**Western Power Trading Forum Comments on Commitment Costs and Default Energy Bid Enhancements Revised Straw Proposal and Technical Workshop**

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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 Revised Straw Proposal and Technical Workshop on August 3, 2017. We know there is a tight deadline to make the November Board meeting and so understand why there was limited time for stakeholder comments.

Because of this short turn-around time, WPTF asks the CAISO to assume all previously submitted comments are still applicable as well as the following comments on the changes and recently posted technical appendix.

WPTF supports the direction of the revised proposal but asks for additional information such that stakeholders can make an informed assessment of its impact, most notably on the frequency of mitigation. 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. We focus specific comments below on process and certain market-design level details as well as some recommended changes to the details included in the technical appendix.

## Comments on Revised Straw Proposal

The ISO has made two changes to the straw proposal related to supporting hourly minimum load cost offers and one change when regarding reference level adjustment requests.

### Supporting Hourly Minimum Load Cost Offers

The ISO is proposing changes to bid limit applied to minimum load cost offers in hours that were not evaluated in the unit commitment horizon that resulted in a binding commitment decision, but the market is forced to keep the resource committed to respect its minimum run time. The initial proposal was to limit the bids to the last economic offer evaluated in the unit commitment horizon, but the ISO is now proposing to limit it to the average of the suppliers MLC offer during that commitment process. WPTF appreciates the ISO's efforts to mitigate for potential gaming but believes this may be a case where rules are put in place for potential gaming concerns, that may not materialize, at the expense of needed flexibility for suppliers. If the last economic bid submitted reflected the most up-to-date cost expectations of the resource, and was accepted, then limiting the supply offers in hours immediately following that period could be limiting the supplier's ability to reflect cost expectations in those hours as well. WPTF supports the previous proposal of using the last economic bid and have DMM monitor for potential gaming concerns. In addition, WPTF supports the flexibility for suppliers to bid below the determined limit based on the last economic bid.

Another change the ISO is proposing is related to when a resource is committed and their minimum run time extends beyond hours where the resource has a minimum load offer. The ISO is now proposing to settle BCR based on the resources proxy cost when minimum load offers are not provided for all hours of the resource's commitment period, for purposes of bid cost recovery. In proposal, the ISO states this treatment is appropriable because under this proposal suppliers will have the ability to "update its market-based bids for the hours that would otherwise have missing offers to reflect market-based offers." WPTF agrees using the proxy cost offer for purposes of BCR when a resource is committed during an hour due to its minimum run time and no minimum load cost bid was provided is reasonable because this will only be the case when suppliers do not update the bids to reflect market-based offers. If the concerns described below are addressed, then there is no need for this logic since the resource will only be committed in hours they have provided a bid.

WPTF would also like to take this opportunity to reiterate comments previously submitted: *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.

**The IFM market should not commit resources in hours where they did not provide a minimum load cost bid.** It is WPTF's understanding that there is no explicit constraint in the IFM that will ensure a resource is only committed during hours where the supplier has submitted a minimum load cost bid. For example, a resource with a five-hour minimum run time with minimum load cost bids for hours 17-21 should only be committed during those five hours or not at all; the resource should not be committed from hours 20-24 as a result of submitting minimum load cost bids in hours 17-21. The market design should be enhanced to recognize the hours a minimum load cost bid is provided and only commit the resource during those hours.

**WTPF requests additional information regarding the potential for resources in real-time to be committed, due to minimum run times, in hours they did not submit a minimum load cost bid.** Based on the discussion at the workshop, the ISO indicated this concern is only applicable to resources that can be committed in RTUC, not STUC as STUC will only commit resources whose start up time plus minimum run time is less than the STUC horizon. WPTF prefers the market be enhanced such that a resource will only be committed in hours a minimum load cost offer has been submitted. However, given the ISO's current proposal, WPTF has the following asks:

- Please confirm that even though STUC will only commit resources whose start-up time plus minimum run time is within the STUC horizon, that STUC will only commit a resource in hours within the STUC horizon if a minimum load bid is provided. For example, if a resource has a minimum run time of 3 hours, and submits minimum load bids for hours 19-21. Will the STUC run that looks at hours 20-23 potentially commit the resource for hours 21-23 even though it does not have a minimum load bid for hour 22 and 23?

- Assuming the above is confirmed, and the scenario only applies to resources that can be committed in RTUC, please quantify how many resources are within that pool.

<u>Reference Level Adjustment Request</u>

The ISO also made a minor change to its proposal related to suppliers that inappropriately use the reference level adjustment process. The ISO will now also seek the ability to render suppliers ineligible to request adjustments for a given period of time and potentially impose penalties on suppliers who submit inaccurate fuel information in their favor. WPTF is generally supportive of this change as it will ensure additional measures to prevent potential gaming.

