California ISO

Stakeholder Comments Template

FERC Order 831 – Import Bidding and Market Parameters

This template has been created for submission of stakeholder comments on the FERC Order 831 – Import Bidding and Market Parameters revised straw proposal that was published on November 26, 2019. The proposal, meeting presentation, and other information related to this initiative may be found on the initiative webpage at: http://www.caiso.com/StakeholderProcesses/FERC-Order-831-Import-bidding-and-market-parameters.

Upon completion of this template, please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on **December 19, 2019**.

Submitted by	Organization	Date Submitted
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Please provide your organization's comments on the following issues and questions.

1. Import bids greater than $1,000/MWh

Please provide your organization's feedback on import bids greater than $1,000/MWh as described in section 4.1. Please explain your rationale and include examples if applicable.

PG&E believes that it is important for the CAISO to institute a cost verification mechanism for import bids as it raises its bid cap from $1,000/MWh to $2,000/MWh as part of its implementation of FERC Order 831. Given the importance of guarding against the exercise of system market power, it is critical that imports be treated similarly to internal generation and that includes having their bids above $1,000/MWh likewise be subject to cost verification.

2. Maximum import bid price calculation

Please provide your organization's position on the ISO's proposal to calculate a maximum import bid price to "cost-verify" import bids and its components:

PG&E supports the CAISO's proposal to calculate a maximum import bid price as it raises its bid cap. Cost verification should be required for import bids above $1,000/MWh to set the market price and a CAISO-calculated maximum import bid price appears to be the best way to do that prior to running the market. The CAISO should look to avoid a scenario where an import bid above $1,000/MWh clears the market as the marginal incremental generation and a

subsequent, ex post review of the bid cost reveals it was not cost-justified. Calculating a maximum import bid price before the market run will avoid this scenario.

PG&E supports the CAISO's proposal to include a natural gas component and believes the representative generator heat rate of 11,138 Btu/kWh for a gas turbine is appropriate. This natural gas component can ensure that a sudden increase in gas price not reflected in the electrical price indices published the prior evening can be captured for use in the day-ahead and real-time markets.

PG&E believes that use of a Long-Term Opportunity Cost component should only be contemplated for resources that can attest that they have corresponding use-limited and long-term storage characteristics.

3. Implementing the maximum import bid price

Please provide your organization's feedback on the following options proposed for implementing the maximum import bid price as described in section 4.1.2. Please explain your rationale and include examples if applicable.

Option 1 - Cap import bids to the maximum of $1,000/MWh or the CAISO-calculated maximum import bid price:

Option 2 - Reduces import bids above both $1,000/MWh and the CAISO-calculated maximum import bid price to the greater these:

PG&E supports Option 2, where the import bid is reduced to the maximum of $1,000/MWh and the CAISO-calculated maximum import bid price. The CAISO-calculated maximum import bid price should ensure that it would be a rare scenario where an importer would have an opportunity cost higher than the CAISO-calculated maximum import bid price. However, should such a rare scenario present itself, it should be possible to provide the CAISO with proof of the higher opportunity cost for after-the-fact cost recovery. Thus, there is no reason that the CAISO should reject the import bid rather than just reducing the bid for consumption in its market. Rejecting the bid would unnecessarily reduce supply offered in the market.

4. Market constraint relaxation parameter prices based on verified bids

Please provide your organization's feedback on the following options proposed to address market constraint relaxation parameter prices based on verified bids as described in section 4.2. Please explain your rationale and include examples if applicable.

Option 1 - Scale penalty prices relative to the power balance constraint relaxation penalty price set at the $2,000/MWh hard energy bid cap:

Option 2 - Scale penalty prices relative to the power balance constraint relaxation penalty price set at the $2,000/MWh hard energy bid cap only when there are bids in the market that have been cost-verified at a price greater than $1,000/MWh:

Option 2A – Set energy prices in pricing run based on applying the “price discovery mechanism” when there the power balance constraint needs to be relaxed:

Option 2B – Set energy prices in pricing run based on $2,000/MWh power balance constraint penalty price:

Option 2A is the most logical method for setting prices when constraints must be relaxed. If no cost-justified bid above $1000/MWh is received or if such a bid is not used in clearing the market in the scheduling run, the penalty prices used in the pricing run would be the same as currently used and prices would not rise. If a bid above $1000/MWh is dispatched in the scheduling run, the pricing run would set prices that reflect the use of this bid without adjusting the penalties used in the pricing run. It is unclear that any benefit would be gained by increasing penalty prices in the pricing run. Increasing penalty prices in the pricing run would expose loads to higher prices even in cases in which bids above $1000/MWh are not received and used. With state policy objectives predominatly controlling new entry into the market, penalty prices do not need to be overly burdensome on load to incent new supply entry in the market. Setting prices using the price discovery mechanism when the constraints must be relaxed and cost-justified bids over $1000/MWh are dispatched in the market is appropriately high.

Additional comments

Please offer any other feedback your organization would like to provide on the FERC Order 831 – Import Bidding and Market Parameters revised straw proposal.