

# Stakeholder Comments Template

## Commitment Costs and Default Energy Bid Enhancements

Submitted by	Company	Date Submitted
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### March 30 and April 20 Working Groups

This template has been created for submission of stakeholder comments from the March 30 and April 20, 2017 working groups for the Commitment Costs and Default Energy Bid Enhancements initiative. Information related to this initiative may be found at:

[http://www.caiso.com/informed/Pages/StakeholderProcesses/CommitmentCosts\\_DefaultEnergyBidEnhancements.aspx](http://www.caiso.com/informed/Pages/StakeholderProcesses/CommitmentCosts_DefaultEnergyBidEnhancements.aspx)

Upon completion of this template, please submit it to [initiativecomments@caiso.com](mailto:initiativecomments@caiso.com). Submissions are requested by close of business on **May 1, 2017**.

WPTF appreciates the opportunity to provide feedback on the two previously working groups held by the ISO to discuss changes to the commitment cost offer structure. WPTF wants to acknowledge the ISO's efforts thus far and willingness to consider significant changes to the current bidding structure, which is essential in developing the long-term solution that is the objective of this initiative. Generally, WPTF supports a bidding structure that balances supplier's ability to reflect their true willingness to generate under competitive conditions while still protecting the market from vulnerabilities that can arise under uncompetitive conditions.

WTPF's responses below, in **blue**, focus more on the bidding and market design questions and leaves the more cost-specific questions to be answered directly from other stakeholders participating in this effort.

#### Questions:

As explained during the March and April workshops, CAISO's current bid structure design includes up to four components where the commitment cost components are considered cost based offers subject to validation and the energy component is a market based offer that is mitigated if potential to exercise market power is detected. The minimum load component combines both the variable and short-term fixed costs of operating at minimum operating level (See March Market Working Group Slides 11, 21-43; April Market Working Group Slides 12-18).

*Figure 1: Illustration of CAISO bid structure components*

Type	Sub-type	Market Based Offer	Cost Based Offer
Energy	Variable Cost	<b>X</b>	
MLC	Variable Cost		<b>X</b>
	Fixed Cost		
TC	Fixed Cost		<b>X</b>
SUC	Fixed Cost		<b>X</b>

CAISO seeks Stakeholder feedback on the following questions in light of the market working group discussions. For each of these questions please expand on a yes/no answer with inputs on advantages or disadvantages to the potential design choices.

1. General Questions:

- a. We are seeking feedback on whether the Issue Paper and working group discussions regarding the bidding flexibility, market power mitigation methods, and mitigated price or maximum allowable commitment cost level determination concerns was inclusive of the issues held by stakeholders.

Yes, the discussions were inclusive of the concerns held by members of WPTF.

- b. The High-Level Design Paths Handout contains a decision tree with four design paths. What are stakeholder views of the preferred path on the decisions trees? Are there more than four design paths that should be considered to evaluate for a preferred path?

The preferred path for WPTF members is flexible bidding both in terms of offer prices and frequently updating those offer prices when market power cannot be exercised. This would then be balanced with an effective mitigation mechanism that uses cost based offer prices when the resource is mitigated. By effective mitigation mechanism, WPTF means one that does not overly mitigate but is able to accurately detect instances where market power may be exercised and protect the market from such vulnerability only in those instances.

- c. What items would you like to briefly discuss in the next workshop on May 23?

After the last workshop, a consensus seemed to be forming that hourly bidding flexibility was an ideal solution for this process with the understanding that there would need to be a mitigation mechanism in place. Before putting too much effort into one path, an important factor that should be considered is the probability of over-mitigation under any design, and the feasibility of the ISO being able to develop and implement an effective dynamic competitive test for commitment cost offers. One of the main reasons for moving from the static competitive path designation for energy bid mitigation was the magnitude of over-mitigation – resources were being mitigated when there was no ability to exercise market power.

There is also a link between what is being discussed in this initiative with one of the topics in ESDER 2 that is getting bumped to ESDER 3 – that’s the consideration of allowing NGR resources to reflect commitment and opportunity costs in the NGR model. It would be beneficial for the ISO and

stakeholders to discuss if/how any proposed policy herein would apply to all resource types, including storage or potentially dual fuel type resources.

