Stakeholder Comments

Bidding Rules Enhancements, Straw Proposal
Issued April 22, 2015

Submitted by	Company	Date Submitted
Lisa Olson eolson@semprautilities.com 858-650-6182	San Diego Gas & Electric	May 13, 2015

SDG&E appreciates the opportunity to comment on CAISO's Bidding Rules Enhancements Straw Proposal and stakeholder meeting. SDG&E believes it important to review and revise bidding rules to accompany market updates and changes. SDG&E supports some proposals and has strong reservations about others as detailed in the following comments.

Energy bidding flexibility-
CAISO believes currently there is sufficient bidding flexibility but is concerned about market manipulation abuses from resources with inter-temporal constraints. As a mitigation measure for these situations, the CAISO is proposing to settle these times with the bid used to make the commitment for bid cost recovery (BCR) purposes instead of the LMP. SDG&E agrees with this methodology. For transparency, we request this to be detailed explicitly on the settlement statement so we can validate the unit settlement. If there is no indication the bid was used to settle, we will assume it was the LMP and could find the settlement to be incorrect.

Commitment cost- related proposal: rebidding-
SDG&E supports the proposal of being able to rebid commitment costs for the real-time market if a resource did not receive a day-ahead or RUC award. SDG&E also proposes that there be several rebidding periods. We recommend every 5 hours. As an example, with the look ahead period for the short term unit commitment (STUC) process being 4.5 hours, resources could rebid commitment costs every 5 hours with a 5 hour delay.

Commitment cost- related proposal: Pmin rerate-
SDG&E believes this proposal would benefit from more thorough detail. Digging beyond the premise (accurately accounting for minimum load costs for a Pmin rerate) begs the question as to why a resource would rerate their Pmin? The plant or scheduling coordinator submits for a Pmin rerate. What is their motivation? And,

is it fair for the CAISO to adjust the minimum load cost accordingly? If resources were provided the flexibility to fully recover the cost of a rerated Pmin, intuition is this would incent rerating a Pmin over self-scheduling a unit. The resource would receive the benefits of the self-schedule behavior with the advantage of being eligible for BCR. SDG&E requests the CAISO illustrate scenarios in which a resource would need to rerate its Pmin and still be eligible to recover new Pmin costs.

If the CAISO moves forward with this proposal, SDG&E believes the second CAISO proposal to be the more accurate option- calculating the actual minimum load costs based on the heat rate of the resource. Typically, units are more efficient with each incremental MW produced. As such, SDG&E does not believe it accurate to derive a cost-per-MW at the existing Pmin and scale that to the new Pmin, either up or down. In theory, this method would overstate, or understate, the minimum load cost of the new higher or lower Pmin respectively. Thus, we believe basing the minimum load cost on the heat rate a more accurate method.

<u>Commitment cost-related proposal: proposed guidelines for real-time consideration of gas purchases above the gas price index-</u>
Real-time gas purchase cost recovery is best solved by implementing the proposed opportunity to rebid commitment costs in the real-time market. This should allow resources to account for gas costs more accurately. And, the opportunity to rebid commitment costs multiple times throughout the day, as proposed above, would continue to increase gas cost accuracy eliminating the need for any cost recovery mechanism.

However, the initiative points out this additional accounting method is for consideration if the more flexible bidding strategy is not adopted. In this case, SDG&E believes the idea behind this proposal is fair. But, in practice, there are many issues concerning SDG&E in regards to the CAISO's proposal of creating a method to figure out the additional gas cost above the gas index and accounting for this in BCR. SDG&E believes CAISO and stakeholders should qualify the need for this reimbursement mechanism before CAISO moves forward. SDG&E feels there is not a great need and the potential risks outweigh small benefits.

First, real time imbalance gas needs are not a large part of a scheduling coordinators (SC) gas portfolio. Most of the awards during real-time would be for quick start units who don't consume a lot of gas. Natural gas pipelines also provide imbalance tolerances to SC's allowing fuel managers to have discretion on when they will allocate supplies to their units. This is typically where real-time awards (awards unknown to SCs in the day-ahead time frame) gas needs are managed. Thus, this incremental gas to day-ahead awards is generally absorbed by the monthly imbalance gas purchasing. SCs can then make gas purchasing decisions as they manage imbalance gas use, and this is not typically a decision made in response to the real-time dispatch of the day. CAISO could take a survey of how much this actually affects SCs.

