Decision on Bid Cost Recovery Mitigation Measures

Greg Cook
Director, Market Design & Infrastructure Policy

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Two cost-recovery mechanisms are addressed through this proposal.

- Bid cost recovery: If market revenues are insufficient to cover a resource's bid cost, the ISO pays the shortfall.

- Residual imbalance energy: Energy attributable to ramping down from a dispatch in a previous hour, or ramping up to a dispatch in a subsequent hour, is settled differently from other real-time energy.

Changes to cost recovery stem from the renewable integration initiative and the October 2012 FERC order.

- *Renewable Integration – Market and Product Review Phase 1* was approved in December 2011
  - Separation of bid cost recovery payments for day-ahead and real-time markets was approved
  - Management noted mitigation measures to address adverse behavior still had to be developed

- FERC October 2012 Order
  - Changes to residual imbalance energy settlement were accepted
  - Further refinements were encouraged

This bid cost recovery mitigation measures proposal contains three main elements:

1. Metrics to adjust bid cost recovery for undelivered energy;

2. Adjustments to the cost basis for energy bid cost recovery and residual imbalance energy in certain circumstances; and

3. Metrics to adjust minimum load cost recovery.
   – If shutdown instructions avoided or not followed
   – If a resource starts up without an ISO instruction

1. Management recommends two metrics to adjust bid cost recovery for undelivered energy.

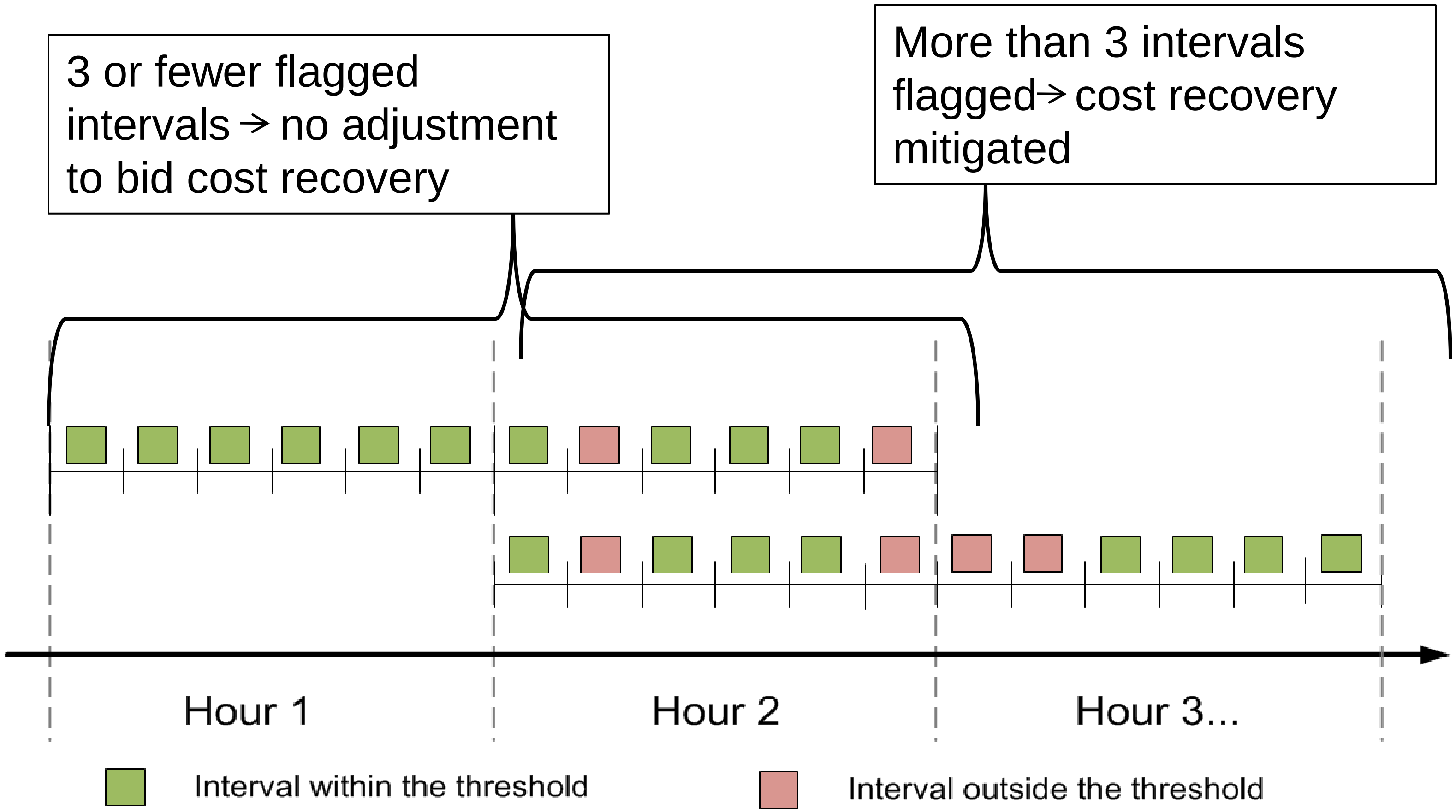
- Modified day-ahead metered energy adjustment factor
  - Reduces day-ahead market bid cost recovery if resource deviates and does not deliver day-ahead schedule
- Real-time performance metric
  - Reduces real-time market bid cost recovery if resource does not deliver dispatched incremental or decremental energy
- A tolerance band is applied to both these metrics

2. Management recommends adjustments to the bid cost used for cost recovery in certain circumstances.

Circumstance	Price basis
Normal	Economic bid
With persistent deviation	Minimum of • Locational marginal price • Default energy bid • Economic bid
To or from an exceptional dispatch	Same settlement basis as the exceptional dispatch
To or from a minimum load re-rate	Locational marginal price

To detect persistent deviations, settlement intervals will be flagged if a deviation is greater than 10%.

Over two-hour rolling window…



3. Minimum load cost recovery and start-up and shut-down instructions

- Minimum load costs will not be included in bid cost recovery if:
  - Resource persistently deviates to avoid a shut-down instruction
  - Resource starts up without an ISO instruction

- Resources that receive binding shut-down instructions will not be eligible for recovery of minimum load costs

Proposal provides balanced approach to addressing stakeholder concerns

- PG&E, WPTF, and generator representatives support paying residual imbalance energy and bid cost recovery based on submitted bids.

- SCE supports paying both bid cost recovery and residual imbalance energy at a resource's default energy bid.

- Department of Market Monitoring and the Market Surveillance Committee support the proposed approach and recommend ongoing monitoring.

Management recommends the board approve these measures to ensure cost recovery payments are equitable.

- Enables resources to appropriately recover costs
- Removes incentives for inefficient market behavior and bidding strategies designed to increase uplift payments
- Preserves incentives to provide economic bids into the real-time market