2. Supply Offer Structure with Market Based and Cost Based Offers

- a. Should the California ISO enhance its bid structure to support suppliers’ submitting market based offers for the commitment cost components? If done, the California ISO would need to determine an appropriate “circuit breaker” offer cap and mitigation to identify conditions where mitigation is needed. (E.G. Bid Structure and Bidding Rule Design Option Handout 3b)

Type	Sub-type	Market Based Offer	Cost Based Offer
Energy	Variable Cost	<b>X</b>	
MLC	Variable Cost	<b>X</b>	<b>X</b>
	Fixed Cost		
TC	Fixed Cost	<b>X</b>	<b>X</b>
SUC	Fixed Cost	<b>X</b>	<b>X</b>

Yes, WPTF is supportive of allowing suppliers to be able to submit market based offers for all commitment cost components. This will increase the ability for participants to submit offer prices that more accurately reflect their willingness to generate rather than being subject to the offer price cap, which can be too restrictive.

- b. If the ISO does not propose to introduce market based offers subject to mitigation, would stakeholders prefer the ISO to evaluate increasing the level of the commitment cost bid cap used to ex ante validate these cost based offers fall within a reasonable range of expected costs or to continue to focus in re-designing the cost based framework? To illustrate, what are the preferences based on trade-offs between either (1) making no changes to the gas and non-gas unit processes for estimating costs but increasing the scalar used in both the maximum allowable commitment cost levels and default energy bid calculations to e.g. 150% versus bid-in cost based offers or reference level adjustments?

WPTF highly encourages the ISO to pursue the path where market based offers are submitted and not consider simply increasing the bid cap. Recall not too long ago the ISO had the offer cap for registered cost option set at 200%. Reducing that cap to the current 150% met significant stakeholder resistance for the same reasons the ISO is now considering other options. Simply going back to where we were is not the long-term solution that is the objective of this initiative. Not to mention the possible regulatory risk of FERC even approving such proposed tariff revisions.

- c. If the ISO proposes to introduce market based offers for the commitment cost components, would that necessitate removing the functionality today of submitting cost based offers even for those components? For example, today ISO allows suppliers to submit its cost expectations in the bid submission subject to the bid cap as a validation method. If market based offers are supported, the ISO could remove the cost based offer from the bid stack, reduce the scalar to 110% consistent with default energy bids, and insert the calculated cost based offers when mitigation applies. On the other hand,

if the cost based offers subject to 125% bid cap was retained there would be greater flexibility to submit representative costs. (E.G. Bid Structure and Bidding Rule Design Option Handout 2b)

Type	Sub-type	Market Based Offer	Cost Based Offer
Energy	Variable Cost	X	
MLC	Variable Cost	X	
	Fixed Cost		
TC	Fixed Cost	X	
SUC	Fixed Cost	X	

WPTF supports retaining the functionality of submitting cost based offers in this scenario as they can then be used as the mitigated bids. If the functionality was removed and the ISO used the calculated commitment costs when mitigated this would only work for gas-fired resources. A similar “formula” would then have to be developed for non-gas fired resources or we could end up in a situation where non-gas fired resources can submit essentially “cost-based” offers for mitigation but gas-fired resources will still be subject to the ISO’s calculation. Enabling both gas-fired and non-gas fired resources to submit cost based offers to use when mitigated applies similar treatment to all resources and enables resources to reflect more accurate costs even when mitigation.

- d. If introducing market based offers does not necessitate removing the cost based offers for commitment costs from the bids, should the California ISO enhance its bid structure to support suppliers’ submitting a cost based offer for the incremental energy component? (E.G. Bid Structure and Bidding Rule Design Option Handout 4b)

Type	Sub-type	Market Based Offer	Cost Based Offer
Energy	Variable Cost	X	X
MLC	Variable Cost	X	X
	Fixed Cost		
TC	Fixed Cost	X	X
SUC	Fixed Cost	X	X

Enhancing the bid structure to enable cost based offers for incremental energy has benefits. Non-gas fired resources today essentially have that ability given the tariff language, so extending that same functionality to gas-fired would result in more equitable treatment. Furthermore, such a structure would potentially lend itself to all resource types, including dual fuel-type resources, thus eliminating the need to develop another methodology for one-off resource types.

