

Decision on Post-Emergency Bid Cost Recovery Elements

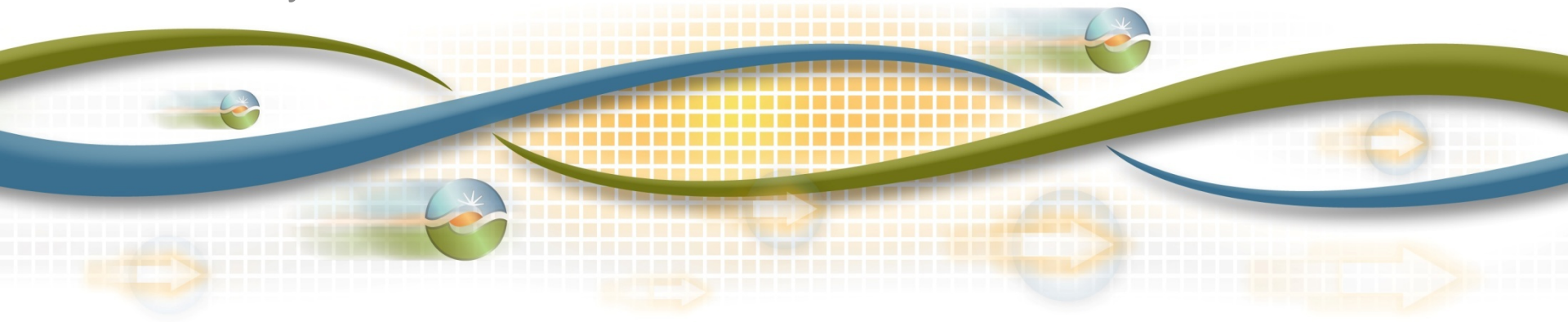
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Following the emergency bid cost recovery tariff filings in March and June of 2011, Management engaged stakeholders to identify residual issues.

- Are there unintended consequences of the rule changes?
- Are there any other opportunities to inequitably inflate bid cost recovery payments?

Management identified two issues for presentation to the Board today for decision.

The first issue concerns eligibility for minimum load cost recovery.

- Generators with sufficiently low minimum operating levels can be eligible for minimum load cost recovery when not online.
 - A generator qualifies for minimum load cost recovery if it is within a tolerance band around its minimum operating level.
- Management proposes to require generators to be both online as well as within the tolerance band to qualify for minimum load cost recovery.

The second issue relates to persistent uninstructed deviations as a means to inflate bid cost recovery revenues.

- Resources could potentially deviate from economic dispatches and receive bid cost recovery payments for uneconomic bids.
- Bid cost recovery payments can be higher for resources with multiple operating configurations that are not using the multi-stage generating unit modeling functionality.

Management proposes to address this bid cost recovery issue in two ways:

1. Require resources with multiple operating configurations be registered to use the multi-stage generating unit modeling functionality.
2. Address persistent uninstructed deviations of other resources through mitigation measures being developed in a separate stakeholder process.

The multi-stage generating unit model reduces inflated cost recovery due to deviations.

- A multi-stage generating resource is only eligible for cost recovery for its dispatched operating range.
- Cost recovery payments can be higher for resources with multiple operating configurations that are not using the multi-stage generating unit modeling functionality.

Requiring generation units to participate in multi-stage generation unit modeling provides additional benefits.

- Mitigates infeasible ancillary services awards
- More accurately and efficiently models resources with multiple operating configurations

Proposed implementation schedule allows for mitigation of stakeholder concerns:

- Schedule includes almost three years of market simulation
- Over two years of multi-stage generation unit modeling in market operation
 - Includes one full year with recent modeling enhancements in place
- Requirement implemented four years from start of new market

In summary, Management recommends the following two changes:

- Qualification for minimum load cost recovery includes the requirement that the generating resource be online; and
- Use of the multi-stage generating unit modeling functionality required for resources with multiple operating configurations
 - Resources not best modeled using the multi-stage generating unit modeling functionality exempted from this requirement