Stakeholder Comments

Bidding Rules Enhancements, Revised Straw Proposal Issued December 3, 2015

Submitted by	Company	Date Submitted
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SDG&E appreciates the opportunity to comment on CAISO's Bidding Rules Enhancements Revised Straw Proposal and stakeholder meeting. SDG&E appreciates CAISO's efforts at identifying possible avenues to increase accuracy in commitment costs and updating rules for bidding flexibility. SDG&E supports some proposals and has strong reservations about others as detailed in the following comments.

SDG&E supports the 125% Bid Cap with No Differentiated Bidding Headroom

SDG&E appreciates the CAISO returning to its original proposal of a 125% bid cap allowing for headroom and managing cost risk of the various inputs to an energy bid. SDG&E also supports this method as the mechanism for commitment cost mitigation.

Bidding Flexibility

SDG&E supports rebidding commitment costs in RT without a DA award. SDG&E believes it is good practice to allow SCs and generators to rebid commitment costs in the RT market if they have not been awarded DA to better reflect more timely costs.

SDG&E believes the CAISO should continue to monitor units when they change bids after a commitment decision during an intertemporal constraint. As the CAISO states in the Revised Straw Proposal, the ISO has reviewed impacts to BCR and has not found instances of market manipulation in this way to inflate BCR. At this time, SDG&E does not believe it is justified or necessary for each SC to submit a daily profile of RT market energy bids. If the continued monitoring produces concerning results at some point, alternatives other than submitting a RT bid profile must be considered because of the cost, complexity and possible negative consequences of submitting a RT bid profile.

Improving the Gas Price Index Input Value

SDG&E supports the idea of working on the accuracy of the gas price value used to run the DA market. This is an important input to start-up and minimum load values. And, using the day-prior gas value in many instances does not accurately reflect true gas purchase costs.

SDG&E believes the CAISO can achieve the benefits of 'option 1', using the GD1 and GD2 prices to reflect natural gas price volatility differences, without changing the timing of the DA market. This is the preferable option, but SDG&E believes the risks associated with moving the market close to an hour later need to be strongly considered. Cycle 2 of gas trading is currently not a very liquid market. Publishing market results an hour or more later in the day would result in even less liquidity. This would leave operators and scheduling coordinators at a great disadvantage when needing to manage gas buying and selling after the market results are posted.

As a result, SDG&E recommends CAISO exhaust a few options before entertaining the idea of changing the timing of the DA market close and run. CAISO should work together with ICE to see if it is possible for ICE to post index results by 10am. Many of the trading hubs close by 9:00 or 9:30 am PST. It seems if ICE knew the CAISO market run was dependent upon the ICE publishing price, they may be able to make arrangements to post values by 10am. This is not much before their current publishing time. Often results are published by 10:05am.

In conjunction with looking at the ICE publishing time, SDG&E believes it reasonable for CAISO to look at keeping the market close at 10:00am PST while holding the actual model run until the ICE published price is received. This, conceivably, would only push the market results posting by 5 or 10 minutes in the afternoon and, as the CAISO notes, at the most 20 minutes. This is a much preferable option to pushing the market run and results to an hour later every day. 1 hour later would be rather drastic considering ICE posts about 5 minutes after 10am most days of the year.

As the CAISO mentioned and was brought up at the MSC meeting by the MSC members, CAISO should work with ICE to see what ICE will consider and what the future of the ICE timeline looks like. Until we have better information on these fronts, it is hard to postulate on what the future should look like.

If the only option for using the most current day-of posted ICE price (GD2) in partnership with GD1 (the prior day gas price) is to shift the timing of the DA market close and run to 11am-2pm PST, SDG&E does not support this option. As mentioned before, the further the market moves towards the close of gas day cycle 2, the harder to buy and sell gas after the market results are posted due to being later in the day. We do not believe this tradeoff warrants the move to the market timeline. Additionally, with the 125% bid cap, there is the possibility to recover some of the additional costs should gas prices swing. And, the CAISO is proposing to allow for after-the fact- recovery for instances where there is a big price swing and costs are not recovered. These insurance mechanisms should be used infrequently but provide for cost recovery when needed. As a result, SDG&E does not support the moving of the DA market timing.

Market Characteristics and Contract Limitations

SDG&E appreciates the CAISO proposal to include ‘market characteristics’ in the master file as an attempt to account for some of the more nuanced elements imperative to ensuring units remain available and dispatchable for reliability purposes over the course of a year. Unfortunately, SDG&E does not find this method to be efficient nor effective at achieving the desired goal of utilizing a portfolio of resources in an efficient and beneficial manner. Instead, this new proposal is an inaccurate path for the desired results.

