



Requirements for Import Bids Greater Than \$1,000/MWh

Issue Paper and Straw Proposal

Stakeholder Web Conference

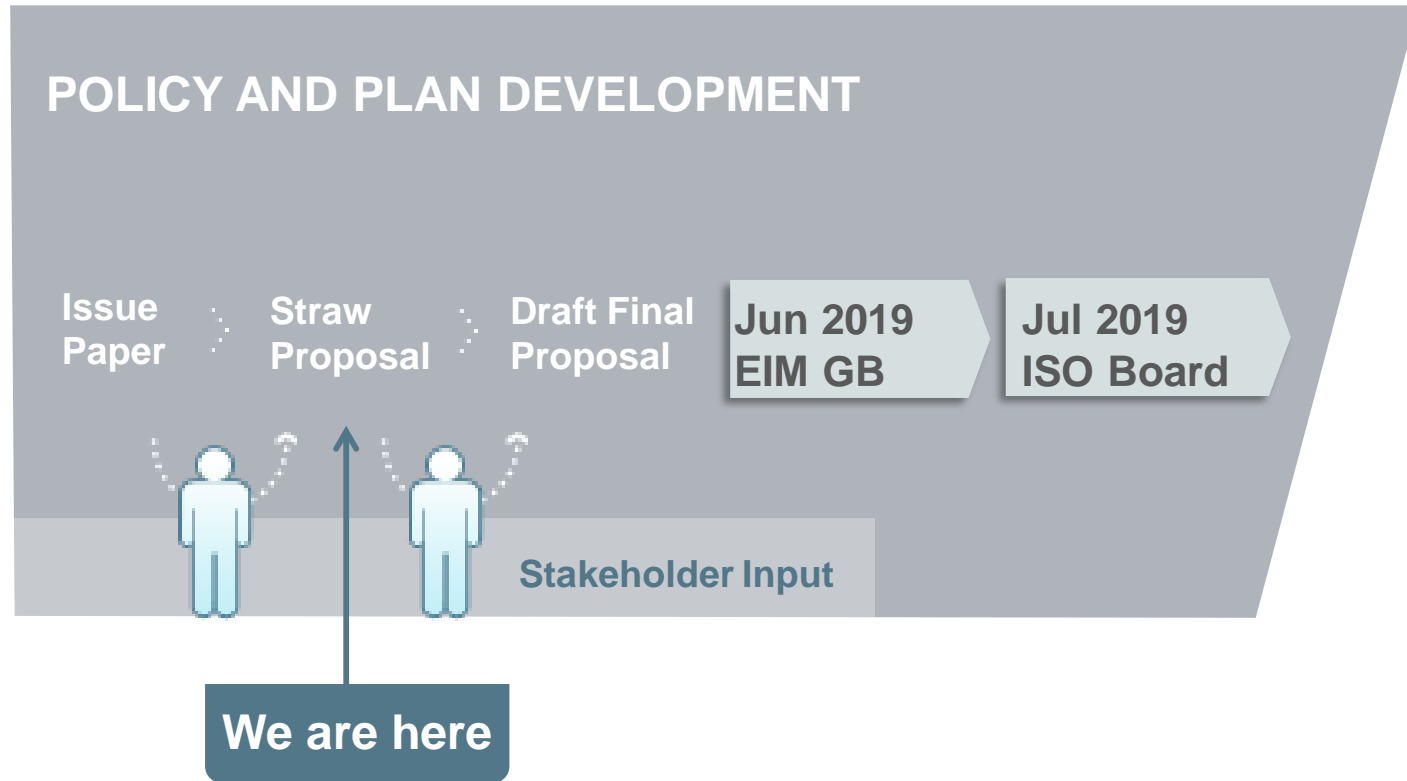
May 16, 2019

1:00 - 4:00 pm

Perry Servedio and Brittany Dean

Market Design Policy

CAISO Policy Initiative Stakeholder Process



Agenda

Topic	Presenter
Welcome and stakeholder process	Jimmy Bishara
Scope	Brittany Dean
Issue	Brittany Dean
Proposal	Perry Servedio
Next Steps	Perry Servedio

SCOPE AND ISSUE

Scope of initiative

1. Ensure energy prices reflect short-run marginal costs of supply when bids are greater than \$1,000/MWh; and
2. Ensure import energy bidding rules are generally consistent with the CAISO's bidding rules for other resources through reasonable cost-verification measures

