Comments of Pacific Gas and Electric Company
Bidding Rules Enhancements Issue Paper 12/3/2014

Submitted by	Company	Date Submitted
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Pacific Gas and Electric Company (PG&E) offers the following initial thoughts on the California Independent System Operator's (CAISO) Bidding Rules Enhancements initiative December 3rd Issue Paper. The issue paper posits questions for stakeholders related to three different kinds of bidding flexibility. PG&E addresses some of these questions below and offers additional comments.

PG&E appreciates the opportunity to take a broader look at the CAISO's bidding rules and we look forward to engaging with the CAISO and other stakeholders to further discuss any necessary changes. The CAISO is already implementing significant bidding rule changes through the Commitment Cost Enhancements (CCE) Phase 1 initiative and is considering further changes in CCE Phase II.

PG&E's main points are as follows:

1. CAISO should manually adjust the gas price input on days when there is a significant gas price decrease (25%), not just a significant increase.
2. PG&E would like to understand why further energy bidding restrictions are needed beyond the mitigation measures already in place.
3. CAISO should use the next day weighted average price for gas trading on the Intercontinental Exchange (ICE) as the gas price in its Commitment Cost bid cap calculation.
4. CAISO should not preclude scheduling coordinators from changing a resource's characteristics for legitimate reasons.

I. CAISO should manually adjust the gas price input on days when there is a significant gas price decrease (25%), not just a significant increase.

Related to the ongoing CCE design changes, PG&E maintains that CAISO should manually adjust the gas price input on days when there is a significant gas price decrease (25%), not just a significant increase. This will support accurate gas costs and market efficiency and would likely occur infrequently enough so as not to present a significant administrative burden. The potential cost benefit to load, however, is large. For example, PG&E estimates a $6 million dollar cost due to inflated day-ahead energy prices on

February 7. Manually updating the gas price on days where there is a decrease of 25% or greater in gas prices would protect against unnecessary price inflation in the future. In general, mitigation should be applied when the incentive to increase profit exists and the CAISO should not assume that all market participants will bid economically, as this is part of the core reason for applying the mitigation to unit commitment costs in the first place.

The FERC directed CAISO to examine this issue in its approval of the CCE Phase 1 tariff amendments.[1] PG&E recommends CAISO include this issue in the scope of the Bidding Rules Enhancements initiative.

II. PG&E would like to understand why further energy bidding restrictions are needed beyond the mitigation measures already in place.

CAISO raises concerns in the issue paper that resources can take advantage of bidding flexibility in some situations to increase their bid cost recovery (BCR) payments, with no benefits to reliability or market efficiency. While PG&E recognizes this concern, we are unclear why additional limits on bidding flexibility are warranted. The CAISO implemented its BCR Mitigation Measures initiative in Spring 2014, which included processes to mitigate the risk of participants using inter-temporal constraints to exploit BCR revenues. PG&E would like to understand why further restrictions are needed beyond the mitigation measures already in place. For example, has the CAISO observed a trend of BCR costs increasing because of inter-temporal bid changes or other opportunities for market participants to take advantage of the current market rules?

Furthermore, there are legitimate reasons for maintaining the current bidding flexibility between the CAISO's day ahead and real-time processes, including during inter-temporal constraints. PG&E is concerned that further restrictions to bidding flexibility would unnecessarily restrain a scheduling coordinator's ability to reflect changing conditions in its resource's bids.

III. CAISO should use the next day weighted average price for gas trading on the Intercontinental Exchange as the gas price in its Commitment Cost bid cap calculation.

CAISO is exploring options to more accurately reflect natural gas prices in its commitment cost calculations. Using the single ICE index would provide more up to date

[1] Federal Energy Regulatory Commission. FERC Docket No. ER15-15-000. Order Accepting Proposed Tariff Revision and Directing Informational Filing. Par. 34.

pricing information, but would ultimately require a significant and potentially costly shift in the CAISO's day-ahead processes.

PG&E proposes that CAISO examine using the next day weighted average price for gas trading on ICE, which is available by 9:00 AM, rather than the published index price which is not available until noon. This information is already available to the CAISO, and can provide more up to date price information compared to the current CAISO gas price index. We believe such an index would likely be sufficiently robust, and that any concerns of indices manipulation could be referred to FERC and/or the Commodity Futures Trading Commission.

During the December 10th stakeholder call, several parties voiced a preference for specifying their own gas prices in the commitment costs in order to capture intra-day gas price changes rather than rely on an index. However, PG&E understands that CAISO analysis has shown little variation in intra-day gas prices[2]. It therefore seems that risk faced by generators due to inter-day gas price variation can be sufficiently addressed through the next day weight average ICE price and the existing 25% buffer.

PG&E supports setting the commitment cost cap a level which allows fair cost recovery and ensures sufficiently stringent mitigation. CAISO has previously analyzed major maintenance adders and registered cost which resulted in reducing the cap from 200% to 150% of the index price. CAISO should perform a similar analysis of bidding levels after implementation of Commitment Cost Enhancements Phase 1 to see if the cap is at an appropriate level to capture intra-day gas price changes. CAISO should also consider whether the cost cap may be allowing more headroom than needed, and could be adjusted downward.

IV. CAISO should not preclude scheduling coordinators from changing a resource's characteristics for legitimate reasons.

In addition to examining bidding flexibility, CAISO has raised concerns about unrestricted resource characteristic changes within the Master File. PG&E understands the need to mitigate inaccurate characteristic changes that could lead to market inefficiencies. However, physical resource characteristics can change regularly for legitimate reasons such as equipment degradation, seasonal changes, and plant changes. As such, any restrictions to resource characteristic changes must not be so restrictive as to prevent accurate and appropriate resource characteristic adjustments.

[2] California Independent System Operator Corporation. Tariff Amendment to Modify Start-Up and Minimum Load Cost Recovery Mechanisms. FERC Docket No. ER15-15-000. p10.

PG&E is open to discussing the possibility of default resource characteristics for mitigation. However, if CAISO were to develop default resource characteristics, we do not believe that generation type and vintage would be sufficient categories as each model also has different characteristics.