



**Comments on the
Commitment Cost Enhancements Phase 2 Revised Straw Proposal
Department of Market Monitoring
March 4, 2015**

The Department of Market Monitoring (DMM) appreciates this opportunity to comment on the ISO's draft final proposal for Commitment Cost Enhancements Phase 2. DMM is supportive of the ISO's effort to address a number of outstanding issues following the completion of the Commitment Cost Enhancements initiative policy process.

The final draft proposal postpones development of the opportunity cost modeling yet again to a future initiative: Commitment Cost Enhancements Phase 3. DMM urges the ISO to utilize the intervening time to begin the opportunity cost model development process. DMM has supported the ISO's general proposal to develop an opportunity costs adder through three sets of initiatives in the last two years. We applaud the establishment of an opportunity cost workshop group to further develop the opportunity cost model as part of this stakeholder process before it is implemented. DMM recommends that, prior to taking this proposal to the board, the ISO develop an opportunity cost model sufficient to calculate opportunity costs for all resources likely to have an opportunity cost, rather than limiting the analysis to a case study of selected resources. We believe that further refining the opportunity cost methodology sooner rather than later will ensure that the ISO has time to begin the process to further test and refine the calculations prior to implementation of any mandatory must offer obligation.

Comments on the remaining sections of this proposal are listed by section below:

Use-Limited Definition

DMM takes this opportunity to reiterate our support for clarification of use-limited resource designation definitions presented in this draft. In particular, as stated on page 3 of the draft final proposal: "the ISO reiterates that the tariff only recognizes non-economic use limitations. This would mean that contracts signed to economically limit a resource's participation in the ISO markets is not a recognized use limitation. This is a long-standing rule in the ISO tariff and has not been changed in this initiative. To maintain reliability, the ISO expects resources with resource adequacy capacity to be available 24 hours, seven days a week but for non-economic limitations."

DMM also supports the redefinition of use-limited capacity as any capacity with a non-economic use limitation that cannot be incorporated into the market optimization without the development of an opportunity cost or the retention of registered costs, as proposed in this initiative. This includes resource with any limitation with applicability longer than the resource's appropriate commitment process. Opportunity costs would only be calculated for use limitations that meet the following criteria: (1) are based on physical or regulatory restrictions (i.e. rather than contractual limitations or limits designed to reduce wear-and-tear or maintenance costs); (2) are not already optimized within the ISO's market optimization (such as daily energy use limits in the day-ahead market); and (3) are capable of being calculated within the ISO's opportunity cost model.

DMM supports the ISO's extension of the opportunity cost modeling to include the optimization of daily start limitations that meet the three criteria listed above. DMM also recommends that the ISO clarify and enforce existing requirements concerning daily use limitations. The BPM for Market Instruments defines the maximum daily start limit as the "maximum number of times a Generating Unit can be started up within one day, due to environmental or physical operating constraints."¹ However, the ISO does not currently require documentation or have a procedure to verify daily start limits entered by participants. In practice, DMM understands that, as with other daily limits submitted to Master File including start time and minimum down time, numerous participants may be utilizing a daily start limit entered in the ISO Master File as a way of preventing unit cycling and/or managing annual or monthly limitations rather than for an actual daily physical or environmental limitation.

Transition Costs

We support the ISO's efforts to refine and clarify the definition of transition costs. The proposal's focus on fuel inputs and maintenance costs provides clarity that is appreciated. In addition to clarifying what is expected to be included in these costs, we appreciate that the ISO has moved towards asking market participants to submit physical, instead of financial, quantities for these calculations. For example, the current system of calculating transition costs involves moving back and forth between fuel inputs and dollars multiple times to calculate a scalable cost. The proposal instead focuses on participants submitting only fuel inputs, or other physical quantities. In addition to transparency, this allows for a more accurately scalable system that the ISO can take advantage of when input prices (such as gas prices) undergo sudden changes.

Costs for non-natural gas-fired resources

As stated in the final proposal, "many of the ISO's systems were created with natural gas-fired resource in mind" and, thus, some do not meet non-gas or non-thermal resources' needs. DMM recommends that, as far as possible, non-gas and non-thermal resources be given the same flexibility and access to market systems available to gas-fired thermal resources. Non-natural gas-fired resources should be

¹ See Appendix B2 of the Market Instruments BPM, page B-3:

http://bpmcm.caiso.com/BPM%20Document%20Library/Market%20Instruments/BPM_for_Market%20Instrument_s_V34_clean.doc

mitigated to an estimate of its true marginal cost, just as a gas-fired thermal resource would be. Likewise, commitment costs used to optimize commitment and calculate bid cost recovery payments should represent the true incremental costs of starting the resource or running at minimum load.

The recently approved tariff amendment clarifies that non-natural gas resources may use the “fuel cost” fields in Master File to reflect non-fuel costs that are deemed fuel equivalent, such as pumping costs for pumped storage resources. Start up and minimum load fuel costs for non-gas resources are submitted by the scheduling coordinator and stored as constants in the ISO’s Master File. They do not vary with fuel cost or any other index as gas fired resource’s fuel cost would do.

DMM supports system changes that would allow SCs to more accurately reflect their true incremental commitment costs.

Electricity Price Index (EPI) and auxiliary start-up cost calculation

DMM agrees that the current auxiliary start-up cost calculation has not been transparent to stakeholders and applauds any effort to increase transparency in this area. Documentation of the current EPI calculation process may reveal aspects of the calculation that do not accurately capture the auxiliary start-up cost incurred by committed resources. If this is the case, DMM recommends placing the EPI stakeholder process in the first available appropriate stakeholder process, which we believe to currently be the Commitment Cost Enhancements Phase 3 process as opposed to the Bidding Rules Initiative, so that this issue may be dealt with as quickly as possible.