Stakeholder Comments Template

Commitment Costs and Default Energy Bid Enhancements

June 30, 2017 Straw Proposal

The ISO provides this template for submission of stakeholder comments on the June 30, 2017 straw proposal and July 6 stakeholder meeting. The straw proposal, presentation and other information related to this initiative may be found at:

Submitted by	**Company**	**Date Submitted**
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http://www.caiso.com/informed/Pages/StakeholderProcesses/CommitmentCosts_DefaultEnergyBidEnhancements.aspx

Upon completion of this template please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on **July 20, 2017.**

Straw Proposal

1. **Feedback on stakeholder positions for each proposed scope item**

   The CAISO is seeking feedback on the straw proposal for the Commitment Cost and Default Energy Bid Enhancement Initiative. Please state whether you support, oppose or hold no position on the following aspects of the proposal, and explain the rationale for your position.

   a. Support hourly minimum load offers
   b. Apply settlement rules when no minimum load cost offer present
   c. Add a negotiated option for commitment cost reference levels
   d. Allow suppliers to provide ex ante reference level adjustments, subject to verification requirements (ex ante and ex post verification processes)
   e. Support market-based offers subject to 'circuit breaker' caps
   f. Apply dynamic market power mitigation to commitment cost components
   g. Apply the results of market power mitigation on commitment costs to default assessments for exceptional dispatch

Six Cities' Comments:

a. The Six Cities support CAISO's proposal to allow hourly minimum load offers. Please see also the Cities' response to Item 2 below re allowing hourly bids for start-up costs.

b. The Six Cities take no position at this time on this aspect of the Straw Proposal.

c. The Six Cities support CAISO's proposal to add a negotiated option for commitment cost reference levels.

d. The Six Cities support CAISO's proposal to allow suppliers to provide *ex ante* reference level adjustments subject to verification requirements.

e. The Six Cities support CAISO's proposal to allow market-based offers for commitment costs subject to "circuit breaker" caps, but only when an effective market power mitigation mechanism is in place. Moreover, the Cities are concerned that a cap based on 300% of proxy costs is too high. See the response to Item 10 below.

f. The Six Cities support the concept of applying dynamic market power mitigation to commitment cost components. However, further explanation and detail concerning the proposed mitigation methodology are necessary for full evaluation of the feasibility and effectiveness of dynamic market power mitigation for commitment cost components.

g. The Six Cities take no position at this time on this aspect of the Straw Proposal.

2. Feedback on whether CAISO proposal resolves stakeholder concerns

CAISO seeking feedback on whether the straw proposal addresses the bidding flexibility issues raised under this stakeholder effort. If not, please explain what "gaps" might remain based on stakeholder perspective if this proposal is approved?

Six Cities' Comments:

Intra-day volatility in gas costs and gas availability affect start-up costs in addition to minimum load costs. Therefore, in addition to allowing hourly minimum load bids, CAISO should allow hourly bids for start-up costs.

In addition, the Six Cities support the proposal by the Department of Market Monitoring to continue use of 8:30 a.m. gas trade data to update reference costs, as this may reduce the need for suppliers to submit requests for resource-specific reference level adjustments.

3. Proposal for hourly minimum load

CAISO seeks feedback from stakeholders on whether its proposal to support hourly minimum load offers resolves the flexibility concerns raised by stakeholders in this initiative. In the straw proposal and the meeting, the CAISO and its stakeholders discussed the complexity around not only supporting hourly variation but supporting ability for non-RA resources to select the hours they wish to participate. CAISO is seeking greater explanation of the specific driver for desire to select hours to participate and examples of how suppliers requesting this flexibility would envision their optimal flexibility.

<u>Six Cities' Comments:</u>

The Six Cities support the concept of allowing non-RA resources to select the hours in which they wish to participate in CAISO's markets under normal market conditions. However, all resources that are capable of operating should remain subject to Exceptional Dispatch when required to maintain reliability. There must be some mechanism for resources that receive Exceptional Dispatch instructions to recover their actual commitment costs where they have not submitted a commitment cost bid.

4. Proposed addition of a negotiated option for proxy costs

CAISO seeking feedback on whether its proposal to leverage the existing negotiated processes to allow the commitment cost components to be negotiated is a sufficient level of detail. CAISO seeks information on what information stakeholders would seek on the proposal to expand the existing negotiation option to all commitment cost components.

