on energy offers. WPTF is intrigued by the "no load" concept, which seems to be a way to differentiate between minimum load energy and energy needed to synchronize the resource to the grid. Minimum load energy potentially then can then be bid into the market under the expectation that a non-marginal resource may recover more than their costs. WPTF looks forward to additional details in the straw proposal.

The CAISO should give this initiative high priority and engage independent experts as needed who have experience in other ISO/RTO constructs.

In the 2012 Commitment Cost Enhancements (CCE) filing, the ISO proposed to allow entities to bid their commitment costs up to 125% of their calculated proxy cost in order to (1) to enable market participants to bid in higher start-up and minimum load costs for resources with non-fuel

related costs not captured in the variable operations and maintenance (O&M) adder, and (2) to account for expected fuel price volatility.

The FERC December 2014 decision approving the filing for the CCE proposals provided the following guidance to the ISO on its efforts to improve cost recovery for gas-fired resources, "... we expect CAISO to abide by its commitment to consider longer-term market design changes for commitment cost bids in conjunction with the bidding rules enhancements stakeholder initiative commenced earlier this month."¹

Many stakeholders have been waiting a very long time for this initiative and likely similar to the CAISO, have initiative fatigue on this topic. WPTF believes therefore the CAISO should devote resources and budget to ensuring the straw proposal provides a true long-term market solution to the commitment cost problem. Many ideas discussed in the issue paper and on the November 22 call, such as the previously mentioned "no load" construct, are unfamiliar to CAISO experts. WPTF believes it would be beneficial for both the CAISO and market participants to engage with the MSC or other experts directly to better understand how these concepts work in practice and could be coupled with a new market power mitigation structure.

¹http://www.caiso.com/Documents/Dec302014_OrderAcceptingCommitmentCostEnhancementsTariffRevision_ER15-15-001.pdf.