

Stakeholder Comments

Bidding Rules Enhancements Issue Paper, December 3, 2014

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SDG&E appreciates the opportunity to comment on CAISO’s Bidding Rules Enhancement Issue Paper.

SDG&E agrees CAISO currently offers a good level of bidding flexibility, in both energy and commitment cost bidding (assuming FERC accepts the CAISO’s proposals in Commitment Cost Enhancements). There are some good questions addressed in the issue paper with the potential to support market efficiency and reinforce reliability. But, it’s important to achieve these goals without adding needless layers.

Energy Bidding Flexibility

CAISO presents possible inter-temporal gaming scenarios based on the current bidding rules and market design. SDG&E agrees behavior of this nature is a liability to market efficiency. We do not believe CAISO should limit real time energy bid changes, even during an inter-temporal constraint. This is a regressive solution limiting market participation and possibly inhibiting signals in the market. The issue is better addressed by calculating bid cost recover (BCR) on the bid cost the optimization uses to make the commitment decision. SDG&E believes this method sufficiently reflects, and allows for accounting of, commitment costs and energy costs incurred by a generator during the committed run. The 125% proxy cost bid cap provides flexibility for SCs to appropriately account for the risk of natural gas price fluctuation in all but extraordinary situations. Energy bids can account for natural gas price risk to incremental generation. Additionally, SDG&E agrees CAISO should allow units without a day-ahead award the flexibility to rebid into the real time market with updated commitment costs. This will allow units to reflect more current information on unit costs since the close of the day ahead market.

The example provided by CAISO states the inter-temporal constraint is leveraged by submitting a self schedule, or self-providing, non-spinning reserves. SDG&E

recommends CAISO address the issue of receiving BCR based on a self-schedule of ancillary services. Units cannot receive BCR on self-scheduled energy bids. The CAISO should evaluate extending the rule to units not being able to recover costs via BCR when self providing ancillary services. This should be investigated in further detail.

Commitment Cost Bidding Flexibility

First, SDG&E believes it important to consider the other movements on the natural gas front. As mentioned in the issue paper, FERC is having dialog about changes for electricity and gas market coordination. There are other moving pieces to consider. SDG&E believes it prudent to allow these to develop and play out before crafting policy with the potential to be incongruous.

SDG&E supports using a gas price index and supports the ICE index price as the gas price reference if there is little impact on the timing of IFM processes. We would not like to see the day ahead market close substantially later than the current 10am close time. A shifting of the market close will impact other market activities. For example, gas purchasing and portfolio planning can be based on market close and market awards. SDG&E is curious what timeline the CAISO envisions should CAISO move to using just the ICE index? ICE posts at 10am. How much of a delay would the market need to run the optimization and post results? If this change will drastically impact the close of the day ahead market, and subsequent posted market results, we do not support this.

SDG&E supports the break-up of the three-day weekend gas package. Weekend gas prices in the package experience a mark-up while Monday gas prices reflect a slight discount. This results in market inefficiency. ICE currently provides the ability to buy/sell a 'custom weekend package' breaking apart the weekend days for gas. The issue is people don't utilize this option. Also, there is no index price published for each day of the weekend. This needs addressing and is a place the CAISO could help with a move towards splitting up the weekend package and bringing increased market efficiency through more accurate weekend gas costs reflected in bid prices.

SDG&E believes some method of market power mitigation is necessary, especially if looking at more bidding flexibility in the market. If the ISO retains a bid cap, SDG&E supports a lower bid cap on all non-gas related items, namely O&M, major maintenance adder and GHG costs.

Resource Characteristics

If CAISO decides to explore resource characteristics as a method of mitigation, SDG&E supports a scheme of upper and lower bounds of reasonableness. To keep

the bounds close enough together it may be necessary to adjust them for various characteristics based on resource vintage and technology type. In addition, there must be a process in which a resource can provide documentation and be allowed to have characteristics outside of the bounds established. One size fits most but not all. Outlying resources should not be penalized as a result.

Resource characteristics are left much to the plant and SC to provide at this time. If CAISO feels a review and validation of master file characteristics is called for, there could be some parameters set up to ensure reasonableness of master file data. However, some of the inputs in the master file are driven by contracts and not actual physical observations of a plant. For example, starts per day and number of transitions might not warrant engineering review if they are based on contractual obligations. Ramp rates and heat rates could be verified by engineer review. But, CAISO might find an upper and lower bound of reasonableness as acceptable validation limiting the time and manpower investment in a physical review of plants. CAISO can verify heat rates by requesting plant gas burn data and MW generation data.