California ISO

Stakeholder Comments Template

Commitment Cost and Default Energy Bid Enhancements

This template has been created for submission of stakeholder comments on the revised draft tariff language and associated March 19 meeting discussion, for the Commitment Cost and Default Energy Bid Enhancements (CCDEBE) initiative. The proposed draft language, the stakeholder meeting presentation, and all information related to this initiative is located on the initiative webpage.

Upon completion of this template, please submit it to initiativecomments@caiso.com. Submissions are requested by close of business **March 26, 2020.**

Submitted by	Organization	Date Submitted
Raisa Ledesma Rodriguez	*CPUC Energy Division*	*March 26, 2020*

Please provide your organization's general comments on the following issues and answers to specific requests.

1. **Commitment Cost Bid Multiplier**

   Please provide your organization's feedback on the proposal to reduce the multiplier used to calculate default commitment cost bids from 125% to 110%. Please include examples and/or point to specific data as to whether a 110% multiplier, combined with the ability to further increase a resource's default commitment cost bids, provides for adequate cost recovery and is consistent with business needs.

   CPUC Energy Division Staff supports the CAISO's proposal to reduce the multiplier used to calculate commitment cost bid caps from 125% to 110%. With added supplier flexibility and the ability to request cost-based commitment cost bid cap changes, a 125% cap, previously used to account for gas price deviations from an index, does not seem appropriate without pricing data to support it. We further note that commitment costs capture a wide range of costs, including operation and maintenance costs and greenhouse gas adders, which are not dependent on gas prices. Any multiplier on default commitment costs that is based on addressing gas price volatility needs to account for the factors in the commitment cost calculation that are not affected by this variation.

   Commitment cost bid caps for natural gas-fired resources currently rely on a proxy cost methodology, which is based on an index that represents average gas prices. These static bid caps apply to commitment cost bids under all market conditions without opportunities for suppliers to submit cost-based change requests. Suppliers may incur fuel costs above or below the average gas price index used, in which case a buffer to account for actual price differentials was needed given gas price variability throughout the day and the lag between when the bid caps were calculated and when suppliers actually purchased gas. At the time, 125% multiplier was considered just and reasonable because the index could not be expected to capture costs all the time. Further, the 125% multiplier included headroom for other potential incidental costs, which mitigated the risks of undercompensating resources under this methodology.

The CCDEBE initiative addressed supplier risks of not recovering actual costs through various proposed measures, including the use of more timely gas-price indices and adding options for suppliers to change their reference levels before and after the market run with actual/expected costs. Staff believes the use of supplier-submitted costs and these measures make the previous justification for a 125% adder for commitment cost reference levels null, and that a reduction to a 110% adder is reasonable to account for potential variability in expected costs, other incidental costs, and a profit margin above costs as with default energy bids. If a supplier believes the CAISO-calculated commitment cost reference level is still insufficient, they would have the option to request changes and recover their costs through pre- and post-market requests.

FERC's February Order on the CCDEBE tariff filing suggests that a 125% multiplier for supplier-submitted costs would not be just and reasonable because the use of that multiplier was justified based on index prices:

> "The Commission previously accepted the proposal to apply the 125 percent multiplier to proxy costs developed using an index, and this was meant to account for the potential divergence between the supplier's average costs using an index and the supplier's actual cost. In contrast, under CAISO's proposal this multiplier would be applied to verifiable supplier submitted costs, which is a meaningfully different context than the context in which the Commission initially accepted the multiplier."[1]

Based on CAISO's response to FERC's deficiency letter, CPUC Staff understands that there is no additional data that could be provided to FERC to justify a 125% multiplier. Staff supports the reduction to 110% in the next filing to continue to address any uncertainty between expected and actual costs and provide a reasonable market power mitigation measure.

[1] 170 FERC ¶ 61,015. Order on Tariff Revisions. Issued January 21, 2020. P. 13.

2. **Pricing Data**

   Please provide your organization's feedback on the gas pricing data analysis discussed during the March 19 web meeting and whether it supports a 110% multiplier in default commitment cost bids.

   Staff supports the Department of Market Monitoring's suggestion that another justification for the 10% adder is to ensure a profit margin above marginal costs that still offers reasonable protection against market power and distortion of overall market clearing prices.

3. **Additional comments**

   Please offer any other feedback your organization would like to provide from the revised draft tariff language proposed for FERC resubmittal, including the topics discussed during the March 19 web meeting.

   CPUC Staff requests further clarification on tariff language related to reference level changes. In the draft tariff, CAISO proposes the following:

30.11.2 Reference Level Change Requests

30.11.2.1 Applicability

A Scheduling Coordinator may submit a Reference Level Change Request for Default Start-Up Bids, Default Minimum Load Bids, and Default Energy Bids, as applicable. Scheduling Coordinators may not submit Reference Level Change Requests for Bids by Non-Resource-Specific System Resources. Resources under the Registered Cost methodology are not eligible for Reference Level Change Requests for Default Minimum Load Bids or Default Start-Up Bids. Scheduling Coordinators may not submit Reference Level Change Requests to recover costs associated with gas company imbalance penalties.

Author
Comment [1]: This is detail the CAISO proposed to add on compliance, if so directed by FERC, at pp. 9-10 of its deficiency letter response.

30.11.2.2 Requirements

Scheduling Coordinators must calculate their Reference Level Change Request amounts consistent with the methodology used to calculate the Proxy Cost-based Default Start-Up Bid, the Proxy Cost-based Default Minimum Load Bid, and the Variable Cost-based Default Energy Bid. All Reference Level Change Requests must be based on the Scheduling Coordinator's reasonable expectation that its daily actual fuel costs or fuel-equivalent costs for a given Trading Day will exceed the costs used by the CAISO to calculate the resource's Reference Levels, and must reflect reasonable and prudent procurement practices. All Reference Level Change Requests must be calculated using actual or expected fuel costs or fuel-equivalent costs supported by Documentation of Contemporaneously Available Information.

In Section 30.11.2.1, CAISO's comment suggests that language regarding the exclusion of gas imbalance penalties will be filed differently from other changes. If this is the case, could CAISO elaborate on why it would not be meaningful to include this language on par with other changes? Previous discussions on including gas imbalance penalties may create some confusion among market participants if this clarification is not included in the tariff.

In Section 30.11.2.2, it is unclear whether scheduling coordinators are expected to apply the 110% multiplier as part of their commitment cost calculations. Could CAISO include language in the tariff to clarify this expectation?

CPUC Staff thanks CAISO for their work on this initiative and for offering stakeholders another opportunity to understand the proposed changes. After CAISO evaluates stakeholder comments, we would appreciate continued updates on CAISO's plans to make additional changes to the tariff filing and expected timelines for filing at FERC.