

Western Power Trading Forum comments on Local Market Power Mitigation Enhancements Straw Proposal

Carrie Bentley
Resero Consulting for WPTF
916.565.7461
cbentley@resero.com

Ellen Wolfe
Resero Consulting for WPTF
916.791.4533
ewolfe@resero.com

December 21, 2015

WPTF appreciates the opportunity to provide these comments on the ISO's Bidding Rules Revised Straw Proposal posted on November 23, 2015 and call held on December 3, 2015. We provide comments in the following three areas (1) Commitment cost bidding flexibility, (2) Energy bidding flexibility, and (3) Changes to the commitment logic.

WPTF continues to support increased commitment cost flexibility through allowing biddable start-up and minimum load in conjunction with a market power mitigation process.

In the 2012 Commitment Cost Enhancements filing, the ISO proposed to allow entities to bid their commitment costs up to 125% of their calculated proxy cost in order to (1) to enable market participants to bid in higher start-up and minimum load costs for resources with non-fuel related costs not captured in the variable operations and maintenance (O&M) adder, and (2) to account for expected fuel price volatility.

The FERC December 2014 decision approving the filing for the CCE proposals provided the following guidance to the ISO on its efforts to improve cost recovery for gas-fired resources, "... we expect CAISO to abide by its commitment to consider longer-term market design changes for commitment cost bids in conjunction with the bidding rules enhancements stakeholder initiative commenced earlier this month."¹

The Bidding Rules initiative proposes two commitment costs design changes. WPTF supports both of these changes; however, believes that the proposal does not go far enough to increase commitment cost bidding flexibility. WPTF continues to support biddable start-up and minimum load costs combined with a market-power test for commitment. WPTF is unsure why a dynamic (real-time) or structural (monthly evaluation) mechanism combined with a higher cap on proxy costs would be an infeasible way to ensure cost recovery. The ISO's proposal for after-the-fact recovery for costs over 125% may lead to inefficient market commitment decisions. If a resource has higher commitment costs than 125% of the index, then the ISO proposes to compensate these incremental higher costs outside the market. This out-of-market process; however, will potentially lead to a less efficient commitment decision because the resource's full costs will not be taken into account in the energy optimization's commitment decision.

¹http://www.caiso.com/Documents/Dec302014_OrderAcceptingCommitmentCostEnhancementsTariffRevision_ER15-15-001.pdf.

WPTF recommends either (1) a commitment cost structure that allows bidding up to a very high cap and has these costs mitigated to 110% of their proxy costs if there is local market power found through a dynamic mitigation test, or (2) a commitment cost structure that allows bidding up to a very high cap and resources that are found in a structural market power test (such as a monthly assessment) are capped at 125% of costs. These types of structures would mirror the ISO's energy market offer flexibility where resources are allowed to bid on average ~300% of their DEB (\$1,000 energy offer cap), and are mitigated to a DEB which includes a 10% adder. Given the complexity in developing such a proposal, WPTF supports the ISO relying heavily on the MSC and DMM, working with other ISOs that have already developed similar tests, or hiring outside expertise to help develop the proposal.

WPTF does strongly support two aspects of the proposal, with one caveat. First, the ISO proposes to improve the proxy cost calculation and suggests several enhancements. WPTF supports these enhancements. In particular, WPTF supports the ISO's "Option 1" to use the maximum of the two gas day indices in the proxy cost calculation. This will allow resources to offer up 125% of the maximum of the two gas day indexes, which increases potential cost recovery for resources that purchase gas during the higher priced gas day and for resources that purchase gas at a higher cost than the index price of the lower priced gas day. WPTF caveats this support with the ISO not needing to change their day-ahead timelines. We request the ISO provide a clear answer on whether the timelines would need to change prior to going to the board for approval.

Second, the ISO proposes to allow for after-the-fact recovery in the event of significant intra-day gas volatility. The ISO would allow a scheduling coordinator for a resource to demonstrate to the ISO or to FERC that the resources gas costs exceeded 125% proxy cost. A resource may receive cost recovery on a case-by-case basis. WPTF supports this proposal as a means to allow cost recovery during infrequent extreme gas volatility events. WPTF believes however that it is only moderately sufficient as a mechanism to enable consistent competitive commitment cost offers as it only allows recovery of costs and not any additional headroom to account for risk of selling gas at a loss in the event the resource is de-committed or not committed.² WPTF proposes that at a minimum this proposal be changed to allow up to 110% of demonstrated costs so that a risk premium may be incorporated into the cost recovery or that resources be allowed to directly demonstrate their risk premium.

The ISO has not sufficiently supported their proposal to limit bidding flexibility.

The ISO proposes (1) to limit bidding flexibility after a commitment decision when a resource has an inter-temporal constraint that prevents bids from being used in dispatch decisions and (2) proposes to limit bidding flexibility after a commitment decision when a resource has an inter-temporal constraint, but has bids that still could be used in the ISO's dispatch decision. WPTF believes that both of these proposals are answers in search of a problem. There is no evidence that this behavior is occurring and that entities are changing their bids after commitment for any reason, let alone for no reason other than to capture additional BCR.

² The ISO has agreed that this risk is short-run marginal cost because the amount of risk increases as a resource has more energy scheduled in the market. Bidding Rules Revised Straw Proposal, page 8.

If the first proposal is a concern, DMM should monitor for this under their Tariff Appendix P authority to monitor for market power abuse. If an entity changed its bid after commitment solely to capture additional BCR, this clearly is taking advantage of their temporal market power.

As for the second proposal - to limit bidding flexibility after a commitment decision when a resource has an inter-temporal constraint - this seems to be an even less warranted aspect of the proposal. If the market can respond to a resource's energy bid, then the resource may be dispatched down to Pmin, and the most the resource would ever gain is recovery of commitment costs- at the cost of potentially missing out on energy rents. If the issue of changing offers after a resource is committed is a serious concern from the ISO, this indicates to WPTF that the market is so intrinsically broken that the ISO's efforts would be better spent looking into why a resource would rather simply recover Pmin costs than participate in the energy market.

WPTF does not object to the changes in commitment logic assuming there are not large implementation costs.

In particular WPTF questions whether the cost to change the Pmin logic exceeds the efficiency benefits and asks for the ISO to demonstrate the relative expected costs and benefits at a high level in the next draft.

Thank you for your consideration.