COMMENTS OF NV ENERGY
COMMITMENT COSTS AND DEFAULT ENERGY BID ENHANCEMENTS
DATED NOVEMBER 18, 2016
CAISO STAKEHOLDER PROCESS

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NV Energy is highly supportive of the Commitment Costs and Default Energy Bid Enhancements initiative and appreciates the opportunity to comment on the November 18, 2016 Issue Paper. NV Energy is generally supportive of efforts by the CAISO to enhance the market design to allow market participants increased flexibility in regards to the formation and submission of their supply bids and to reform the Default Energy Bid (DEB) methodology to ensure appropriate recovery of actual supply costs.

With this support, comes an understanding and appreciation of the importance of appropriate mechanisms to protect against the exercise of market power through either structural or behavioral issues. NV Energy therefore supports enhancements to create a well-functioning market that both allows for appropriate cost recovery and balances against the risks of gaming and/or manipulation. Moreover, NV Energy supports enhancements to mitigation mechanisms, specifically: potential enhancements to conduct and impact tests currently utilized in other RTOs and ISOs. Such enhancements can assure market participants that mitigated prices are reasonable reflections of cost expectations. Finally, NV Energy recognizes and supports the need to monitor and mitigate market activities that are particularly important to the CAISO given certain regional circumstances, such as the relative isolation of power supply resources relative to certain load pockets.

Accordingly, NV Energy supports commitment cost offer enhancements that will both reward a generator's willingness to provide energy as well as protect against structural or behavior issues. NV Energy also supports DEB methodology enhancements to provide assurance that mitigated prices are reasonable reflections of cost incurrence.

NV Energy looks forward to working with CAISO staff and other stakeholders on this important initiative.

I. The Scope of the Initiative

A. The Scope Must Be Expanded To Include a Long-Term Methodology for EIM Participating Resources To Recover Fuel Costs Above the DEB Reference Price

During the stakeholder call on November 22nd, the CAISO understandably sought comment on the appropriate scope of this initiative at this early stage. NV Energy submits that one significant topic needs to be added based on CAISO commitments and a recent FERC order: development of a long-term methodology for Energy Imbalance Market (EIM) Participating Resources to recover fuel costs that are above the corresponding reference price used to calculate their DEB.

Section 30.12 of the CAISO Tariff currently permits Scheduling Coordinators for EIM Participating Resources to seek after-the-fact recovery for fuel costs above the applicable DEBs. This provision applies to EIM market participants that are required by the Commission to bid no higher than their DEB at all times and whose DEBs are determined by either the variable rate or negotiated rate options under the CAISO Tariff. However, this provision will automatically expire on November 30, 2017. Accordingly, there is the need for a long-term proposal.

In response to NV Energy's comments in Docket No. ER17-110, the CAISO made the following commitment with respect to ***this*** stakeholder initiative:

> NV Energy requests that the CAISO commit to undertake a stakeholder process to address on a permanent basis the ability of EIM entities without market-based rate authority to recover their fuel procurement costs above their default energy bids. ***The CAISO plans to address this very issue in the stakeholder process concerning commitment cost and default energy bid enhancements.***[1]

In its Order in that same proceeding, FERC stated:

> We agree with commenters that these interim measures should not become substitutes for broader or longer-term market reforms that may be necessary. We find that the tariff revisions proposed here are appropriate for mitigating the risks resulting from the limited operability of Aliso Canyon, ***but expect CAISO to honor its commitment to consider other types of longer-term market enhancements, such as the issues raised by EDF and NV Energy, in its stakeholder processes.***[2]

[1] Answer of the CAISO to Comments dated November 8, 2016 at 14 (emphasis added).

[2] *See,* Cal. Ind. Sys. Operator Corp, 157 FERC ¶ 61,151 at P 29 (2016) (emphasis added).

Despite this clear commitment, the CAISO's November 18, 2016 Issue Paper and November 22, 2016 presentation materials appear not to recognize that this critical issue is to be addressed in this stakeholder process. Indeed, the EIM is not even mentioned except to note that the final proposal will be reviewed by the EIM Governing Body. Accordingly, NV Energy respectfully requests that the upcoming Straw Proposal provide a proposed means for EIM Participating Resources to recover fuel costs above the DEB reference price beyond the current end of November 30, 2017 and on a long-term basis.