In 2016, FERC raised the energy offer cap for ISO/RTOs from \$1,000/MWh to \$2,000/MWh (FERC Order 831)

- Generally required suppliers to submit energy bids greater than \$1,000/MWh based on expected or actual short-run marginal costs
 - Required ISO/RTO's to verify costs above \$1,000/MWh before the market for the bid to be eligible to set energy prices
 - Capped bids used to set prices at \$2,000/MWh
 - Provided make whole-payments for resource's bids greater than \$1,000/MWh to the extent the ISO/RTO could not verify bids costs before the market
 - Did not require the same verification rules for import or virtual bids above \$1,000/MWh

Commitment Cost and Default Energy Bid Enhancements (CCDEBE) did not propose requiring import bid costs to be verified

- Considered the CAISO BAA competitive at a system-level
- Determined before-market cost-verification of import bids impracticable
- FERC Order No. 831 did not require import bid costs above \$1,000/MWh to be verified

The western interconnection has a robust market for energy and ancillary services outside of the CAISO's energy market

- CAISO relies on import supply from the western interconnection to reliably operate its system
 - In 2017, the CAISO relied on imports as its third largest source of energy to meet demand -- 21% of energy consumption
- California load serving entities procure thousands of megawatts of resource adequacy capacity as imports
 - CAISO relies on imports resource adequacy capacity to meet overall system reliability needs during monthly peak load conditions

Potential structural system-level non-competitiveness in CAISO balancing authority area indicates need for additional protections against market power

- DMM and CAISO's recent studies concluded some periods of system-level non-competitiveness
- \$1,000/MWh price cap is current safety net against system-level market power
 - However this protection will not extend to imports (i.e. non-resource specific system resources) without rule changes
- A reasonable level of protection against unverified costs above \$1,000/MWh should also apply to imports

PROPOSAL

CAISO proposes the following rules to ensure energy prices reflect short-run marginal costs when they are greater than \$1,000/MWh

- Suppliers may only submit import bids greater than \$1,000/MWh that reflect their actual or expected short-run marginal costs
- Actual or expected short-run marginal costs defined the same way as CCDEBE defined for all other resources
 - Must reflect fuel or fuel-equivalent costs
 - Actual or expected costs based on verifiable contemporaneously available information

Cost verification procedures for import bids must be different than for other types of resources

- CAISO will verify other resource's costs before the market based on default energy bids
- CAISO imports do not have default energy bids
 - CAISO does not have physical generator characteristics for imports
 - Imports may source from a variety of resources
- Consequently, before the market import cost verification must be based on other measures
- CAISO proposal provides strong disincentives to submit import bids above \$1,000/MWh that are not based on verifiable costs

After-the-fact verification of import bid costs

- CAISO may audit import bids above \$1,000/MWh
 - Evaluate supplier's documentation that supports the supplier's bid cost
 - If the CAISO determines the supplier's documentation does not support costs above \$1,000/MWh, supplier will be:
 - Prohibited from bidding imports above \$1,000/MWh for a specified amount of time
 - Potentially referred to FERC
- Similar to resource-specific supply bids, suppliers are eligible for make-whole-payment for verified costs above \$2,000/MWh

Proposal is consistent with FERC Order No. 831 and CCDEBE rule changes

- Requires energy bids above \$1,000/MWh to be based on costs
- Creates an import bidding rule framework generally consistent with bidding rules for resource-specific resources
- Provides reasonable level of protection against suppliers potentially exercising system-level market power above \$1,000/MWh
- Plan to implement at the same time as FERC Order No. 831 and CCDEBE this fall

NEXT STEPS

EIM Governing Body Classification

- The proposal falls within the EIM Governing Body's advisory role
 - Proposed changes would not change any market rules that are EIM-specific
- Stakeholders are encouraged to submit a written response if they have concerns or questions

Proposed Initiative Schedule

Date	Milestone
5/10/19	Publish issue paper and straw proposal
5/16/19	Stakeholder call
 5/30/19	Stakeholder written comments due
6/7/19	Publish Draft Final Proposal
6/13/19	Stakeholder call
6/24/19	Stakeholder written comments due
6/28/19	EIM Governing Body meeting
7/24 - 25/19	Board of Governor's meeting

Please submit written comments by
May 30, 2019 to
initiativecomments@caiso.com