California ISO
Your Link to Power

Issue Paper

Changes to Restrictions on Bidding Start-Up and Minimum Load

June 12, 2009

Changes to Restrictions on Bidding

Start-Up and Minimum Load

Prepared for Discussion at the MSC Meeting – July 17, 2009

1 Issue Summary

The new market launched by the California Independent System Operator (ISO) in April 2009 commits generating units based on their Start-Up (SU) and Minimum Load (ML) bids. Many market participants have brought up the issue that they are being committed based on their SU and ML costs, being held at minimum operating levels and then de-committed. Participants observe that this causes extra wear and tear on their generating units and makes it difficult for them to recoup their operating costs. Through this stakeholder effort, the ISO aims to alleviate this issue.

Generation owners can choose either a cost-based option or a registered-cost option for their SU and ML costs. The cost-based option is linked to the price of natural gas, and thus provides generation owners who choose this option with protection from fuel-price risk. The registered-cost option enables generation owners to submit a bid for SU and ML so long as that value is less than or equal to 400%[1] of heat-rate based generic SU and ML costs.

Many generation owners have chosen the fuel-cost based SU and ML cost option so that they would be protected against fuel price risk. However, given that the new market software commits units based on SU and ML, the lower values of SU and ML that come from the cost-based calculation are leading to frequent commitment of the units to minimum operating levels. Again, this is leading to wear and tear on the generating units, and to trouble recouping costs. With the benefit of hindsight, generation owners would rather have opted for the Registered Cost option. This would enable them to submit SU and ML costs that more accurately reflect how their units are being dispatched in the new ISO markets. Currently, the Tariff restricts generators from changing their Master File SU and ML costs to once every six months. This restriction was designed to serve as a deterrent to registering very high SU and ML costs, because generation owners would thereby price their units out of the market for this relatively long period of time.

The ISO has identified a few options to deal with this issue, and proposes a two-phased approach in order to expedite mitigation of the problem. The criteria for evaluating potential solutions, the stakeholder process timeline, and the ISO's recommended approach are outlined below.

[1] Note that if the generating unit is within a Locally Constrained Region (LCR) then its registered cost, if that option is chosen, must be within 200% of the heat-rate based generic SU and ML values.

2 Criteria for Evaluating Potential Solutions

- Changes should be mindful of the costs of implementation, both for stakeholders and for the ISO. The benefits and costs of market changes should be weighed along with other, competing enhancements to market systems.
- The strategy for changing the way SU and ML costs are bid into the ISO markets should include some form of short-term mitigation of the problems at hand for the summer of 2009.
- The strategy for changing the way SU and ML costs are bid into the ISO markets should also include a longer-term solution to enable participants to accurately reflect their SU and ML costs in their market bids given the way the new ISO markets commit units.

3 Process and Timetable

The following timetable describes the process by which the ISO will further develop the proposal, present it to stakeholders for comments, and take it to the Board of Governors for approval.

June 17, 2009	Presentation to stakeholders and the MSC
June 24, 2009	Stakeholder comments due *
July 20-21, 2009	**Short-term** proposal to BOG for approval
July 23, 2009	Revised proposal including stakeholder and MSC comments posted
July 30, 2009	Conference call
August 6, 2009	Stakeholder comments due *
August 13, 2009	Final proposal posted
September 10-11, 2009	**Longer-term** proposal to BOG for approval

* Please submit comments to Gillian Biedler at gbiedler@caiso.com.

4 Potential Options

In there following sections, both short-term and longer-term proposals are outlined. Option 1 describes a change that can be made relatively quickly, and Options 2A and 2B give descriptions of changes that could be made over a longer time horizon.

4.1 Option 1 – Short-term change to bid submission restriction

The restriction on changing the SU/ML cost option in the master file could be changed from once every 6 months, to once each thirty days[2]. This would enable those generators who have chosen the proxy cost option based on fuel prices to opt for the registered cost which they could tailor to better describe their costs associated with the manner in which the new market dispatches them.

[2] Note that the Tariff provides the ISO with 5-11 business days from the receipt of a request to implement changes to the Master File data. No change to this provision is proposed.

While this would take a Tariff change, it would not require a software change, and therefore could be implemented relatively quickly. Note that when the 6-month restriction and the caps on SU and ML values under the registered-cost option were developed and implemented, the Tariff did not include energy price caps. Since that time, energy price caps have been approved and implemented. Thus, the need for the check provided by the 6-month restriction has faded.

4.2 Options 2A and 2B – Longer-term changes to SU and ML bidding

4.2.1 Option 2A – SU and ML bids between zero and registered cost cap

A relatively simple modification to SIBR could enable participants to bid in SU and ML on an hourly basis. Possible values for these SU and ML bids would be between zero and the applicable registered-cost option cap. Market participants would still submit an election for either the cost-based option or a registered-cost value for SU and ML costs to the Master File. In the event that a SU/ML bid was not placed into SIBR, that software would insert the value recorded in the Master File. As is currently the case, the cost-based option will be the default in the event that no election is made and no SU and ML bid was submitted.

4.2.2 Option 2B – SU and ML bids dynamically mitigated

SIBR may be modified to enable hourly bidding of SU and ML as described in 2A above without the restriction that SU/ML bids be between zero and the applicable registered-cost option value. This would require the development of default SU and ML bids which would be inserted in place of the bid-in values if the unit were subject to Local Market Power Mitigation (LMPM). This option requires more extensive changes to SIBR than the option described in 2A. Again, in the event that a SU/ML bid was not placed into SIBR, that software would insert the value recorded in the Master File. The default would continue to be the cost-based option if no election is made and no bid is submitted.

5 Recommendation

The ISO recommends that Option 1 be implemented in the near term to help address the issues that generator owners are currently experiencing. The ISO further recommends that either Option 2A or 2B be implemented as part of a future release of market enhancements. This second stage of implementation would ideally be before the summer of 2010. The implementation of Option 2A will be simpler and can thus be done more quickly than Option 2B since the latter will require the development of default SU and ML bids, and will require dynamic mitigation to those values based on the outcome of LMPM.

The ISO welcomes and appreciates stakeholder comments on this draft proposal. Please submit your written comments to Gillian Biedler at gbiedler@caiso.com by June 21, 2009.