B. Straw Proposal on Intra-Day Gas Cost Recovery for EIM Entities

Currently, NV Energy, PacifiCorp, and Arizona Public Service Company (APS) are limited to bidding into the EIM at an amount no higher than their DEB. The ability to, *at a minimum*, seek after-the-fact cost recovery for fuel costs in excess of those provided by the DEB is vital to ensure that the EIM Participating Resources of these EIM Entities are not required to sell at a loss.

In fashioning its straw proposal; however, NV Energy recommends that the CAISO include the following concepts:

- First, there should be no reason to require an EIM participant to utilize a DEB that is non-compensatory under any circumstance. Even Puget Sound Energy -- the one utility currently allowed to bid at market-based rates in the EIM -- may be mitigated to the DEB as part of the CAISO's market power mitigation measures. In such a situation, the DEB should allow Puget, or any other similarly situated EIM Participating Resource Scheduling Coordinator to recover its fuel costs at all times. Moreover, a market participant should never be forced to make a decision between whether to bid less than its own costs or to not participate at all.

- Second, NV Energy submits that there are a number of reasons why the CAISO should revisit after-the-fact recovery by means of a Section 205 proceeding as the long-term solution. Indeed, FERC has sent clear signals that the appropriate process for handling these situations is to have the CAISO or Department of Market Monitoring (DMM) verify the cost-based offer.

The Commission has stated that "after-the-fact cost recovery cannot be a substitute for properly functioning markets."[3] On November 17, 2016, the Commission issued Order No. 831 on offer caps in Docket No. RM16-5. The Commission found that RTO/ISO market rules that prevented a resource from recouping its short-run marginal costs by not permitting that resource to include all of its short-run marginal costs within its incremental energy offer was unjust and unreasonable in violation of Section 206 of the Federal Power Act. Importantly, the remedy was

[3] *Cal. Indep. Sys. Operator Corp.*, 155 FERC ¶ 61,224 (2016) at P 92.

not to permit an after-the-fact Section 205 filing but to have the RTO/ISO or Market Monitoring Unit "verify" that the offer is cost-based. If the verification process can be performed prior to the market run, and the cost is less than $2,000/MWh, then the offer can set the locational marginal price (LMP). Only if costs cannot be verified prior to the market run, or if they exceed $2,000/MWh, can they be recovered through an uplift. If a market participant can make a bid of $1,999 subject only to verification, the CAISO should not require an EIM Participating resource that submits a bid of $305 -- which may be only $5 above a $300 DEB -- to go through the time and expense of preparing, filing, and litigating a wasteful and unnecessary Section 205 proceeding.

The Commission's actions with respect to the bid cap rule are consistent with the order involving APS' request to participate in the EIM using either market-based rates or incremental cost based rates. The Commission noted that the "CAISO's tariff already includes a mechanism—the Negotiated Rate Option—whereby sellers can propose to CAISO mitigation tailored to their particular circumstance."[4] As the Commission continued,

> We do not agree with APS that the Negotiated Rate Option necessarily precludes APS from recovering costs associated with fluctuating real-time natural gas prices. Under the Negotiated Rate Option, APS would submit its proposed Default Energy Bid along with supporting information, calculations, and documentation for review. This information could include fuel costs, operation and maintenance costs, and any relevant formulas or calculations. If accepted by CAISO, APS's fuel risk concerns would be mitigated and APS could receive the tailored mitigation it seeks, while minimizing verifiability concerns because APS would be required to submit documentation and justification to CAISO to support its Negotiated Rate Default Energy Bid. We note that the Commission specifically approved the Negotiated Rate Option as one method of calculating the Default Energy Bid, as well as approving the process for that option. Thus, if APS wants to propose an alternative method of calculating the Default Energy Bid, it is appropriate for APS to follow the process set forth in the CAISO tariff and approved by the Commission for such alternative proposals.[5]

Clearly, permitting EIM Entities without EIM market-based rate authority to participate through negotiated cost-based DEBs (subject to cost verification) provides for more efficient dispatching than a process that involves after-the fact filings and uplifts. As the Commission stated in paragraph 36 of Order No. 831, "ensuring that LMPs reflect the marginal cost of production sends critical information to market participants, improves transparency, and generally results in more efficient outcomes in RTO/ISO energy markets."