<u>Six Cities' Comments:</u>

The Six Cities have no suggestions at this time regarding details for implementing a negotiated option for commitment cost components.

5. When should fuel replacement cost be considered in reference levels

It is a widely accepted principle that the marginal cost of fuel is the market price at which supplier would expect to replace the inventory, but there is an open debate instead on "when" that replacement would or should occur. Establishing the marginal cost of fuel to an electric generator based on replacement cost of the next unit purchased is accepted widely because economics are rooted in the need to evaluate whether to burn the fuel to produce energy, maintain it in inventory, or sell fuel. A profit maximizing electricity supplier would evaluate and weigh each of those possibilities.

CAISO maintains that the appropriate value for establishing a benchmark for that replacement fuel is at the prevailing market price when the offer is submitted. On the other hand, the CAISO understands the Department of Market Monitor to believe the replacement costs would be incurred at a time in the future when fuel prices are the lowest so as to maximize profits. However, the CAISO understands from other stakeholders they view the timing of that replacement as being tied to specific times of year or based on the prevailing market price at the time the decision is made. ISO seeks stakeholder input on the nuance in this discussion specifically what if any requirements for "when" should be considered if fuel replacement cost were to be considered in reference levels?

Further is this a component better suited for a negotiated default energy bid or negotiated proxy cost?

<u>Six Cities' Comments:</u>

Because there may be substantial variation in fuel procurement policies and practices among suppliers, the Six Cities believe this component should be includable in a negotiated default energy bid or negotiated proxy cost.

6. Establishing guidelines for reference level adjustment amount

As stated in the Straw Proposal, the CAISO proposes to introduce reference level adjustments rather than adjustments to only the fuel price component. The addition of a reference level adjustment will allow suppliers to submit requests to update up to four components of the supply offer where the submitted adjustment for that component would replace the routinely calculated reference level. In its Business Practice Manuals, the CAISO will clarify that the technology agnostic definition of its supply offer components should be revised accordingly:

- **Startup costs** – costs associated with bringing a unit online from being shut down *or a state not capable of producing energy into a mode it can produce energy*

- **Transition costs** – costs associated with moving from one configuration to another for multi-stage generators (MSG)

- **Minimum load costs-** operating the unit at the minimum operating level (Pmin) where a unit cannot drop below without compromising the unit's operation including costs of producing energy up to Pmin as well as *run hour costs unrelated to any energy production possible even for resources with 0 MWh minimum operating level*

- **Incremental energy costs** – costs associated with producing energy above Pmin expressed as a $/MWh value *where participating demand response resources costs should be at least at net benefits test value*.

The italicized language is intended to clarify that the CAISO systems will support minimum load costs even for resources without minimum load energy that incur run hour costs. CAISO seeks stakeholder feedback as to whether this meets the need for greater clarity expressed and on what further guidelines should be developed for how the CAISO would expect the cost-based offer for the reference level adjustment to be developed.

Specifically, the CAISO seeks stakeholder feedback on whether the CAISO should provide examples of potential approaches for establishing an appropriate amount to request for a reference level adjustment for each condition warranting an adjustment? Please provide feedback on what level of information is necessary to evaluate these reference level adjustments.

<u>Six Cities' Comments:</u>

The Six Cities request that CAISO develop examples illustrating how it would propose to evaluate requests for cost-based reference level adjustments for the various components that could be adjusted and hold a workshop to work through the examples. Such examples would assist the Cities in evaluating the proposal to allow reference level adjustments and identifying potential implementation issues.

With respect to documentation required to support a request for a reference level adjustment, further explanation and detail are necessary regarding the proposed requirement at page 29 of the Straw Proposal for "5-10 price quotes from at least 2 different counterparties." If each counterparty typically provides a single quote, would that translate to a requirement for price quotes from 5 different counterparties? Depending on the time of day, it may not be possible to obtain a response from 5 different counterparties. Would documentation showing efforts to contact at least 5 counterparties and notation of "not available/no response" be counted toward satisfaction of the 5-10 price quotes requirement? How long would a gas purchaser be required to wait for a response before identifying an attempt to obtain a price quote as "not available/no response"?

The Six Cities also request that CAISO explain when it would inform a supplier that a request for a reference level adjustment did not pass the reasonableness threshold test and identify the level to which the supplier's bid was mitigated.

