

Western Power Trading Forum comments on Bidding Rules Draft Final Proposal

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WPTF appreciates the opportunity to provide these comments on the ISO's Bidding Rules Draft Final Proposal posted on February 10, 2016 and call held on February 22, 2015.

Phase 2 of this initiative should begin immediately.

In the 2012 Commitment Cost Enhancements filing, the ISO proposed to allow entities to bid their commitment costs up to 125% of their calculated proxy cost in order to (1) to enable market participants to bid in higher start-up and minimum load costs for resources with non-fuel related costs not captured in the variable operations and maintenance (O&M) adder, and (2) to account for expected fuel price volatility.

The FERC December 2014 decision approving the filing for the CCE proposals provided the following guidance to the ISO on its efforts to improve cost recovery for gas-fired resources, "... we expect CAISO to abide by its commitment to consider longer-term market design changes for commitment cost bids in conjunction with the bidding rules enhancements stakeholder initiative commenced earlier this month."¹

The Bidding Rules initiative proposed multiple commitment costs design changes. Unfortunately, only one of these proposals is moving forward at the March BOG (after-the-fact recovery at FERC). WPTF does not believe this is responsive to the ISO's initial commitment to stakeholders, which implied a market-based, long-term solution. The ISO therefore should immediately move forward with phase 2 of this initiative to evaluate market-based enhancements. WPTF supports the ISO considering biddable start-up and minimum load costs as well as enhancements to the proxy cost calculation (section 8.1.1.1 of the revised straw proposal).

Biddable Commitment Costs

WPTF continues to support biddable start-up and minimum load costs combined with a market-power test for commitment. WPTF is unsure why a dynamic (real-time) or structural (monthly evaluation) mechanism combined with a higher cap on proxy costs would be an infeasible way to ensure cost recovery. The ISO's proposal for after-the-fact recovery for costs over 125% will likely lead to inefficient market commitment decisions. If a resource has higher commitment costs than 125% of the index, then the ISO proposes to compensate these incremental higher costs outside the market. This out-of-market process, however, will potentially lead to a less efficient

¹http://www.caiso.com/Documents/Dec302014_OrderAcceptingCommitmentCostEnhancementsTariffRevision_ER15-15-001.pdf.

commitment decision because the resource's full costs will not be taken into account in the energy optimization's commitment decision.

WPTF recommends either (1) a commitment cost structure that allows bidding up to a very high cap and has these costs mitigated to 110% of their proxy costs if there is local market power found through a dynamic mitigation test, or (2) a commitment cost structure that allows bidding up to a very high cap and resources that are found in a structural market power test (such as a monthly assessment) are capped at 125% of costs. These types of structures would mirror the ISO's energy market offer flexibility where resources are allowed to bid on average ~300% of their DEB (\$1,000 energy offer cap), and are mitigated to a DEB which includes a 10% adder.

Enhanced Proxy Cost Calculations

WPTF strongly supports the ISO improving the proxy cost calculation and notes that the FERC 809 will go into effect only days after the March BOG meeting. WPTF supports the ISO's initial proposal option to allow resources to offer up 125% of the maximum of the two gas day indexes, which increases potential cost recovery for resources that purchase gas during the higher priced gas day and for resources that purchase gas at a higher cost than the index price of the lower priced gas day. Because WPTF does caveat this support with the ISO not needing to change their day-ahead timelines, WPTF supports the ISO waiting to evaluate this option further until after FERC 809 changes go into effect as this may cause gas index publication times to change.

The ISO has not sufficiently supported their proposal to limit bidding flexibility and this should be removed from the scope of phase 2 of this initiative.

The ISO proposes that in phase 2 of this initiative the ISO will consider to changes to limit bidding flexibility. They propose (1) to limit bidding flexibility after a commitment decision when a resource has an inter-temporal constraint that prevents bids from being used in dispatch decisions; and (2) to limit bidding flexibility after a commitment decision when a resource has an inter-temporal constraint, but has bids that still could be used in the ISO's dispatch decision. WPTF believes that both of these proposals are answers in search of a problem. There is no evidence that this behavior is occurring and that entities are changing their bids after commitment for any reason, let alone for no reason other than to capture additional BCR.

If the first proposal is a concern, DMM should monitor for this under their Tariff Appendix P authority to monitor for market power abuse. If an entity changed its bid after commitment solely to capture additional BCR, this clearly is taking advantage of their temporal market power.

As for the second proposal - to limit bidding flexibility after a commitment decision when a resource has an inter-temporal constraint - this seems to be an even less warranted aspect of the proposal. If the market can respond to a resources energy bid, then the resource may be dispatched down to Pmin, and the most the resource would ever gain is recovery of commitment costs- at the cost of potentially missing out on energy rents. If the issue of changing offers after a resource is committed is a serious concern from the ISO, this indicates to WPTF that the market is so intrinsically broken that the ISO's efforts would be better spent looking into why a resource would rather simply recover Pmin costs than participate in the energy market.

WPTF supports the ISO's proposal to allow for after-the-fact recovery of commitment costs at FERC.

The ISO proposes to allow for after-the-fact recovery in the event of significant intra-day gas volatility. The ISO would allow a scheduling coordinator for a resource to demonstrate to FERC that the resources gas costs exceeded 125% proxy cost. A resource may receive cost recovery on a case-by-case basis. WPTF supports this proposal as a means to allow cost recovery during infrequent extreme gas volatility events.

WPTF also supports Six Cities comments on the Revised Straw Proposal for recovery of (1) Stranded gas procured to respond to ISO dispatch that is subsequently exceptionally dispatched down or off, (2) balancing penalties to the extent penalty is a result of an ISO dispatch that is one half hour prior to the close of the last gas trading/scheduling cycle (ie burns on or after 2:30 PM flow day), and SoCalGas Low OFO penalties for burning gas during a Stage 2 through Stage 5 low OFO or EFO exceed 125% commitment cost cap.

Thank you for your consideration.