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[4] *Arizona Pub. Serv. Co.*, 156 FERC ¶ 61,148 at P 41 (2016).
[5] *Id.* at P 42.

Accordingly, the CAISO's Straw Proposal on the DEB should include a long-term proposal that ensures that EIM Entities are able to recover their costs in a manner consistent with these objectives. NV Energy looks forward to further consideration of this issue in the stakeholder process.

II. Additional Comments on the Issue Paper

The Issue Paper illustrates a potential initiative scope that encompasses the possibilities for updating gas prices, bidding rule changes, and changing mitigation methodology. NV Energy appreciates the willingness of the CAISO to entertain enhancements to these critical market design mechanisms, and will address each further below.

A. Natural Gas Price Enhancements

Of particular importance to NV Energy is the market design mechanism for updating natural gas prices. NV Energy recognizes the complexity of devising a methodology that accurately accounts for changes in natural gas prices for an array of market participants who may not be similarly situated in many cases, and believes a very tailored approach is in the best interests of ensuring that market participants will rarely, if ever, incur commitment costs above CAISO's commitment cost bid cap or DEBs. As such, NV Energy supports a proposal whereby the CAISO and particularly the DMM would offer additional flexibility in the construction and/or formation of the natural gas component of its supply bids, particularly the DEBs. NV Energy proposes that the CAISO and the DMM be open to more tailored approaches from individual market participants, particularly so when that approach proves to be more accurate than the prescribed approach.

B. Enhanced Bidding Flexibility and Market Protection Balance

NV Energy is appreciative of how important it is to protect the market from being gamed or manipulated. However, a market in which certain participants are not confident that they will receive adequate cost recovery is not a well-functioning market. Above all, NV Energy supports flexible bidding enhancements to instill confidence that commitment costs will not exceed CAISO's commitment cost bid cap, while also protecting against gaming and manipulation.

NV Energy recognizes the complexity in striking the appropriate balance between enhanced flexibility and protection against gaming and manipulation. Additionally, NV Energy appreciates the efforts the CAISO has undergone in surveying other RTOs and ISOs as part of its research for the Bidding Rules initiative. While NV Energy continues to enhance its own knowledge of how best to strike this balance, at this time, it will only go so far as to recommend: (1) careful consideration of mechanisms that allow reference levels to incorporate more timely updates of pricing/costing information, as well as (2) cost-based offers subject to mitigation if adequate proof is not provided.

Ultimately, NV Energy believes the CAISO cannot land so far down the spectrum of the market protection balance so as to undermine the cost recovery prospects of its well-intentioned market participants. NV Energy believes a shift is appropriate, to undo the unacceptable risk placed-upon market participants, even at the expense of slight additional risk placed upon the market.

C. Commitment Cost Mitigation

NV Energy supports enhancements to both the current conduct and impact tests. Much like with natural gas price formation, NV Energy favors a tailored approach to setting thresholds for these tests.

More specifically, NV Energy recommends a blended approach for the conduct test whereby the offer is compared against the reference level both on a percentage basis as well as a flat markup. In cases where the reference level is below a certain threshold, perhaps a flat markup might be more appropriate than a percentage value. In cases where the reference level is above a certain threshold, a percentage value may be more appropriate.

Similarly, NV Energy supports a review of both energy prices as well as uplift payments. NV Energy agrees with the CAISO that an impact test is appropriately applied to non-committed resources as well as committed resources. Nevertheless, while NV Energy provides great deference to the CAISO in determining the ideal blend of its conduct and impact tests, it is important to remember that the EIM is a voluntary market.

III. Review by the EIM Governing Body

NV Energy requests that the CAISO consider allowing the EIM Governing Body to have a larger role for this initiative. As noted above, this initiative can have a unique effect on EIM participants, particularly those such as NV Energy that are required to use their DEB at all times. The Issue Paper also includes potential mitigation measures which should be viewed from an EIM perspective if such enhancements are considered. Therefore, NV Energy respectfully requests that the EIM Governing Body have a voting role for this stakeholder initiative, which should be listed as EIM Governing Body –Hybrid.