



Commitment cost enhancements phase 3 discussion

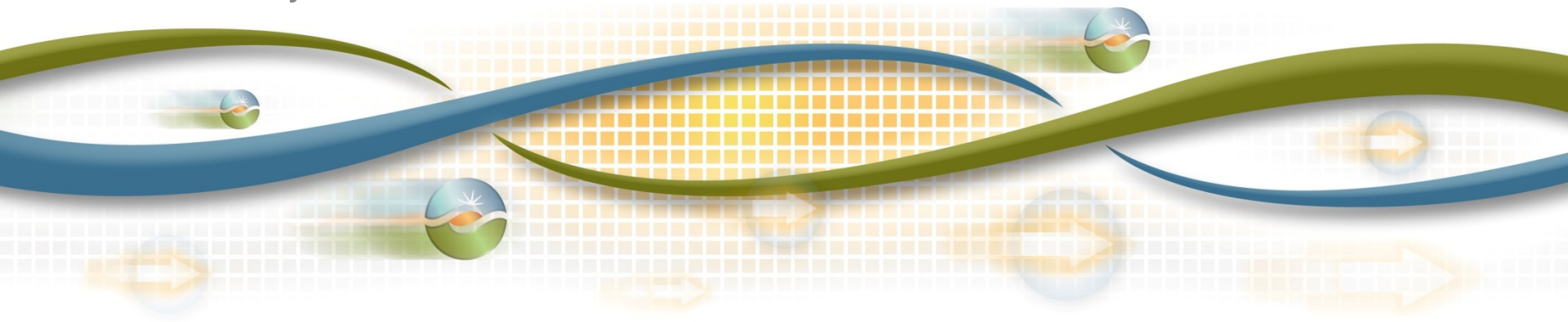
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Market and Infrastructure Policy

Market Surveillance Committee Meeting

General Session

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Updated scope

- To address concerns related to the inter-dependency between bidding rules 1b and RSI2, the scope of CCE3 has expanded.
 - Discussion today will focus on the interaction of added scope
- CCE3 scope now includes
 - Use-limited definition
 - Opportunity cost methodology
 - Masterfile Resource Characteristics (previously bidding rules)
 - Use-limited reached outage cards (previously RSI2)

Intent of use-limited status under CCE3

- Under CCE3, use-limited status will indicate the need for that resource to reflect an opportunity cost in its commitment cost bids due to externally imposed restrictions.
 - Analogous to Opportunity Cost Eligible in PJM and SPP
- Historically, use-limited status has been a catch-all category for resources not able to be available 24x7.
 - Provided bid insertion exemption, which RSI1 policy also provides
 - CCE3 intent is to have no impact on resources in terms of exemptions from bid insertion and mitigation and RAAIM treatment.

Contractual limitations

- ISO currently does not allow contractual limitations to qualify a resource for use-limited status.
 - Market power concern if the ISO were to accept contractual limitations.
 - Enable negotiating parties to set a resource's bid cap for commitment costs, which is the market power mitigation method.
- Stakeholders have continued to protest this position, specifically in regards to ISO not accepting limitations approved by the CPUC through LTPP.

Contractual limitations - continued

- While the ISO generally maintains its current position on contractual limitations, we are considering grandfathering provisions for contractual limitations which have undergone a regulatory approval process.
- Contracts entered into prior to the ISO introducing an opportunity cost likely did not have any intent to exercise market power.
- ISO is currently working with market participants to craft language that will address their concerns.

Resource limitations and Masterfile Characteristics

- Currently, all Masterfile field resource characteristics must reflect the physical ability of the resource.
 - Limitations that do not qualify for an opportunity cost cannot be managed through current Masterfile fields.
- ISO is proposing to allow SCs to reflect both a preferred operating value and a design, or emergency condition, value for maximum daily starts, ramp rates, and potentially MSG transitions.
 - Maximum daily start must be a minimum of 2 to mitigate market power concerns, unless design value is 1, then allowed 1 start per day.
 - Ramp rates must at a minimum support EFC values
- Enable SCs the flexibility to manage resource restrictions that do not qualify for an opportunity cost through market parameters.

Example resource in ISO markets

Res A

Air permit: 500 starts/year

Non qualifying limitation:
400 starts/year

Opportunity cost:

Based on 500
starts/year.

Start-up cost bid cap
= 125% proxy + OC

MF Fields:

Market based max
daily start ≥ 2

MMA:

Increase proxy start-
up and/or minimum
load costs



Use-limited reached outage card

- A use-limited resource that has reached its limitation can continue to be shown on monthly RA showings even though its not available for dispatch.
- ISO is proposing use-limited resources will be non-exempt from RAIM starting the first day of the subsequent month during which the limitation was reached and outage card submitted.
- Even with an opportunity cost, a use-limited resource may reach its limitation before the end of the year for three reasons.
 1. Calculated opportunity cost is not high enough
 2. Bids are not reflecting the opportunity cost
 3. Optimal use of the resource with annual limitation is prior to December

Use-limited reached outage card – continued

- Calculated opportunity cost is not high enough
 - CCE3 methodology is taking a modest approach to mitigate this concern.
 - Retaining short term use-limited reached outage card for transition period.
- Bids are not reflecting opportunity cost
 - Considered linking RAIM exposure to lack of reflecting opportunity cost in bids.
 - Incentive to always bid at the cap rather than providing this as a management tool.
 - Difficult to determine what portion of the bids reflect the various cost components.
 - Does not address main concern of not having sufficient capacity available to the market as shown on monthly RA showings.

Use-limited reached outage card - continued

- Optimal use of the resource with annual limitation is prior to December.
 - Opportunity cost could be 100% accurate, SCs are reflecting them in bids, and the most profitable time to use the resource is prior to the end of the year, for example by October.
 - The resource is no longer available to the market but can continue to be shown on RA showings.
 - RA showings may not indicate deficiencies when in reality, the ISO is deficient.
- For reliability reasons, the ISO needs to ensure capacity shown on RA showings are available to the market.
- RAAIM non-exemption for use-limited resources provide incentive for RA showings to reflect resources that are actually available to the market.