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
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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.

   NRG appreciates the California ISO ("CAISO") holding the March 19, 2020 tariff stakeholder call to allow us the opportunity to explore with CAISO staff its revised proposal and draft tariff language. NRG understands the difficult position the CAISO has been placed in given the FERC order in Docket Nos. ER19-2727-000 and ER19-2727-001 issued on January 21, 2020 ("FERC Order"). Accordingly, NRG supports an approach that balances the need to pursue implementation of long-term solutions for Commitment Costs and Default Energy Bid Enhancements ("CCDEBE") against the practical implications due to implementation constraints identified in the FERC Order. NRG continues to believe that the CAISO's efforts and collaboration with stakeholders should be commended as this effort tackles difficult and complex items.

   In response to the FERC Order, NRG prefers to retain the status quo and asks the CAISO to defer refiling the CCDEBE components until full implementation is feasible. Specifically, NRG requests that the CAISO file the CCDEBE Phase 1 and Phase 2 changes as a single package. NRG's proposal to proceed in a comprehensive, as *opposed to a piecemeal, fashion is based on our analysis that, in virtually every scenario under implementation of Phase I only, suppliers would be harmed instead of helped relative to the status quo.*

NRG supports a full implementation of the CCDEBE initiative as approved by the Board of Governors in March 2018. NRG understands that the Board of Governors' revised motion authorizes the CAISO to make all necessary filings with FERC to implement the initiative as well as any filings that implement the overarching initiative policy, but contain discrete revisions to incorporate FERC guidance in any initial ruling. Notwithstanding the blanket authority delegated by the Board of Governors, NRG appreciates staff's willingness to consider stakeholder feedback in light of the FERC Order.

NRG's perspective is that inherent in the overarching initiative policy was an intent to provide suppliers more bidding flexibility through supporting market-based commitment cost offers subject to a circuit-breaker cap at 300% of an adjusted commitment cost reference level, as well as subject to dynamic market power mitigation. Under that framework, if the resource failed, the market-based offer would be replaced with a commitment cost reference level.

In its proposal, the CAISO stated, "California ISO proposes to initially set the headroom scalar in the commitment cost reference levels at 125%, the same as the current bid cap, as a temporary phase-in measure to allow time to evaluate the effectiveness of the new dynamic commitment cost mitigation… California ISO proposes to automatically decrease the scalar from 125% to 110% in 18 months after the effective date."[1]

This section is critical to the overarching policy intent, because the CAISO shows the relationship between having market-based offers subject to mitigation against mitigating offers to reference levels with only a 110% scalar. The CAISO acknowledged in this section that it needs to "ensure the dynamic commitment cost market power mitigation is not mitigating when market power in fact does not exist which if immediately mitigating to reference levels that only include a 110% headroom scalar would make resources worse off than the current approach."[2]

NRG believes that ensuring resources are not worse off is a key principle in the overarching initiative policy. Because the proposal in response to the FERC Order discussed on March 19th would apply mitigation all hours of the day, we believe that in virtually every scenario under this new proposal, except for on Monday's when a supplier proactively asks for an adjustment, that suppliers would be harmed instead of helped by implementation of Phase I only relative to the status quo.

While NRG does support the ability to seek a reference level adjustment to the CAISO calculated values, NRG does not support adopting this functionality while reducing the circuit breaker cap on cost-based offers today and not providing at the same time market-based offers to better manage that risk. Another key principle in the overarching

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[1] See California ISO Commitment Cost and Default Energy Bid Enhancements Second Revised Draft Final Proposal at Page 33, http://www.caiso.com/InitiativeDocuments/SecondRevisedDraftFinalProposal-CommitmentCosts-DefaultEnergyBidEnhancements.pdf.

[2] Id

initiative policy was to increase the circuit-breaker cap and apply it to market-based offers so that risks of over mitigation or mitigation to reference levels that are not fully reflective of costs could be accounted for in offers and accrued under competitive conditions. Without the ability to manage these risks in hours with competitive conditions, NRG would prefer to forego the ability to make reference level adjustments based on verifiable costs until a comprehensive implementation of the policy is feasible. Specifically, until the market-based commitment cost offers subject to mitigation is in place, the CAISO should not implement the authority to modify reference levels and lower the bid cap to 110%. NRG understands that the CAISO could interpret from the FERC Order that the phased approach for the commitment cost reference levels where the headroom scalar in it would initially increase from 100% to 125% and phase down to 110% after 18 months may no longer be feasible in combination with requesting ability to request reference level adjustments. To be clear, NRG would support delaying implementation of the authority to request reference level adjustments, but would expect to see that change under full implementation with market-based offers.

