

Stakeholder Comments

Bidding Rules Enhancements (BRE) Straw proposal

Submitted by	Company	Date Submitted
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The following are Southern California Edison’s (SCE) comments on the California Independent System Operator’s (CAISO) April 22, 2015, Straw Proposal¹.

Energy bidding flexibility

Currently, the CAISO allows resources to change their energy bids up to T-75 minutes. The CAISO proposes to continue allowing this but, in the presence of an inter-temporal constraint, to adjust Bid Cost Recovery (BCR) such that the settlement reflects the bid price that caused the commitment decision. SCE recognizes the potential to increase BCR payments during inter-temporal constraints and supports the CAISO in its efforts to mitigate the harm caused by this bidding practice. Although the CAISO has stated it cannot identify a reason why a resource would need to change its bids during an inter-temporal constraint, SCE would like to clarify that at times, SCE may want to change its resource bids to account for gas price changes. During those times it can be challenging to determine which units are affected by an inter-temporal constraint. Based on these complexities, SCE supports the CAISO’s proposal to settle BCR on the bid that led to the binding commitment. SCE also supports the ability to change bids after a commitment decision without an inter-temporal constraint.

Commitment cost bidding flexibility

Capacity versus marginal fuel costs

According to the CAISO’s position, its markets should reflect marginal costs of generation – thus tied to the variable costs of operating a resource. Non-incremental fuel costs relating to capacity obligations that a resource needs to secure, to assure fulfillment of Resource Adequacy

¹ http://www.caiso.com/Documents/StrawProposal_BiddingRulesEnhancements.pdf

requirements, do not qualify for reimbursement in the CAISO markets. SCE supports the CAISO's view that capacity-related costs should not be recovered through the CAISO energy markets. There is no reason to allow long-term hedging to be recovered through BCR, which is the mechanism to make-whole generation that is awarded and participating in the CAISO market and following CAISO dispatch. None of those requirements are met by resources seeking compensation for fuel costs related to enabling market participation in the first place.

Inefficient accounting for minimum load costs (MLC) after a Pmin rerate

SCE supports the heat rate approach to account for changes in the Pmin. SCE believes that using the heat rate approach would provide the most accurate calculation of the MLC at the new Pmin.

Resources without a day-ahead schedule cannot rebid commitment costs

The CAISO proposes that any resource that did not receive a day-ahead energy or Residual Unit Commitment award would have the option available, at its discretion, to rebid commitment costs into the Real-Time Market (RTM), with a deadline of T-75 minutes. SCE supports CAISO's proposal to rebid commitment costs prior to the RTM for unawarded resources.

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

The CAISO proposes to consider reimbursement of intra-day gas purchases above the gas price index for generators responding to RTM commitment instructions. The CAISO anticipates that it will provide this option if it were to not adopt a more flexible commitment cost bidding policy in the RTM. The CAISO believes that a limited scope, ex-post, approach is more appropriate given the lower gas price volatility experienced by California, relative to the East Coast. SCE's preference is for a more flexible bidding policy rather than reimbursement for incremental gas purchases.

Commitment cost parameters

Differentiated bidding headroom

The CAISO proposes to separate and identify bidding headroom for each individual commitment cost component included in the Proxy Cost calculation. The prerequisite for this proposal is that the CAISO's opportunity cost methodology, to be proposed in Commitment Cost Enhancements Phase 3, is in place.

SCE does not support this CAISO proposal. With an already complex set of market rules, this would further complicate market functioning, increase costs for market participants and would not add value to the market. The end result of this differentiated bidding proposal is effectively a lower commitment cost cap. While SCE does not support lowering the commitment cost cap at this time, SCE prefers to maintain the simpler solution and is open to discussing a lower cap in the future.

Adjusting gas transportation adders

SCE supports the proposal to allow for more differentiation in gas transportation costs. In addition, SCE would like the CAISO to consider an additional gas region to more accurately represent Kern region prices.

Resource characteristics review

The CAISO currently requires Scheduling Coordinators (SCs) to populate the Master File with information reflecting a resource's physical characteristics. SCE sees potential merit to the CAISO's proposal to allow SCs to provide information for two sets of operating characteristics. Before SCE can determine its position on the proposal, SCE has several questions, and requests that the Department of Market Monitoring (DMM) also opine on them, as well as on the CAISO proposal itself.

1. What level of differences between physical and market characteristics would the CAISO consider acceptable?
2. Are there any limitations on market characteristics relative to physical characteristics?
Can the CAISO clarify that any market characteristics limited by physical characteristic parameters will be conveyed to SCs with a reasonable amount of lead time for such notification?
3. Will the CAISO require the resource owners or SCs to provide physical characteristics to the CAISO? Who will ultimately be held responsible in any disputes regarding accuracy of these physical characteristics? Will the CAISO detail these responsibilities in the tariff?
4. Will allowing only Exceptional Dispatches (EDs) to use physical characteristics of the resource address the problem of contractual resource limitations?
5. Using the physical characteristics of some resources, such as Demand Response (DR) and storage, may still not be feasible. Such resources may reject certain CAISO ED

instructions, based on the potential for physical damage should the instructions be followed. How does the CAISO propose to address these technologies? Is the upcoming, new, storage initiative the appropriate venue to address physical characteristics of storage resources?

6. How will the CAISO determine what resource characteristics will be allowed to have market characteristics?