Stakeholder Comments Template

Maximum Import Bid Price Analysis

This template has been created for submission of stakeholder comments on the Maximum Import Bid Price Analysis May 28, 2024, workshop and the paper that was published on May 24, 2024. The meeting presentation, and other information related to this analysis may be found on the webpage at: https://www.caiso.com/informed/Pages/MeetingsEvents/MiscellaneousStakeholderMeetings/Default.aspx

Submitted by	Organization	Date Submitted
(Jordan Miner 925-470-6974)	*(CPUC)*	*(June 3,2024)*

Upon completion of this template, please submit it to ISOStakeholderAffairs@caiso.com.

Submissions are requested by close of business on **June 11, 2024.**

Please provide your organization's comments on the Maximum Import Bid Price Analysis paper, presentation and meeting:

Staff of the California Public Utilities Commission Energy Division (CPUC Staff or Staff) appreciate CAISO's review of the Maximum Import Bid Price (MIBP) and the Hourly Shaping Factor (HSF). Staff finds that there is a discrepancy between the HSF formula in the Business Practice Manual (BPM), and the HSF formula set out in CAISO's approved tariff. Staff urges CAISO to correct this discrepancy by updating the BPM to make the HSF formula consistent with the tariff by July 1, 2024, but no later than August 1, 2024, when CAISO's tariff amendment on bids about the soft energy cap may take effect. While Staff understands the importance of considering other HSF and MIBP-related issues, Staff believes that time is of the essence, and thus strongly encourages CAISO to begin by correcting the BPM, which is the only reform that can be made before August 2024. Following the correction, Staff welcomes the opportunity to engage in a more holistic review of the MIBP.

The HSF shapes a 16-hour block price by increasing it during high priced hours and decreasing it during low price periods. It does this by looking at a prior high-price CAISO day and comparing the hourly price to the average price, applying the resulting ratio to the block price. The BPM HSF formula creates the ratio by looking at yesterday's day-ahead hourly price and dividing it by the average price from the last 'above-$200/MWh' day. This implementation can result in combining

two different trading days when the most recent high-priced day, with at least one hour of the day-ahead system marginal energy cost (DA SMEC) over $200/MWh, is not the same as the day previous to the applicable trade date:

> *"The Hourly Energy Price Shaping Factor is calculated using the CAISO day-ahead system marginal energy cost (DA SMEC) **for both the applicable trade date and for a recent high-priced day**, where at least one hour of CAISO DA SMEC exceeds $200/MWh."*[1]

In addition, the BPM states:

> *"If there is no day within the season in which DA SMEC prices exceed $200/MWh, the CAISO looks back to the same season in the previous year and up to three previous years in order to find the most recent high-priced day above $200/MWh."*[2]

The tariff states that both the numerator and denominator in the HSF calculation must be of the same day:

> *"Divide the DA SMEC in that hour of a **previous representative trading day** by the average DA SMEC of the **same previous representative trading day**"*[3]

The tariff does not allow for using the average DA SMEC from the representative day and the hourly DA SMEC from the previous day — when it is different from the representative day — to calculate the shaping factor, but rather the tariff clearly states that one single day is to be used – namely, the representative trading day.

The HSF should average to one for every day in order to function as a shaping factor, but the current implementation can produce an HSF that does not average to 1, effectively scaling the bilateral price. This can lead to the HSF either suppressing or unnecessarily increasing prices on certain days. The discrepancy manifests at the beginning of stressed system conditions, as the hourly DA SMEC is divided by an average price from a different day. The current implementation and tariff will likely only align during a continuous period in which prices are above $200/MWh, in that the representative day will be the previous day.

Staff brought this issue to the attention of the Department of Market Monitoring (DMM) and CAISO, on February 20th and 21st respectively. As part of CAISO's Annual Policy Catalog process, Staff submitted comments on March 25th that were accepted on April 2nd by CAISO regarding the implementation of the hourly shaping factor.[4] CAISO's DMM addressed this in comments in the Price Formation Initiative on May 8th, and CAISO's Market Surveillance Committee also addressed this issue in their opinion released on May 14th.[5][6]

[1] CAISO Business Practice Manual for Market Instruments, Version 84, Pg. 496.
[2] CAISO Business Practice Manual for Market Instruments, Version 84, Pg. 497.
[3] CAISO Tariff, Attachment B, Pg. 11, Section 30.7.12.5.3
[4] Energy Division comments on the shaping factor in the Annual Policy Roadmap/Catalog initiative are available at: https://stakeholdercenter.caiso.com/Common/DownloadFile/e6af76ba-aadc-4e56-b0d0-9a0ee4058e33.
[5] The Department of Market Monitoring comments are available here: DMM-Comments-on-PFE-Rules-for-Bidding-above-the-Soft-Offer-Cap-Draft-Final-Proposal-May-8-2024 (1).pdf. DMM's discusses the hourly shaping factor on

CPUC Staff must emphasize the urgency of this issue: The correction of this calculation error needs to be addressed this summer, before CAISO's proposal to raise the bid cap for hydro and battery storage resources is slated to take effect in August 2024, as the error could detrimentally affect electricity prices this summer.

Staff finds that this discrepancy can be resolved through a BPM change that makes clear that the HSF pulls pricing from the same day. Any other proposed solution would require a tariff amendment and would leave this inconsistency between the tariff and the BPM (and the implementation of the HSF) in place longer.

Stressed system conditions in the summer directly correlate with the days in which the MIBP breaches the $1,000/MWh soft-offer cap due to the influence of high prices at two thinly traded bilateral trading hubs. Staff has concerns regarding the usage of bilateral trading hubs that we summarize in our additional comments below and elaborate upon in our attached presentation.

Additional comments

Please offer any other feedback your organization would like to provide on the **Maximum Import Bid Price Analysis:**

In a subsequent second phase of this initiative, Staff plans to address the additional issues highlighted in our attached Annual Policy Catalog presentation. Namely, staff has concerns regarding the liquidity of bilateral indices on stressed system days and questions the usage of these thinly traded bilateral hubs being allowed to set the MIBP for the entire CAISO market.

Please see our attached presentation: (CPUC's CAISO Annual Policy Catalog Presentation 5.2024.pdf)

Please see our attached submissions for the Annual Policy Catalog: (Hourly shaping factor for CAISO Policy catalog.pdf) and (Liquidity of bilateral indices.pdf)

page 4, as part of their broader comments submitted for CAISO's proposal to raise the bid cap for hydro and storage resources.

[6] The Market Surveillance Committee's Final Opinion is available at: https://www.caiso.com/documents/msc-final-opinion-on-price-formation-enhancements-831.pdf. The Opinion addresses storage resources bidding above the soft offer cap and the MIBP shaping factor. On May 22nd, the CAISO Board of Governors and WEIM Governing Body approved the Price Formation Initiative's proposal to allow storage resources to bid above the soft offer cap, but that proposal did not address the shaping factor issue.