A large concern with the CAISO proposal on real time gas cost recovery is the possibility of exploitation. If gas marketers know there is a compensation mechanism in the real-time CAISO market for gas purchases to satisfy real time generation commitments, what's to stop them from taking advantage of this when generators call to purchase gas, especially in the later illiquid cycles? Marketers can add a mark-up and generators are indifferent because this then flows on to consumers. This cost would be passed on to Load. CAISO needs to address this before considering implementation.

Moreover, another concern is CAISO may find it challenging to attempt to verify the reimbursable value above the gas price index plus headroom. As it stands now there is no 'real time' gas index. Both Gas Daily and ICE only publish daily and monthly indices and the true cost of intraday gas is unknown. The CAISO references the 'real-time gas price index' in the example scenario on page 18 of the Straw Proposal. Does the CAISO mean the day-ahead index price because that's what the commitment costs will still be based on without the approval of rebidding? And, the process is still a little unclear. CAISO states purchases will be reimbursed if they are within a threshold established on historical natural gas trades for the appropriate day and market. Does this mean, if the purchase is beyond the threshold, there is no reimbursement? For example, if a real time price spike in which a resource was bound to purchase gas was beyond the historical threshold, there would be no reimbursement? Or, would there partial reimbursement up to the threshold?

CAISO proposes using a historical look back but notes the period is thinly traded. SDG&E echoes that concern and does not believe a historical look back provides much accuracy.

If CAISO were to proceed with this reimbursement, SDG&E proposes CAISO use a separate platform than BCR for reimbursement. In most instances, this type of case assumes the generator will not make money over the day. And, SDG&E agrees. However, there may be instances when a peaker, or short term committed unit, might actually make money over the day and not qualify for BCR. This could present confusion in accounting and settlement validation.

<u>Differentiation of bidding headroom-</u>
SDG&E does not at all support the CAISO's proposal to disaggregate the bidding headroom for each of the items included in the proxy cost calculation. The 125% proxy cost headroom gives resources flexibility to account for cost fluctuations in each of the elements comprising the costs to commit a unit without discrimination. It is possible to exceed the 125% on one item but be afforded room because a different item is still below the 125% threshold. Pooling these items makes the

125% blanket acceptable. The proposed decreases on headroom percentages for certain elements make the cost recovery possibility too low for generators. Being too constraining in this area could result in unintended consequences such as generators looking for other ways to recover costs

While we do not support differentiated bidding headroom, if this proposal is to be explored any further, SDG&E recommends employing a less arbitrary method of setting thresholds. We would recommend something along the lines of headroom of at least two standard deviations of the volatility of the item. This type of a method is better rooted in the needs of the market to recover costs.

Proposal for resource characteristics-

SDG&E supports the CAISO proposal to add a 'Market Value' column to the Master File. The CAISO points out resource characteristics should support the technical and economic judgement needed to balance excessive wear and tear on units. SDG&E agrees and believes the Market Value column will allow resources to better manage usage to keep the unit available to the market for the year as planned. Excessive wear and tear runs the risk of less time between maintenance cycles. Since this cost is not accounted for in an opportunity cost, SDG&E believes the properly designed Market Value column will help reduce this issue. Therefore, SDG&E believes the 'Market Value' column should allow for more than just RA commitments. This column is important to help manage a resource's usage based on maintenance constraints not implicit to the already existing physical value column or energy bids.

Greenhouse gas compliance for natural gas suppliers-

We agree with the CAISO on waiting to propose policy changes on the greenhouse gas costs for natural gas suppliers until the CPUC has issued a proposed decision in June.

Adjusting gas transportation adders-

SDG&E currently reflects different gas transport adders based on physical location for each resource's submitted bids to the CAISO. SDG&E would like more information on what the CAISO proposes in addition to adjust gas transportation adders.