

**Comments of Powerex Corp. on
Bid Cost Recovery Enhancements Straw Proposal**

Submitted by	Company	Date Submitted
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Powerex appreciates the opportunity to submit comments on CAISO’s June 3, 2016 Bid Cost Recovery Enhancements Straw Proposal (“Straw Proposal”). Powerex is strongly supportive of efforts to ensure that the allocation of charges is consistent with cost causation and creates appropriate incentives for efficient behavior by market participants. Powerex recognizes, however, that establishing a mechanism that perfectly aligns charges with cost causation can be challenging and that, at times, the complexities associated with doing so may reduce the benefits of such a mechanism.

The Straw Proposal acknowledges that accurately identifying real-time Bid Cost Recovery (“BCR”) uplift costs is challenging and that the benefits of such an effort are uncertain.¹ This raises significant concerns, since erroneously allocating charges to activity that does not, in fact, drive real-time BCR costs is plainly inconsistent with cost causation. Additionally, and importantly, an erroneous allocation of charges will create a disincentive to engage in any market activity that incorrectly attracts these charges. In other words, while erroneously-applied charges will do nothing to reduce BCR costs, they also have the potential to reduce desirable, efficient economic activity and raise costs to consumers. Therefore, absent a clear and reliable way to accurately link real-time BCR costs to the activities that cause it, a change to the existing cost allocation framework carries a significant risk of unintended adverse consequences to market efficiency. The Straw Proposal presentation also recognizes that, even with the proposed BCR enhancements, load may continue to pay a majority of the costs. Given the considerable uncertainty over the potential benefits of the proposed BCR enhancements, as well as the considerable risks of “getting it wrong,” Powerex believes maintaining the *status quo* may be appropriate at this time.

The specific enhancement contemplated in the Straw Proposal also raises several questions. For instance, the proposal first assigns real-time BCR uplift costs across three categories of market activity: changes in load, changes in supply, and changes in imports. The “changes” referred to are changes between the Real-Time Unit Commitment (“RTUC”) process and the day-ahead Residual Unit Commitment (“RUC”).² However, these changes are accumulated over the course of a day, rather than allocated for each hour or interval. In other words, all changes are implicitly treated as having the same effect on real-time unit commitments and BCR costs, regardless of the specific hour or interval in which they occur.

¹ Presentation at 5 and 12.

² Straw Proposal at 14-16.

But the Straw Proposal itself recognizes that the same activity can either *cause* a unit to be committed or it can *avoid* the need to commit a unit. For example, the Straw Proposal explains that a self-scheduled import can result in a unit that is committed to meet the morning peak to be de-committed during the “belly of the duck” to prevent over-generation, which then requires another unit commitment later in the day to meet the second peak.³ Powerex does not take issue with the specific example presented in the Straw Proposal. However, the opposite may also occur: a self-scheduled import that is not scheduled during the “belly of the duck” but during the evening peak may *avoid* the need to commit a unit. In short, the impact of one activity (such as a self-scheduled import) on unit commitment appears to be highly dependent on other system conditions prevailing at the same time.

The same principle applies to the Straw Proposal’s proposed allocation of real-time BCR uplift costs, as under the proposal, *all* reductions in net imports (beyond those anticipated day-ahead) increase the category’s allocation of real-time BCR uplift costs. This approach does not distinguish between an import reduction during periods of low net load (which may prevent a unit de-commitment and hence may reduce real-time BCR costs) and an import reduction during periods of high net load (which may require additional units to be committed, and hence may increase real-time BCR costs). This shortcoming is also present in the proposed allocation to the supply and load categories. Simply put, the proposal does not appear to reliably distinguish between changes that actually increase real-time BCR costs and those that actually decrease them.

In addition to reliably identifying the activities that increase real-time BCR uplift costs, it is important to consider the behavioral incentives that may be created by any cost allocation framework. Even if it were possible to accurately identify the activity that causes additional real-time BCR costs to be incurred, it would still be necessary to design the cost allocation framework in a way that discourages cost-causing activity while *not* creating a disincentive for other, desirable activity. In order to accomplish this objective, it is important to adopt a framework that provides both charges and credits for activity that affects unit commitment costs. For instance, if reductions to day-ahead imports were allocated real-time BCR uplift costs when they increase unit commitment costs, but are never provided a credit to those charges when they reduce unit commitment costs—and market participants were unable to predict the hours or intervals in which import reductions would incur BCR charges—then market participants would face the risk of potential BCR uplift charges *every time* they reduce import schedules. This will create an incentive to avoid reducing day-ahead imports more generally, since simply matching day-ahead schedules would minimize the risk of being charged for real-time BCR uplift costs. Rather than having the intended effect of discouraging only those import changes that increase BCR costs, such a design could discourage *all* import changes, with potentially significant unintended adverse consequences for real-time flexibility.

Finally, the Straw Proposal deliberately does not assign real-time BCR uplift cost responsibility as a result of imports or exports cleared in the Fifteen Minute Market, “because there would be a disincentive to provide flexibility in the fifteen minute market.”⁴ Powerex notes, however, that

³ Straw Proposal at 19.

⁴ Straw Proposal at 15.

block hourly schedules are the *only* means for economic participation in the real-time market for transactions using the Pacific DC Intertie (“PDCI”), where 15-minute scheduling has not yet been implemented. Powerex is not opposed to CAISO taking steps to increase the participation of flexible intertie resources. Nevertheless, it is important to recognize that, at least on the PDCI, the most flexible real-time participation currently possible is in the HASP. In this case, applying real-time BCR uplift charges cannot encourage greater participation in the Fifteen Minute Market, but it may well discourage existing flexible real-time market participation on the PDCI, thereby reducing real-time flexibility and potentially increasing, rather than decreasing, real-time BCR costs.