

Comments of Pacific Gas and Electric Company
Bidding Rules Enhancements: Generator Commitment Cost Improvements
Draft Final Proposal 2/10/2016

Submitted by	Company	Date Submitted
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Pacific Gas and Electric Company (PG&E) offers the following comments on the California Independent System Operator's (CAISO) Bidding Rules Enhancements February 10th Draft Final Proposal, which aims to improve the rules for bidding generator energy and commitment costs in the CAISO market.

- PG&E supports CAISO's proposal to allow rebidding of commitment costs in Real-Time for resources that did not receive a Day Ahead Market award.
- PG&E does not oppose CAISO's plan to defer the development of the following items to a later phase of the initiative:
 - Evaluating commitment cost mitigation methodology
 - Gas price index may not reflect real-time gas purchase costs
- CAISO should align its after the fact cost recovery policy with the outcome of FERC's Notice of Proposed Rulemaking on Offer Caps in Markets Operated by Regional Transmission Organizations and Independent System Operators.
- PG&E looks forward to increased transparency around the Energy Price Index, particularly the inputs into the projected wholesale price calculation.

I. PG&E supports CAISO's proposal to allow rebidding of commitment costs in Real-Time for resources that did not receive a Day Ahead Market award.

CAISO's current market rules do not allow resources to change their commitment cost bids from the Day Ahead market when bidding into the Real Time market. PG&E agrees with CAISO's assessment that this restriction is appropriate when the resource has received a Day Ahead award, but more bidding flexibility should be allowed for resources that did not receive a Day Ahead award. PG&E therefore supports CAISO's proposal to allow resources without a Day Ahead award to change their commitment cost bids in Real Time.

II. PG&E does not oppose CAISO’s plan to defer the development of the following items to a later phase of the initiative:

a. Evaluating commitment cost mitigation methodology

In this initiative CAISO explored the subject of using conduct and impact tests (or other methods) for commitment cost mitigation rather than the current bid cap methodology. At this time PG&E is not taking a position on whether CAISO should change its methodology, but appreciates that more stakeholder consideration could be beneficial.

b. Gas price index may not reflect real-time gas purchase costs

PG&E appreciates CAISO taking stakeholder feedback into account on this piece of the proposal, and choosing not to change the Day Ahead market timeline and gas price index (GPI) at this time. PG&E agrees that such a large change would be premature given the upcoming changes to the gas market through FERC Order 809. PG&E looks forward to future discussions with the CAISO and other stakeholders about potential improvements to the GPI inputs.

III. CAISO should align its after the fact cost recovery policy with the outcome of FERC’s Notice of Proposed Rulemaking on Offer Caps in Markets Operated by Regional Transmission Organizations and Independent System Operators.

PG&E believes that any process established to review above market gas costs should be robust, and be based upon clear evaluation criteria. PG&E is concerned that the policy proposed by CAISO to allow market participants to file at FERC for gas costs above the commitment cost cap is premature given the ongoing FERC proceeding on this very topic – Docket No. RM16-5-000, “Offer Caps in Markets Operated by Regional Transmission Organizations and Independent System Operators.”

PG&E agrees with CAISO’s comments to FERC in the above mentioned docket, which outline the difficulties of verifying above market gas purchases for cost recovery. Whether done by FERC or the CAISO, PG&E expects this to be a challenging and problematic exercise.

“CAISO does not believe there is a firm basis to verify the natural gas price included in supply offers because market participants might not purchase natural gas before submitting offers and because natural gas quotes might not be available. CAISO also states that natural gas prices and quotes may be subject to manipulation, thereby making fuel cost verification difficult.¹⁰⁵ CAISO requests that if the Commission directs RTOs/ISOs to pay resources uplift for fuel costs

above the offer cap, then only incremental fuel costs associated with the incremental energy offer be reimbursable.”¹

On January 21, 2016, FERC issued a Notice of Proposed Rulemaking (NOPR) which proposes revisions to its regulations to require that each regional transmission organization (RTO) and independent system operator (ISO) cap each resource’s incremental energy offer to the higher of \$1,000/MWh or that resource’s verified cost-based incremental energy offer. FERC goes on to propose that the responsibility for verifying cost-based offers above the energy bid cap would fall onto the Market Monitoring Unit or the RTO/ISO². The comment period on this NOPR remains open until mid-March 2016, so we would not expect a final FERC decision on this matter until after that time.

While the docket described above focuses on incremental energy bids, rather than commitment cost bids, PG&E believes the underlying question of cost verification is relevant to the Bidding Rules Initiative. PG&E recommends that CAISO wait to establish its own policy on this matter until FERC has issued its Order in the above mentioned proceeding, to avoid any potential mismatch between CAISO’s policy and the compliance obligation that FERC subsequently issues, which could direct ISOs/RTOs to take specific steps related to above market gas cost recovery.

IV. PG&E looks forward to increased transparency around the Energy Price Index, particularly the inputs into the projected wholesale price calculation.

PG&E supports CAISO’s proposed modifications to the Energy Price Index (EPI) to default to a wholesale price unless the resource shows it is on a retail schedule.

CAISO proposes that the “wholesale price calculation will be based on projected electricity price during unit start-up or cost of auxiliary power provided by the generator based on a unit with a heat rate of 10,000 Btu/KW (i.e. product of the start-up auxiliary energy by the monthly GPI by a factor of 10).” PG&E supports CAISO’s goal of making this calculation more transparent, and encourages CAISO to make the calculation inputs and estimated values easily accessible to Scheduling Coordinators for each of their resources.

¹ Docket No. RM16-5-000. NOPR on Offer Caps in Markets Operated by Regional Transmission Organizations and Independent System Operators. Par 36. Jan. 21, 2016. <https://www.ferc.gov/whats-new/comm-meet/2016/012116/E-1.pdf>

² Ibid. Par 58.