Commitment Costs and Default Energy Bid Enhancements: Revised Draft Tariff Language

Department of Market Monitoring
February 20, 2020

The Department of Market Monitoring (DMM) submits these comments on the ISO's *Commitment Costs and Default Energy Bid Enhancements: Revised Draft Tariff Language*. [1]

Gas imbalance penalties

FERC's November 2019 deficiency letter on the ISO's October 7, 2019 CCDEBE Tariff Amendment Answer requested the ISO to clarify "whether, under the reference level adjustment, a market participant could use the potential to incur gas imbalance penalties as a justification for adjusting reference levels up to the reasonableness threshold."[2]

In response, the ISO confirmed that "the BPM revisions in support of the CCDEBE Tariff Amendment, as currently proposed in PRR no. 1203, would allow a market participant to request a reference level change based on the potential to incur gas imbalance penalties …" [3]

The ISO's response went on to explain that:

> The CAISO previously believed this was necessary because the CAISO real-time market might dispatch a resource after the gas scheduling window has closed, requiring the resource to consume gas and incur an OFO penalty. However, the CAISO no longer believes this is necessary. The CAISO agrees with the DMM that the price indices are likely to capture the bulk of the costs associated with gas imbalance charges …. ..Thus, most of these imbalance gas penalties should already be captured in the gas price indices used to calculate the resource's reference levels. Any penalties that scheduling coordinators incur would be incremental to those already captured by the indices. [4]

The ISO's response also noted that:

> The CAISO did not expressly state in the CCDEBE Tariff Amendment whether market participants could, under certain conditions, include gas imbalance penalties in reference level change requests. In any case, upon further consideration of the DMM data and in responding to the Commission's inquiries, the CAISO intends to modify its proposed BPM

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[1] http://www.caiso.com/StakeholderProcesses/Commitment-costs-and-default-energy-bid-enhancements

[2] http://www.caiso.com/Documents/Nov4-2019-DeficiencyLetter-CommitmentCostDefaultEnergyBidsEnhancements-ER19-2727.pdf

[3] Response to deficiency letter, p.8. http://www.caiso.com/Documents/Nov22-2019-ResponseDeficiencyLetter-CCDEBE-ER19-2727.pdf

[4] Response to deficiency letter, pp.8-9.

provisions to explicitly state that gas imbalance penalties cannot be included in reference level change requests."[5]

Finally, the ISO added that "If the Commission determines, on compliance, that the CAISO tariff should state that market participants cannot include gas imbalance penalties in reference level change requests, the CAISO proposes to do so by adding the following underlined language at the end of proposed new tariff section 30.11.2.1:

> 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 …. <u>Scheduling Coordinators may not submit Reference Level Change Requests to recover costs associated with gas company imbalance penalties."</u> [6] [emphasis in original]

Given that the ISO now has the opportunity to resubmit modified tariff language to the Commission, DMM suggests that the ISO include the underlined language above directly in its revised CCDEBE tariff filing.

Reference Level Change Requests

FERC's November 2019 deficiency letter also requested that the ISO clarify the following tariff provision included in section 30.11.3.1 of the ISO's August 2019 tariff filing:[7]

> The Scheduling Coordinator must not submit a Reference Level Change Request for the purpose of strategically bidding near the Reasonableness Threshold to bid above actual or expected costs.

In response, the ISO provided the following example of how this section was meant to be interpreted:

> For example, assume the gas price index price the CAISO uses to calculate a supplier's default energy bid is $50.00/MWh and the other cost components of its bid are $4.00/MWh. Consequently, the resource would have a $59.40/MWh default energy bid and a $64.90/MWh reasonableness threshold (i.e., the default energy bid calculated with a 10 percent multiplier). The supplier would only be permitted to request a reference level change if it had actual or expected fuel costs greater than the $50.00/MWh the CAISO used to calculate its default energy bid. Assume the supplier has a gas quote showing that its expected gas cost would be $52.00/MWh. In that case the supplier would be permitted to

[5] Response to deficiency letter, p 9.

[6] Response to deficiency letter, p 9.

[7] http://www.caiso.com/Documents/Nov4-2019-DeficiencyLetter-CommitmentCostDefaultEnergyBidsEnhancements-ER19-2727.pdf

> request a reference level change to $61.60/MWh (i.e., the sum of $52.00/MWh and $4.00/MWh multiplied by 110 percent.). [8]

The ISO's answer to the deficiency letter went on to indicate that if the Commission found section 30.11.3.1 to be unclear, the ISO would be prepared to modify 30.11.3.1 as follows on compliance if ordered by the Commission:

> The Scheduling Coordinator shall ~~must~~ not submit a Reference Level Change Request for the purpose of inflating its Default Energy Bids or Default Commitment Cost Bids beyond what these values would be if calculated based on its s~~trategically bidding near the Reasonableness Threshold to bid above~~ actual or expected costs.

The ISO is now proposing to include this "clarifying change" when resubmitting CCDEBE tariff changes so that the proposed section 30.11.3.1 would be as follows:

> The Scheduling Coordinator shall not submit a Reference Level Change Request for the purpose of inflating its Default Energy Bids or Default Commitment Cost Bids beyond what these values would be if calculated based on its actual or expected costs.

DMM still finds the proposed section 30.11.3.1 unclear and suggests that the ISO develop tariff language that is more descriptive and less ambiguous. DMM recommends that the ISO redraft this key tariff section to more directly include and reflect the specifics of the clarifying example provided in the ISO's response to the deficiency letter.

Also, DMM notes that the phrase "for the purpose of inflating its Default Energy Bids or Default Commitment Cost Bids" suggests that compliance with this provision hinges on the suppliers "intent" to "inflate" these bid caps. This suggests that section 30.11.3.1 might be viewed as a subjective behavioral market rule rather than a clear limit on reference level bids.

Inclusion of 10% Adder in Reference Level Requests

The ISO's revised draft tariff language is not accompanied by any specific rationale for allowing the 10% adder on top of energy or commitment cost bids calculated by suppliers based on their own estimate of actual or expected costs. As noted in FERC's January 21, 2020 order on the ISO's initial CCDEBE filing:

> CAISO notes that it could provide support for a 110 percent multiplier to supplier submitted costs based on the potential variability in costs between when a supplier submits its estimated gas costs in its reference level change request and when it actually purchases gas. This support speaks to the context of reference level change requests in which the multipliers would be used under CAISO's proposal because it deals with the variance between supplier submitted costs and actual costs rather than the difference between an index and actual costs. However, the evidence submitted by CAISO does not support the 125

[8] http://www.caiso.com/Documents/Nov22-2019-ResponseDeficiencyLetter-CCDEBE-ER19-2727.pdf

percent multiplier to supplier submitted commitment costs that CAISO proposes in the instant filing. [emphasis added] [9]

DMM understands that in its revised CCDEBE filing the ISO will seek to provide justification for including the 10% adder in reference level requests "*based on the potential variability in costs between when a supplier submits its estimated gas costs in its reference level change request and when it actually purchases gas.*" However, to the extent that the ISO's analysis may not support the 10% adder on this basis, DMM suggests that the ISO may need to seek to justify the 10% adder largely or primarily as an adder that ensures a profit above marginal energy and commitment costs, while still providing a reasonable level of protection against market power and distortion of overall market clearing prices.

[9] P. 14 ¶41 . http://www.caiso.com/Documents/Jan21-2020-OrderOnTariffRevisions-CommitmentCost-DefaultEnergyBidsEnhancements-ER19-2727.pdf