First, the CAISO would like to add a market value for ‘starts.’ SDG&E appreciates the CAISO’s acknowledgement of ‘the need for some characteristics to reflect a balance between technical capabilities and economic trade-offs’ (p.42). Indeed, there are many considerations which go into signing and garnering regulatory approval of power purchase agreements crafted and designed to fulfill acceptable reliability requirements while meeting state emission reduction goals at a fair cost to rate payers. Unfortunately, this new ‘market design’ category does not solve the issue of managing limited starts designed to meet this range of requirements.

As an example, unless the contract has 365 or more starts, a unit’s contract limit may be exhausted before the end of the year rendering it unavailable to the market to dispatch. We assume the lowest value a unit can submit for the market characteristic is 1 start per day. This would require a minimum of 365 starts over the year. SDG&E recommend the CAISO remove the language ‘ensure’ from the second to last and last paragraph on page 42 of the Revised Straw Proposal. This mechanism would not ‘ensure’ resources will not exceed contractual limitations. Using the same thought process, it would be difficult to ‘ensure’ limits are not reached at 2 starts a day unless the unit has 730 starts or more per year. Even if the unit has more than 365 but less than 730, the CAISO is now asking SC’s to manage starts by changing master file properties as opposed to allowing the market to work. This is not an efficient market.

Additionally, it seems counterintuitive the market would artificially constrain limited starts for a unit to a count-per-day when the fundamental basis of a market, the CAISO market, is to provide grid reliability with the most efficient market solution based upon a set of constraints and parameters. 2 starts on a low load day (like December with over-generation problems) on a peaker is probably more necessary and valuable for reliability (and, thus, indicated by price spikes in the market) than a maximum of 1 start a day every day of the year.

The ‘starts’ market characteristic is also in conflict with the Resource Adequacy flexible capacity categories goals. A peaker with a limited number of annual starts would have to be always placed in category 2 or 3 when it is capable of being category 1 all months of the year with a proper opportunity cost adder. Worse yet the SC is incented to not show the peaker in as many months as possible because its annual start limit does not allow it to be started every day. The limited size of category 2 and 3 places SDG&E in an awkward situation because most of our start limited peakers will not fit in category 2 and 3. So SDG&E will be faced with RAAIM penalties, or the cost of buying redundant category 1, even without showing the peaker as much as possible with the CAISO’s proposed market characteristics. All of SDG&E’s peakers with annual start limitations have enough starts for all reliability needs and to mitigate large price spikes even when they occur more than once a day. The CAISO’s proposed market characteristics will continue to squander the limited number of annual starts on days with little or no market value as shown by the large amount of BCR collected by these peakers.

To reiterate, this is why SDG&E sees the opportunity cost adder as designed in Commitment Cost Enhancements Phase 3 as the most logical and well-designed way to manage annual start limits. Most basically, reliability events are indicated by higher market prices. Allow market prices to dictate the needs of the market. Do not add cumbersome, unnecessary and artificial constraints.

Lastly, SDG&E considers the CAISO proposal an uncontrolled method to manage start limitations. This new proposal allows for much more potential market manipulation than SDG&E’s request for use limited recognition of annual start limits in contracts reviewed and approved by the CPUC which would allow only a handful of additional resources an opportunity cost adder. This new proposal opens up the potential for every unit in the CAISO market to dictate their ‘desired’ amount of starts if they so choose with, what sounds like, very little vetting and oversite. Conversely, SDG&E has always proposed that only contractual limitations like annual start limits in contracts approved by the CPUC as part of the Long Term Procurement Process (LTPP) be honored as use limitations. The CAISO’s proposed market characteristics method of managing contract start limits does not seem like a positive contribution to market efficiency or market transparency.

Market Characteristics and Ramp Rate

SDG&E seeks clarification on how the proposed ‘ramp rate’ market characteristic would interact with the EFC value of a flexible resource. How does the CAISO envision this value being entered and updated in the master file? How does the market value ramp rate contribute to the claimed flexible capacity of a resource? Can an SC choose a ramp rate below the EFC value of the resource? What assumptions will be made to create the annual EFC?

Market Characteristics, Design Capability and Unusual Limitations

The CAISO requests additional situations where an SC may want to enter a value in to a market characteristic field. SDG&E has a contract with a noise condition such that the unit can run for a prescribed hour range during daytime hours but is not supposed to run overnight due to noise. However, the unit can actually run if needed to maintain reliability in the grid and can be called upon to run in this situation. The CAISO should add this type of a limitation to be entered in to the proposed format of Market Characteristics and Design Capability Characteristics.