

WPTF Comments on Commitment Costs and Default Energy Bid Enhancements Draft Final Proposal

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About the Western Power Trading Forum

The Western Power Trading Forum (WPTF) is a California nonprofit, public benefit corporation. It is a broad-based membership organization dedicated to enhancing competition in Western electric markets while maintaining the current high level of system reliability. WPTF supports uniform rules and transparency in order to facilitate transactions among market participants. The membership of WPTF includes load serving entities, energy service providers, scheduling coordinators, generators, power marketers, financial institutions, and public utilities, all of which participate actively in the California market, and other such markets in the West and across the country.

Comment Summary

WPTF appreciates the opportunity to provide comments on the Commitment Costs and Default Energy Bid Enhancements Draft Final Proposal that was discussed on a stakeholder call on August 30, 2017 and at the September 8 MSC meeting. WPTF continues to appreciate and commend the ISO policy staff for the effort put forth throughout this entire stakeholder process. Initiatives on Commitment Cost flexibility have gone back over 5 years and its relieving to see the ISO staff work diligently on this initiative to facilitate implementation by Fall of 2018. WPTF continues to strongly support the direction of this initiative and encourages the ISO to continue on its current schedule with planned implementation in Fall of 2018. However, based on discussions occurring this week, specifically at the MSC meeting, it became clear that the ISO is unfortunately far behind schedule given the lack of consensus, woefully with the DMM, regarding certain aspects of the mitigation approach. With that, WPTF believes another iteration of the proposal is warranted to reflect the ISO's current trajectory after consideration of the recent discussions provided Fall 2018 implementation is still obtainable.

WPTF continues to support the direction of the proposal in its entirety, but identifies concerns below with recent changes that are counter to the overall goal of achieving the market-based functionality for bidding flexibility. Specifically, we support (1) Hourly minimum load offers, (2) Market-based commitment costs subject to mitigation, and (3) improved estimates of commitment cost reference levels. Given the strong support, and Joint Parties Comments, we focus specific comments below on process and certain market-design level details rather than going through each proposed change.

In addition to the comments summarized below, it should be noted that WPTF is also a signatory on the Joint Parties Comments submitted to the ISO on September 8. The Joint Parties Comments respectfully request the ISO to make adjustments to the ISO's draft final proposal (referred to as the counter-proposal) to better align with, and ultimately achieve, the intended outcome for these market design changes while still meeting the targeted implementation date. The impetus for those comments are recent changes to the proposal that debilitated the achievement of the long-term solution to bidding flexibility.

Comment Details

(1) Lowering the proposed circuit breaker cap to 200% is overly limiting and no longer serves as a circuit breaker cap, but rather a second mitigation mechanism.

One of the CAISO's adopted principles in this initiative is that bids should be subject to a circuit breaker cap to protect against "*significant false negatives resulting in potential adverse market impacts.*" It should be set at a level such that will only be binding if a supplier is exercising market power that would have a significant adverse impact on the market; it should not be set at a level such that it will more frequently limit the suppliers ability to reflect their willingness to supply under competitive conditions.

Setting the circuit breaker cap at 200%, a cap which the ISO has had in place previously without a market power mitigation mechanism in place, is essentially implementing a second mitigation mechanism that ensures all resources are mitigated to some extent 24x7. This is direct opposition to the original goal for the long-term bidding flexibility solution. The CAISO's rationale for lowering the circuit breaker cap from the originally proposed 300% level to 200% appears to be a compromise between stakeholders but goes against the goals and principles set out for this initiative.

The circuit breaker cap should initially be set, at a minimum, to 300%. Furthermore, the ISO should commit to determining if a higher circuit breaker cap is feasible a year after implementation, and make explicit a date by which the ISO will conduct an assessment. *This aligns with elements (1) and (4) of the counter-proposal as described in the Joint Parties Comments.*

(2) Production simulations are vital so that stakeholders can determine if the proposal improves the ability to reflect cost expectations and willingness to supply relative to the current mitigation structure of a 125% bid cap.

This stakeholder initiative is supposed to be a comprehensive response to the bidding flexibility concerns that have consistently been raised by stakeholders. Therefore, it is obvious that a successful market design should improve suppliers' ability to reflect cost expectations and willingness to supply generation under competitive conditions, not further hinder their ability.

While WPTF understands, and appreciates, the urgency to get this proposal approved by the Board of Governors, and implemented, stakeholders need to be confident that the proposed policy reaches the ultimate goal of this initiative and is more desirable than the status quo. As currently proposed, there are some unknowns that could result in significant over-mitigation and suppliers may be worse off under the proposed design than today. This is especially true given the fluid discussions around how the ISO will determine which non-binding constraints to test for competitiveness, which resources to mitigate for non-binding uncompetitive constraints, and the newly lowered circuit breaker cap of 200%.

Ideally, the ISO would conduct market simulations to give stakeholders an idea of the magnitude of uncompetitive constraints and frequency of mitigation, and based on these results review whether other dynamic mitigation structures may yield less over- or under-mitigation risk. However, WPTF continues to urge the ISO to implement these changes sooner rather than later. If the ISO does not adopt the counter-proposal outlined in the Joint Parties Comments, WPTF suggests the ISO consider conducting a performance test in a similar manner to the testing of the

EIM GHG enhancements. *This aligns with element (4) of the counter-proposal as described in the Joint Parties Comments.*

(3) ISO needs to provide an updated draft of its proposed mitigation approach given the evolution of thought that has occurred in this regard, contingent upon the ISO still being able to meet the scheduled implementation date of Fall 2018.

