Western Power Trading Forum Bidding Rules Enhancement Comments

Ellen Wolfe, Resero Consulting for WTPF, 916 791 4533, ewolfe@resero.com

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WPTF appreciates the CAISO's conduct of a stakeholder process to examine bidding rule enhancements. WPTF offers the following comments on bidding rules generally and in response to the CAISO's Bidding Rules Enhancements Issue Paper dated December 3, 2014.

WPTF strongly supports the ISO's adoption of biddable start up and minimum load bid costs. Biddable start-up and minimum load costs will provide the most economically efficient means by which suppliers can factor in expected start up and min load costs, including the gas related costs. Other markets have found the use of biddable start up and minimum load costs to be workable. WPTF encourages the ISO to consider these market designs and incorporate their best practices in the development of a biddable start up and min load cost mechanism.

WPTF encourages the CAISO to further analyze whether automated mitigation of biddable start up and minimum load costs is necessary. The ISO's issue paper suggests that if suppliers are able to bid start up and minimum load costs then automated mitigation would be necessary. Yet the ISO staff indicated during the associated web conference that it did not in fact know what mitigation, if any, was applied in other markets that provide for biddable start up and minimum load costs.

FERC recently ruled in response to PowerEx's Force Majeure Complaint that sellers should incorporate the costs of changing system circumstances into their bids. Biddable start up and minimum load costs would allow this to occur and most certainly if a supplier is not otherwise subject to mitigation there should be no need to apply mitigation to start up and minimum load costs.

In the general case, WPTF asks the CAISO to demonstrate why such mitigation is needed and strongly encourages the ISO to analyze the practices of these other markets to help determine if automated mitigation mechanisms are necessary.

WPTF does not agree with the ISO's statement (issue paper, page 4) that "bid flexibility currently offered is sufficient to accommodate resources' responses to system and market conditions". Many suppliers were economically harmed by recent winter gas events and CAISO policies that do not result in sufficient recovery of actual costs let alone any marginal returns. Under current market rules, the CAISO markets leave suppliers unable to manage gas procurement risks – in some cases with virtually no means of appropriately reflecting or recovering the gas market costs.

Consider for example peaking units that have their Pmin close to their Pmax. These short start units have little ability to predict when the ISO will issue start up instructions. In fact, such units are often started when market fundamentals do not support the unit's marginal cost. Since they are short start units, the start-up notification often comes well after regular gas procurement cycles are closed. And a unit that is run at Pmin is not allowed to set the LMP based on its marginal operating cost even if that Pmin is at its 90% output level. In this instance, the supplier's only compensation is cost-based start up and minimum load cost. And this is often the case day in and day out for these types of units. If for any particular start the supplier incurs a gas cost, or gas penalty cost in excess of that which is paid by the ISO through the proxy cost mechanism, the supplier has no opportunity to recoup those costs or receive any market clearing revenues. The ISO has ignored these issues on the premise that over the long run a supplier will make sufficient start up and minimum load revenues, but past experience - and recent experience with gas market volatility - shows that such an assumption is inaccurate.

The ISO also cites recent gas-electric coordination efforts as a mechanism that will improve a supplier's ability to manage gas cost variability. While such efforts should provide some benefits in this regard, the implementation of such coordination remains contentious, and there is no indication at this time that such efforts will resolve many of the drivers of unrecovered costs for suppliers. The ISO should not lightly assume that those efforts alleviate the need for biddable start up and min load costs.

The CAISO should provide further justification if it believes that inter-temporal start up and min load bidding changes and resource characteristic changes pose a threat of significance that warrants significant ISO and stakeholder effort at this time. While the Issue Paper raises these points conceptually, the ISO offers no explanation as to why it finds these issues significant enough to warrant a stakeholder initiative effort when there are such limited resources available for stakeholder processes. If the ISO has significant reason to believe a substantial threat exists in these areas we ask the ISO to convey that, in which case WPTF will consider further its level of support for changes in these areas.

Regarding the issues posed in the Issue Paper about gas indices, proxy cost caps, etc. (Issue paper page 8), the implementation of biddable start up and min load costs would alleviate the need to address many of these questions. With biddable start up and min load costs, the need for an index would be significantly reduced – unless perhaps to be used in the case where an RA resource fails to provide a bid at all. Further, we discuss the issue of mitigation above. Please refer to our comments above in these comments regarding de facto mitigation.