**<u>Comments on Proposed Mitigation Mechanism and Technical Appendix</u>**

WPTF appreciates the ISOs' efforts to provide the level of detail discussed in the technical appendix as it enables a more robust discussion to take place with the stakeholders in the policy process rather than during the implementation process, which tends to be less transparent.

**WPTF requests additional information regarding the frequency of mitigation as currently proposed.** One of the key drivers for the proposed changes in this initiative is to enable suppliers to more accurately represent cost expectations through market bids, which has proven challenging with the current 125% bid cap. WPTF supports the ISO's proposal to increase the bid cap to 300% with an *effective and accurate* dynamic market power mitigation in place, but asks the ISO to provide analytics regarding the proposed mitigation mechanism in terms of how frequently resources will likely be mitigated. It is difficult for stakeholders to determine if resources will be mitigated down to its proxy cost under the proposed design frequently enough that suppliers would be better off with the current 125% bid cap. If it ends up where suppliers are better off under the current 125% bid cap rather than 300% due to being mitigated frequently enough, WPTF would prefer to retain the current 125% cap with the continued ability to request ex ante adjustments.

**The ISO should explore other options for valuing non-binding constraints when calculating the non-competitive congestion component that will be used to identify resources subject to commitment cost mitigation.** As currently proposed, the ISO is going to assume a shadow price of -1 for all constraints. The ISO states this is needed because the test will consider constraints that are not binding and thus do not have a shadow price. As proposed, this will not take into account the magnitude of congestion and will weigh all constraints the same, which could result in inaccurate mitigation. The current energy mitigation method considers the net effect of the shift factor and magnitude of congestion on the constraints, both of which are vital to properly identifying resources that have the ability and incentive to exercise market power. WPTF understands the energy mitigation method cannot be easily applied when the constraints are not binding, but the ISO should explore other options before settling for this formulation which could result in over-mitigation and thus suppliers would be better off under the current 125% bid cap.

**WPTF suggests minor modifications to the calculation of withholding capacity and seeks more detail for MSG resources.** For calculating the potential capacity that can be withheld from a resource, the ISO should consider a resources minimum up time. As currently detailed, the ISO will consider the minimum load capacity potential capacity that can be withheld if a resource can ramp down below that level. The current calculation does not consider the resources minimum run time. The capacity below a resources minimum load level should only be considered potential capacity that can be withheld if the resource has already met its minimum run time and the market would have the ability to de-commit the resource.

WPTF would appreciate additional detail around how the ISO will determine what capacity could potentially be withheld from MSG resources. For example, if a MSG is in the highest configuration, will the calculation include the capacity from the highest dispatch level the resource could ramp up to down to 0 MW as potential capacity to withhold, or only from the highest dispatch the resource could ramp up to down to minimum load level of the configuration? If the ISO takes the approach of considering all capacity below the minimum load level of the MSG, this should only be applied if the MSG can be directly shutdown from that configuration.

**The 300% circuit breaker cap may not be sufficiently high enough for use-limited resources to reflect their operating costs as well as the opportunity cost as developed through CCE3.** The ISO is proposing that supply offers will be subject to the 300% circuit breaker cap and that this is sufficient for resources to reflect the opportunity costs associated with use limitations. The CCE3 policy proposed the bid cap to be set at 125% of the estimated proxy cost plus 100% of the opportunity cost. While 300% cap may be high enough initially for suppliers to reflect both actual operating costs and the opportunity cost, as the year goes on and resources are nearing their limitation, the opportunity costs are expected to increase in value; the opportunity cost could potentially become high enough that even with a 300% cap, it cannot be reflected in bids unless the opportunity cost is added on top of the 300% cap.

**ISO should not mitigate commitment cost offers when a resource is subject to energy bid mitigation.** Based on discussions at the workshop, the ISO is considering to mitigate energy bids and all commitment cost bids of a resource when they are subject to mitigation due to the current LMPM for energy mitigation. This could result in more stringent mitigation than today. Today a resource subject to mitigation on its energy offers can still submit commitment cost bids up to 125% of proxy cost; as proposed, resources subject to mitigation on its energy offers will now have commitment cost offers mitigated. The ISO should only be mitigating energy bids based on the current energy mitigation test and commitment cost bids based on proposed commitment cost mitigation approach.

ISO should ease into what is considered “frequent ex ante requests” when identifying suppliers that will be subject to an audit process. The ISO is proposing that suppliers flagged as frequently requesting ex ante adjustments will go through an audit process. The ISOs reasoning was the ex ante adjustments should only be made for cases when the resource is mitigated, however at the time the ex-ante request has to be made, suppliers will not know if the resource will be mitigated. WPTF urges the ISO to take this timing into consideration when determine what constitutes “frequent requests.”

WPTF looks forward to continue working with the ISO on these market enhancements.