The MSC recently opined on the ISO's latest mitigation proposal, specifically certain policy questions that still need to be addressed prior to finalizing the design and concerns raised by DMM. WPTF appreciates the robust and informative discussion that took place as it provided an opportunity to level set with the ISO's current policy trajectory and enabled DMM and MSC to voice their opinions as well. It became apparent at the MSC meeting that the ISO continues to evolve their thinking on the policy design in light of recent discussions; in addition, DMM has raised, what they consider to be significant concerns, in the last hour of this policy process. WPTF is concerned that, given the apparent opposition from DMM at this point in the policy process, the efforts to develop a long-term solution may result in no changes to bidding flexibility for the foreseeable future, and suppliers continuing to be limited in their ability to reflect cost expectations and willingness to supply. Therefore, WPTF would be supportive of the ISO working through the comments and concerns recently raised and reflect any changes to the mitigation approach through another draft proposal so long as Fall 2018 implementation is still feasible. One of the many benefits provided in the Alternative Proposal described in the Joint Party Comments is the ISO will have the ability to evaluate the effectiveness of its proposed mitigation approach and make any necessary changes after gaining a year's worth of experience.

One of the mitigation approaches discussed at the MSC meeting was to have one RSI, rather than the current proposal to have one specific to commitment costs and one specific to energy costs, that would test the set of critical constraints for competitiveness. If the ISO opts for this one-RSI approach, WPTF suggests the ISO modify the RSI calculation to account for the minimum load energy for resources that could be shutdown (as described in the Draft Final Proposal for the commitment cost RSI calculation), but believes still defaulting net buyers as fringe competitors is warranted.

Another aspect of the mitigation approach discussed at the MSC meeting was how to determine which resources should be mitigated due to non-binding uncompetitive constraints. There were several options discussed ranging from the ISO's current net effect proposal to DMM's more conservative approach (mitigate unless proven otherwise) to a few suggested by the MSC. WPTF urges the ISO to evaluate the various options and consider an approach that seems to strike a balance between over-mitigation and protecting the market against vulnerabilities.

(4) WPTF supports a transparent and robust method to identify constraints tested for competitiveness, but requests additional details.

WPTF appreciates the additional detailed provided in the Draft Final Proposal regarding the method by which the ISO will identify the set of non-binding constraints that would be tested for competitiveness. These comments reflect WPTF's perspective given the robust discussion that occurred at the recent MSC meeting. It is WPTF's understanding that the ISO is considering to test the set of critical constraints, which are those constraints at or within a predefined threshold of the constraint limit, rather than use a static seasonal assessment as described in the last proposal. Using the set of critical constraints is a reasonable approach to determine which constraints to test as only these constraints can result in a resource being committed in the market

(i.e. they are the only constraints enforced in the market run). Given this recent change in the policy direction, WPTF asks the ISO provide metrics regarding the quantity of constraints included in the set to provide an indication of how many constraints will be tested for competitiveness.

(5) WPTF requests the ISO commit to conducting a stakeholder process next year to evaluate the necessary optimization changes such that resources will only be committed in hours where a minimum load cost bid is submitted.

It is WPTF's understanding that there is no explicit constraint in the IFM or certain real-time unit commitment processes that will ensure a resource is only committed during hours where the supplier has submitted a minimum load cost bid. WPTF would like to reiterate previous comments in that, if a scheduling coordinator does not offer in particular hours, that should be taken as an indication that the supplier does not want to run at any price during that time. The CAISO therefore should prevent the market from dispatching the resource during these hours. This should be true for both the day-ahead and real-time markets.

We appreciate the ISO's clarification provided both in the draft final proposal and on the stakeholder call regarding scenarios when this may occur. WPTF understands that the ISO believes making such design (optimization) changes is out of scope for this initiative and would warrant a more comprehensive review through another stakeholder process. Given the inability of the ISO to consider optimization changes and implement the proposal by Fall of 2018, WPTF supports moving forward with the design as currently structured to facilitate hourly minimum load cost bidding but continues to urge the ISO to modify the optimization such that resources will only be committed in hours they have offered a minimum load cost bid.

(6) WPTF supports the opportunity cost adder being a component of the reference level cost to which the circuit breaker cap is applied.

WPTF appreciates the ISO modifying the proposal to now include opportunity cost adders for use-limited resources in the reference level calculations. The proposal is now better aligned with the intent of the opportunity cost policy and will facilitate a more optimal use of those resources. In addition, it more appropriately aligns with the treatment of the opportunity cost adders in resources' DEBs.

(7) WPTF seeks clarification on how the ISO will determine which suppliers with verified ex-ante adjustments will be subject to ex-post verification.

The ISO is now proposing to defer to its current tariff authority to conduct ex-post verification of suppliers that submit ex-ante requests. It is unclear at this point how or what criteria the ISO will apply to identify and determine which ex-ante requests will be subject to the ex-post verification. Will the ISO develop criteria or use more of an ad-hoc approach? WPTF requests the ISO provide more details regarding the process they envision to determine which suppliers' ex-ante requests will go through the ex-post verification process.