NRG Energy, Inc. Comments on Commitment Costs and Default Energy Bid Enhancements
December 21, 2017 Proposed Changes to Revised Draft Proposal

Submitted By	Company	Date Submitted
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NRG offers the following comments on proposed changes to the December 21, 2017 Revised Draft Final Proposal. The CAISO presented an overview of these proposed changes on a December 21, 2017 webinar but has not published a description of the proposed changes in the same kind of detail that was presented in the prior draft final proposal. As a result, NRG's comments are based on its understanding of the proposed changes.

NRG has long advocated for market participants' availability to submit reference levels that reflect the market participants' expectation of market conditions. The market participant, who has to procure the fuel for their units, and who bears the financial risk for the operation of the units, is in the best position to assess the market conditions relevant to their resources. As NRG has stated previously, the entity who wears the financial consequences of market outcomes should be afforded the opportunity to manage those risks in the market. While the CAISO's CC-DEBE initiative is moving towards that structure, NRG remains concerned that the "guardrails" for this new market-participant-submitted reference level paradigm being proposed will continue to leave market participants exposed to volatile market conditions that won't be properly reflected in CAISO market outcomes and will lead to market participants incurring costs that cannot be recovered except through burdensome and untested filings made with the Federal Energy Regulatory Commission.

The CAISO's market design philosophy continues to focus on developing bidding rules and structures that enable rational pricing outcomes in *most* situations but leave market participants exposed during volatile conditions. The CAISO's market design also focuses on assessing the reasonableness of offers based on *its* relatively static expectation of the conditions being faced by market participants instead of the market participant's own view of often constantly changing market conditions they face. The CAISO justifies this design approach by pointing to statistics that purportedly demonstrate low levels of volatility, or by expressing concern about using any kind of market price metric that is not traded to some high level of liquidity. As a result, the CAISO advances designs that, like past CAISO designs, will work reasonably well for units whose dispatch reasonably can be predicted when markets are trading within normal margins, but which will fail when the markets are volatile, especially for units whose dispatch cannot be reasonably predicted.

As NRG's past and recent experience with volatile gas prices in the Northeast indicates, a market bidding structure that provides for the ISO and market participant to develop and implement a mutually-agreed-upon fuel cost policy (that provides a structure for the costs used in formulating bids) is a workable and preferable approach. The market participant can, working within the framework of the established fuel cost policy, use available close to real-time commodity prices and information to fashion their bids. The market monitor can request the market participant to submit *ex post* justification for the commodity prices used in the bids in accordance with the fuel cost policy. The market participant faces penalty if the commodity prices used in their bids are inconsistent with the fuel cost policy or not supported by the *ex post* justification provided. This structure eliminates the need to provide near-real-time *ex ante* justification for the market participant bid levels – a process that NRG sees as largely unworkable during times of dynamic volatility.

While NRG views the above approach as the preferred approach to protect both the market and market participants, if the CAISO continues on its current path, NRG offers specific comments. The CC-DEBE initiative is very detailed and complex. NRG would like to have a comprehensive view of the Revised Draft Final Proposal before commenting in detail, and looks forward to the RDFP being issued on January 24. NRG offers these comments on what it understands are some of the coming changes to the RDFP:

- While using a proposed Monday-only scalar (125%) that is higher than the 110% scalar used for all other days appropriately reflects the increased volatility for the Monday-only gas package, the 125% scalar does not cover the increased volatility seen in 2017.

- The proposal to mitigate commitment costs to the current commitment cost cap of 125% or proxy cost provides more protection against adverse outcomes than mitigating those costs to 110% of proxy cost- but leaves market participants exposed to more volatile conditions.

- Similarly, adopting a 200% "circuit breaker" cap on commitment cost provides more protection than the current regime, but leaves market participants exposed for higher levels of volatility.

- The CAISO offers that Scheduling Coordinators can manually consult with the CAISO for a reasonableness threshold for a reference level for energy costs above $1,000/MWh, and if the proposed reference level is verified prior to the market close, the adjusted reference level will be used in the market run.[1] NRG applauds this approach but would like to see the manual consultation approach available for reference level adjustments that may be more than the reference "screen" (whatever undisclosed value that turns out to be) but less than $1,000. Such an approach would more closely mimic the coordination NRG experiences with the PJM and MISO markets.

- NRG requests that the CAISO detail its procedures and intended use of the gas scalars in this initiative. In 2017, the CAISO failed to use non-zero gas scalars in situations in which SoCalGas had declared OFOs and for which market participants in the SoCalGas area were exposed to incurring those charges due to CAISO dispatch.

- NRG also requests that the CAISO detail in this initiative the coordination between the CAISO and SoCalGas which provides SoCalGas with the information SoCalGas requires to allow SoCalGas to waive OFO penalties for units dispatched by the CAISO. While this information is

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1 http://www.caiso.com/Documents/Agenda_Presentation_CommitmentCosts_DefaultEnergyBidEnhancements_Dec212017.pdf at slide 17.

not directly related to the proposed modification to Commitment Costs and Default Energy Bids, it is highly relevant to markets participants' ability to recover their costs – one of the fundamental underpinnings of this initiative – and will help market participants understand their risk exposure.

- Finally, NRG supports the CAISO making permanent the three provisions that were deferred from the Aliso Canyon 3 proceeding – better aligning the gas price used in the DA market with more recent gas market conditions, authorizing market participants to recover unrecovered costs at FERC, and providing advisory D+2 schedules. In particular, while it is not the optimal approach (it fails to provide accurate market prices and subjects the market participant to significant burden and risk), allowing market participants to see recovery of unrecovered costs at FERC is an essential safety net, given the trajectory towards a market design that will continue to expose market participants under volatile conditions.