

March 16, 2018

CAISO Board of Governors
CALIFORNIA ISO
PO Box 639014
Folsom, CA 95763-9014

Dear Members of the Board:

I am writing to express Powerex's support for the Commitment Cost and Default Energy Bid Enhancements (CCDEBE) proposal that is before you at this meeting.

CAISO began the related stakeholder initiative in late 2016, for the purpose of examining an issue that Powerex believes is of significant and growing importance, particularly in the EIM: whether CAISO market rules appropriately "balance allowing suppliers to submit economic prices reflecting their willingness to provide energy based on their expectation of costs and risks measured against the need to protect against structural or behavioral issues."¹ In the course of this stakeholder process, CAISO staff concluded that "current bidding rules do not always provide suppliers the flexibility they need to reflect costs and business needs."² And CAISO staff rightly noted that rules that unduly limit bidding flexibility "could undermine market efficiency and discourage participation by non-resource adequacy resources and Energy Imbalance Market resources."³ Both Powerex and a joint group of EIM Entities agreed with these findings, specifically highlighting that the proposed additional bidding flexibility would improve EIM participants' ability to reflect their opportunity costs and incorporate the unique market considerations and system conditions experienced in the EIM area.

After an extensive stakeholder process over the course of more than a year, this initiative largely concluded with a Revised Draft Final Proposal that will provide additional flexibility for participants to submit commitment cost bids. That Revised Draft Final Proposal was thoroughly reviewed by the CAISO's independent Market Surveillance Committee (MSC), which agreed with CAISO that "it is desirable that the CAISO implement a more flexible system that allows resources to offer commitment costs that better reflect recent and anticipated costs[.]"⁴ The MSC's detailed report concluded with its recommendation "that the CAISO move forward with the development, testing and implementation of its design for dynamic mitigation of commitment costs as proposed."⁵

¹ CCDEBE Issue Paper at 1.

² CCDEBE Straw Proposal at 3.

³ *Id.*

⁴ MSC CCDEBE Draft Opinion at 2. (The MSC formally approved the Draft Opinion at its Teleconference Meeting of March 5, 2018.)

⁵ *Id.*

Importantly, the circumstances regarding the CCDEBE proposal have implications that go beyond the specific enhancements being considered. The focus of this initiative—to provide market participants with the flexibility to submit bids that reflect their own expectations of costs, risks, and business needs—is a substantial issue in the broader context of Default Energy Bids, and specifically for energy-limited hydro resources external to the CAISO footprint that are expected to participate in the EIM. As CAISO recently explained in Powerex's EIM readiness certification, the ability to implement a Default Energy Bid to reflect such costs and risks was a Governing Principle set out in the CAISO/Powerex EIM Implementation Agreement, and has not yet been achieved. Powerex will thus enter the EIM in April 2018 without sufficient flexibility to reflect its costs and risks, which it anticipates will likely force it to restrict its EIM activity. At present, CAISO intends to open a stakeholder process in the near future to address its Default Energy Bid options more generally. This planned stakeholder process will thus largely share the same general goal relating to participant flexibility that CAISO articulated in 2016.

The success of the EIM, and CAISO's regional market initiatives more generally, depends critically on the ability of CAISO to objectively and independently develop market rules that balance an increasingly broad range of interests, in order to stimulate the broad level of voluntary participation that yields benefits to all participants, including CAISO. Powerex respectfully requests that the Board support CAISO in these efforts, including supporting the CAISO in its efforts to provide external suppliers with sufficient bidding flexibility to reflect their own estimates of their costs, risks and business needs.

Powerex respectfully requests that this letter be made part of the public record.

Sincerely,



Mike MacDougall
Director, Trade Policy & IT
Powerex Corp