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.

NRG appreciates the CAISO discussing its analysis supporting its draft tariff language presented at the March 19, 2020 stakeholder call. NRG has been analyzing the data and finds it difficult to derive conclusions that support the modifications in Phase I. For example, after reviewing the data, NRG cannot conclusively arrive at a reasonable expectation of gas price volatility that a supplier may experience on a given day without additional information. NRG finds it inconclusive, because it is unclear on which underlying gas data the CAISO utilized as well as whether the assumptions in the analysis appropriately capture suppliers' risks.

NRG provides the following additional examples to support its current position that additional analysis is needed before it could determine whether the data supports the approach taken in the Phase I proposal.

•Slides 12-15 (next day gas variation). For analysis of next day gas variability, it is important to compare the highest trade reported across all available publishers, which include bilateral transactions, to the gas commodity price used in the CAISO's day-ahead market. NRG understands that the CAISO has access to next day trade data from up to four natural gas publishers that all report the low, mid, and high for trades applicable to the daily gas index. NRG requests the CAISO confirm that the next day gas variation metric captures the information provided from the reported highest trade as well as Intercontinental Exchange ("ICE) cleared trades.

•Slides 12-14 and 16 (same day gas variation). For analysis of "same day" variations, it is important to ensure that all non-published products that could include market trade information that occurs after the next day gas window closes are considered when estimating same day variations. NRG understands that the CAISO has access to ICE data for the non-standard products that can be traded after the next day gas window closes, which can include product names such as 'intra-day', 'same-day', 'Saturday', 'Sunday', 'Monday', 'Saturday-Sunday' with associated flow dates. NRG requests the CAISO

confirm that which non-standard products are included in the 'same day' variation metric and a rationale for excluding any of the non-standard products.

In addition to questions about the data set, NRG is concerned that the analysis may not be appropriate to capture the new complexity of the gas commodity prices that could be used in the real-time market. The FERC Order approved use of the Monday-only index and same-day updates based on triggers. NRG requests clarification on whether CAISO's analysis applies these triggers.

•Slide 13. NRG does not understand the conclusion that the data do not support a cap at 125%. NRG's review of this chart appears to show that the CAISO only excludes ~7% of instances for the 'same day' curve by reducing the intersection point to the green curve from 125% to 110%. In fact, NRG contends that CAISO data support 125% as a conservative circuit-breaker cap. Of course, if the CAISO accepts NRG's proposal to delay implementation of Phase I, then the issue of where to set the cap is mooted.

•Slides 15 and 16. NRG found this analysis incomplete and difficult to understand. First, NRG recommends updating the analysis to include July 23, 2018, which was the day that some generators elected to invoke cost recovery filing rights at FERC, to supplement the days the CAISO automatically selected though the metric described on the March 19th call. NRG believes comparing a day that the market has experience with the bidding flexibility overly imposing restrictions on suppliers to other days can provide important context.

Second, NRG wants to provide specific feedback on the following charts:

- *The two bottom charts on slide 16 are labelled with the same date of August 3, 2018, but show different underlying information, making it impossible to know which day is represented.*
- *The top left chart on slide 16 label for the blue bubbles is 'Trade' where the other charts have the same blue bubble labelled 'Price', which makes it difficult to determine which product type is represented (e.g. intra-day, same-day, Sunday etc.), as well as whether the data reflect individual trade prices or an aggregate product data for low, mid, and high prices.*
- *Graphs are difficult to compare because the scales of the vertical axis in each graph differ significantly, ranging from $0.02/MMBTu to $0.20/MMBTu to $5/MMBTu.*

The difficulty analyzing the data in the slides supporting implementation of Phase I buttresses NRG's recommendation to delay implementation of Phase I at this time.

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.

In the event the CAISO nonetheless elects to proceed with implementation of Phase I despite the concerns NRG has raised in these comments, NRG respectfully requests another opportunity to provide redline comments on the draft tariff language supporting the Phase I implementation. Another reason contributing to NRG's *recommendation to defer the filing of Phase I is that we believe more vetting of the tariff language intended to implement Phase I is required.*