7. Conditions described in Guidelines

The CAISO proposes that the guidelines should not provide specific conditions that would warrant suppliers' requesting adjustments but should provide the following scenarios and guidelines for approving adjustments for:

- Day-ahead supply offers where prevailing prices in next day gas products are trading more than 110% of the index price published the day prior to the CAISO day-ahead market run (GD1)

- Real-time supply offers where prevailing prices in non-standard products are trading more than 110% above the index price published the morning of the CAISO day-ahead market run (GD2)

- Real-time supply offers reflecting risk margin or scarcity value needed to support reliability on upstream fuel systems only eligible for adjustments in hours after 4PM Pacific under scenarios where gas pipeline instruction has been released and/or gas system capacity levels are insufficient to deliver fuel supply to avoid violating a gas pipeline instructions

CAISO seeks stakeholder feedback on what other conditions the CAISO should specifically describe – especially if any are non-gas related – in the guidelines for conditions warranting adjustments and sufficient supporting documentation.

<u>Six Cities' Comments:</u>

See the responses to Item 6 above and Item 8 below.

8. Ex ante and ex post verification process details

CAISO seeking stakeholder feedback on the level of process details that stakeholders request the CAISO to provide to enable evaluation of the CAISO proposals for an ex ante and ex post verification process.

Six Cities' Comments:

CAISO should include in a Revised Straw Proposal or Draft Final Proposal and, ultimately, in the Business Practice Manual further detail as to how CAISO will develop and apply both the *ex ante* and *ex post* verification tests, especially with respect to the types of documentation CAISO will consider sufficient to support a reference level adjustment request.

9. Clawback if CAISO determines supplier submits reference level request based on artificial price information

To be included in the market, the CAISO will require the requested adjustment to be verified prior to the market run (i.e., ex ante verification). This ex ante verification will be performed through evaluating the reference level adjustment through an automated screen comparing the adjusted value against a reasonableness threshold. If the adjustment falls below the reasonableness threshold, the CAISO will accept the reference level adjustment automatically. If the adjustment is higher than lower of the reasonableness threshold or cost-based cap if applicable, the CAISO will adjust the reference level adjustment to the reasonableness threshold – capping the adjustment at a reasonable rate and sending the original adjustment request to the ex post verification process.

CAISO is considering whether it should seek authority to initiate an audit process if suppliers' behavioral issues are identified. If CAISO is not able to substantiate the suppliers' compliance in following the established guidelines, CAISO will clawback the market revenues or uplift payments. CAISO is seeking stakeholder comments on whether it should seek authority to clawback these artificial payments.

Six Cities' Comments:

A clawback mechanism creates uncertainty for suppliers and may discourage voluntary market participation by non-RA resources within the CAISO BAA and by other resources in EIM Entity BAAs. It is unclear to the Cities why a clawback mechanism would be needed in the case of reference level adjustments that have been subjected to *ex post* verification, because (if the Cities understand the Straw Proposal correctly) only verified adjustments would be included in uplift payments.

It is more difficult to evaluate the need for a clawback mechanism in the context of reference level adjustments that pass the *ex ante* threshold test and are used in the market. The Six Cities support CAISO having audit authority to review reference level adjustments that passed the *ex ante* threshold test. If such an audit identifies reference level adjustments that were not based on documented costs, the supplier(s) requesting such unverified adjustments should be reported to the FERC and subject to penalties and/or remedies for violation of market conduct rules.

10. Proposed caps for commitment cost components

CAISO seeks feedback on whether its proposed cap for market based commitment cost components as 300% of mitigated proxy costs. CAISO is proposing that the mitigated proxy cost would include a 110% scalar for incidental costs outside of the calculation to maintain consistency with its scalar used in its variable cost default energy bid. For example, if the minimum load proxy cost is estimated at $1,000/hour then the mitigated proxy cost will be $1,100/hour ($1,000*110%). The CAISO proposes that the market based commitment cost components be subject to a circuit breaker cap of 300% of mitigated proxy cost. In this example at $3,300/hour. The same methodology would be adopted for the transition cost and start up cost components.

