

## **Commitment Costs and Default Energy Bid Enhancements Straw Proposal**

<b>Submitted by</b>	<b>Company</b>	<b>Date Submitted</b>
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EDF greatly appreciates the detailed consideration by CAISO of all stakeholder comments in the formulation of the Straw Proposal, and the level of thought and effort put in by CAISO Staff in finalizing it. CAISO has made a commendable effort to meaningfully engage with stakeholders and solicit their feedback throughout this process. EDF offers the following comments on a subset of key issues relating to the Straw Proposal.

### **1. Market Based Offers**

CAISO's proposal to allow market based commitment cost offers subject to mitigation represents substantive progress towards enhancing bidding flexibility, bringing it on par with other ISOs/RTOs, all of which currently allow for this. EDF strongly supports this proposed measure. CAISO notes, however, that implementation is contingent on a feasibility and costs assessment for associated dynamic market power mitigation which will be included in the draft final proposal due in August, and proposes an initial "circuit breaker" cap of 300% over commitment cost reference levels.

EDF seeks clarification on two points – the basis for the 300% cap as the appropriate level for a circuit breaker cap, and the proposed feasibility and cost assessment. Sharing the parameters and scope of this analysis with stakeholders for comment in advance of circulation of the draft final proposal will allow for a thorough discussion of all relevant considerations. Deferring discussion until after the draft final proposal has been finalized could effectively preclude meaningful stakeholder discussion around the analysis, given that CAISO's Board of Governors meeting to consider the final CCDEBE proposal is proposed to be held in November 2017.

### **2. Reference level adjustments**

CAISO's proposal to allow suppliers flexibility to negotiate, and to seek adjustments to reference levels is also a step in the right direction, allowing suppliers' cost expectations to be more accurately reflected in CAISO's markets, ultimately enhancing overall market efficiency. CAISO's acknowledgement that bidding flexibility enhancements are vital to advance the integration of renewables, consistent with California's ambitious GHG reduction goals, by generating price signals that incentivize participation of flexible resources in its markets is particularly encouraging.<sup>1</sup>

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<sup>1</sup> In the Straw Proposal at pages 3-4, CAISO notes: "By enhancing its bidding flexibility, the CAISO can better support integration of renewable resources through incentivizing flexible resources participation during tight fuel supply, account or costs of flexible resources (gas and non-gas) to reduce risk of insufficient cost recovery, and further encourage participation in its markets."

However, CAISO could do much more as part of this stakeholder process to bring these goals to fruition. If CAISO's proposal were to be implemented, administratively calculated reference levels, based on a lagging gas price index would continue to be used to estimate fuel costs in the default scenario. This will continue to obscure price formation, and is therefore fundamentally at odds with CAISO's interest, as expressed in the Straw Proposal, in incentivizing flexible resources participation during tight fuel supply conditions, accounting for costs of flexible resources (gas and non-gas) to reduce risk of insufficient cost recovery, and further encouraging participation of such resources in its markets. Bidding rules must allow generators to reflect dynamic gas market conditions in their bids as a routine matter (i.e. via bid-in cost based offers, subject to appropriate vetting and verification), rather than as an exception, as proposed in the Straw Proposal.

EDF is engaging with various ISOs/RTOs and market participants in order to advance gas market enhancements to appropriately value and price flexible, sub-day gas pipeline services, thereby incentivizing the provision of such services, which will be needed at progressively higher levels as generators' gas needs continue to grow in volume and variability. It is imperative that similar market enhancements are initiated on the electric side so that dynamic gas market conditions can be accurately reflected in suppliers' bids.

Notably, a recently initiated FERC policy docket (AD17-12) seeks to "increase transparency and support greater robustness in natural gas price formation."<sup>2</sup> During the June 29, 2017 technical conference in that proceeding, CAISO's Director of Market Analysis and Forecasting, Guillermo Bautista Alderete, stated that CAISO does not "have an accurate index and obviously the expected costs are not going to be materialized in the energy market. That implies that suppliers potentially may not recover all their costs and that's a big concern..."

As emphasized in earlier comments, allowing bid-in cost based offers in conjunction with validation methods to protect against the exercise of market power, strikes the most appropriate balance between the competing interests of allowing fuel cost recovery and guarding against exercise of market power. This is the first best solution from the perspective of enhancing price formation, particularly in the context of increasing use of natural gas by electric generators, and an increasingly dynamic electric grid.

If CAISO ultimately decides not to allow for bid-in cost based offers, it will have missed an important opportunity to substantively enhance its market design structure, incentivize greater participation of much-needed flexible resources, and advance overall market efficiency.

### **3. Reference level adjustment requests - ex-ante and ex-post verification**

If CAISO implements its proposal to continue to use reference levels, but with the opportunity for suppliers to seek adjustments subject to verification, designing effective and balanced verification processes and requirements must be given paramount importance. Unrealistic or unreasonably onerous verification requirements will render the opportunity for suppliers to seek reference level adjustments illusory. Given the uncertainties involved in the dispatch process, and complexities in procuring gas in various time periods, particularly under stressed gas market conditions in the intra-day market, overly stringent verification requirements could result in generators failing to recover reasonably incurred costs.<sup>3</sup>

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<sup>2</sup> Developments in Natural Gas Index Liquidity and Transparency, Supplemental Notice of Technical Conference, Docket No. AD17-12 at 1 (June 13, 2017).

<sup>3</sup> Comments of Exelon Corporation, Docket No. RM16-5 at 15 (April 4, 2016).

Given the diverse range of resources that participate in CAISO's markets, CAISO's proposal to advance bidding flexibility in a resource-neutral manner by allowing not just for fuel price adjustments, but for reference level adjustments more generally, is necessary and appropriate. EDF strongly supports this proposal.

As far as guidelines for supporting documents are concerned, providing a broad set of criteria to be met for documentation falling outside the illustrative list of documents that may be considered for verification would be beneficial. As noted in earlier comments, a highly prescriptive approach should be avoided, keeping commercial market realities in mind.

#### **4. DMM Recommendations**

CAISO cites significant regulatory concerns, implementation timeline challenges, and lack of sufficient oversight to mitigate risk of artificial prices as the basis for rejecting DMM's proposals aimed at advancing incremental progress in enhancing suppliers' bidding flexibility in the near term.

A fuller explanation of these concerns is necessary for stakeholders to engage with CAISO on this issue. If CAISO decides to press forward with longer term enhancements without pursuing any interim market changes, it will become all the more important for CAISO to implement market enhancements in a timely fashion, i.e. by Fall 2018, as currently envisioned.

As proposed earlier, a concrete implementation timeline, with key milestones, in the Draft Final Proposal is necessary to track progress and foster transparency around implementation of the proposed market design changes.