Six Cities' Comments:

Although the Six Cities support prompt implementation of procedures to allow reference level adjustments to better reflect current fuel prices and market conditions, CAISO should apply currently effective thresholds (*i.e.*, 125% of reference level costs for non-use-limited resources and 150% of reference level costs for use-limited resources) until an effective market power mitigation mechanism for commitment costs is in place.

Even assuming implementation of an effective market power mitigation mechanism, allowing market-based bids up to 300% of mitigated proxy costs seems excessive, especially when it appears that CAISO proposes to allow bids up to 300% of mitigated proxy costs for each separate component of commitment costs. FERC's Order No. 831 allows verified cost-based bids up to 200% of the market-based bid cap, or $2,000, to set market prices. CAISO has not explained or justified the proposal to allow bids up to 300% of mitigated proxy costs.

11. Proposed mitigation for commitment cost components

CAISO believes that within the CAISO system there is not a risk of market power at a system level. Instead the market power concerns are based on local market power which if exercised would exacerbate congestion inflating the marginal cost of congestion component. Consequently, CAISO's proposal is to expand the core concept of local market power mitigation to evaluate uncompetitive transmission constraints where there is insufficient supply to meet demand after removing the largest suppliers including its minimum load energy. CAISO's concern with applying its mitigation to its commitment cost components comes from the theoretical concern that generation within a locally constrained area might be needed to serve load within the pocket and when committed to minimum load would result in the transmission constraints into the area not binding due to the lumpy amount of the committed energy.

CAISO is seeking stakeholder input on whether the CAISO should consider any other items in its design for applying market power mitigation to commitment including is there general consensus that market power is a local concern and that the ability to inflate marginal cost of congestion is the condition that a test should identify.

Six Cities' Comments:

At this time, the Six Cities have not identified any additional elements that should be included in the design for market power mitigation for commitment costs. However, it would assist the Cities in evaluating the proposed market power mitigation design if CAISO would provide illustrative examples of when and how market power mitigation would be applied to commitment costs.

12. Proposed Mitigation Characteristics

As mentioned in the Straw Proposal, the CAISO proposes to introduce a commitment cost market power mitigation in the unit commitment processes. The CAISO seeks stakeholder feedback on the information in the Straw Proposal and the table below, which lists the proposed characteristics for the commitment cost mitigation. Specifically the CAISO is seeking input on stakeholder views on the type of constraint tested (Row 3), the RSI calculation for maximum capacity that could be withheld (Row 5), and how the mitigation would apply (Row 6).

Mitigation Design Feature	IFM	STUC	HASP	RTM Pre-Dispatch/FMM
Requires new process	N	Y	N	N
Type of constraint tested	Critical (85% Flow)	Critical (85% Flow)	Critical (85% Flow)	Critical (85% Flow)
RSI calculation – allows commitment/de-commitments	Y	Y	Y	Y
RSI calculation – basis for maximum capacity that could be withheld from pivotal suppliers	maximum effective available capacity	maximum effective available capacity	maximum effective available capacity	maximum effective available capacity
Apply mitigation	If hour failed test	If failed test in any of the 15-minute intervals associated with an hour	If failed test in any of four 15-minute HASP intervals for that hour for HASP up to RTPD/RTD	If failed test in applicable 15-minute interval of RTPD run through balance of hour

Six Cities' Comments:

The Six Cities have no comments at this time on the features of the proposed market power mitigation design identified above.

13. Proposed application of commitment cost mitigation for exceptional dispatches

CAISO is proposing to transfer the new mitigation test to mitigating incremental exceptional dispatches consistent with existing policy for mitigating incremental exceptional dispatches based on historical analysis of uncompetitive transmission constraints.

CAISO seeking stakeholder feedback on the following proposal for purposes of mitigating commitment cost components of an incremental exceptional dispatch:

- A constraint that passes the following two thresholds will be deemed competitive for purposes of applying mitigation to commitment cost portion of the Exceptional Dispatch:
    - Congestion Threshold: Critical flow in 10 hours or more in the RTUC run where the dynamic competitive path assessment is calculated, and
    - Competitive Threshold: Deemed competitive 75 percent or more of the instances where the constraint was critical and tested.

<u>Six Cities' Comments:</u>

It is not clear to the Six Cities how the two proposed thresholds for mitigating the commitment cost components of an incremental Exceptional Dispatch would be applied. The Cities request that CAISO provide examples illustrating the application of the thresholds.