3. Hourly Commitment Costs or No Load Structure

- a. Do minimum load, start up, or transition costs have hourly variation and should market participants be able to select which hours to offer that component or if start up and transition should be allowed to have hourly values as well? Do stakeholders have a preference for how to move to hourly values? Please explain the reasons that suppliers need to have minimum load, start up, or transition costs that vary hourly beyond what

can be accomplished through re-bidding minimum load subject to its minimum run time in the real-time market?

To the extent the suppliers’ willingness to provide energy changes hour to hour, then enabling hourly variation of commitment cost offers would align with changes in costs. If the ISO were to pursue such a structure, significant consideration should be given to the ability for market participants to partake in any “gaming” market behavior that would result in adverse impacts to the market.

At the March Market Working Group meeting, the California ISO put forward two options for moving to hourly treatment of minimum load, they included:

- i. Would stakeholders support Option 2, “Hourly Minimum Load Cost Component”, which would change the commitment cost components (minimum load including variable and short-term fixed costs, start up, and transition costs) to hourly components (March Market Working Group slides 35, 38-40; April Market Working Group slides 12 and 13)? ISO seeks input on all commitment cost components as it understood from the April Market Working Group meeting that there may be some stakeholders voicing a need for hourly values for all.
- ii. Would stakeholders support Option 3, “Hourly and Daily Minimum Load Energy Bid Components”, which would move to a “no load” structure in lieu of its “minimum load structure”? Put differently, should the California ISO move to a bid structure where there is a bid value for both the hourly variable cost portion and the daily short-term fixed cost portion (see March Market Working Group slides 25, 35, 41-43)?

WTPF is supportive of Option 2 as that will provide more bidding flexibility than a no-load cost structure. While WTPF was initially intrigued by the no-load concept, after discussions at the working groups and further exploration of the concept, potential inefficiencies were identified that could arise with a no-load structure.

- b. Depending on whether the ISO proposes to introduce market based offers for the components for short-term fixed costs or introducing a bid-in cost based offer for variable energy components, the bid structures could include either:
  - i. No changes to short-term fixed cost components – only supporting flexibility for the hourly variable component of minimum load energy as shown in Bid Structure and Bidding Rule Design Option Handout 5a.

Type	Sub-type	Market Based Offer	Cost Based Offer
Energy	Variable Cost	<b>X</b>	
MLC	Variable Cost	<b>X</b>	
	Fixed Cost		<b>X</b>
TC	Fixed Cost		<b>X</b>
SUC	Fixed Cost		<b>X</b>

- ii. Introducing market based offers and retaining cost based offer functionality for short-term fixed commitment cost components while adding the flexibility for the hourly variable component of minimum load energy as shown in Bid Structure and Bidding Rule Design Option Handout 3a.

Type	Sub-type	Market Based Offer	Cost Based Offer
Energy	Variable Cost	<b>X</b>	
MLC	Variable Cost	<b>X</b>	<b>X</b>
	Fixed Cost	<b>X</b>	<b>X</b>
TC	Fixed Cost	<b>X</b>	<b>X</b>
SUC	Fixed Cost	<b>X</b>	<b>X</b>

- iii. Introducing market based offers and removing cost based offer functionality for all components while adding the flexibility for the hourly variable component of minimum load energy as shown in Bid Structure and Bidding Rule Design Option Handout 2a.

Type	Sub-type	Market Based Offer	Cost Based Offer
Energy	Variable Cost	<b>X</b>	
MLC	Variable Cost	<b>X</b>	
	Fixed Cost	<b>X</b>	
TC	Fixed Cost	<b>X</b>	
SUC	Fixed Cost	<b>X</b>	

- iv. Introducing market based offers and retaining cost based offer functionality for all components while adding the flexibility for the hourly variable component of minimum load energy as shown in Bid Structure and Bidding Rule Design Option Handout 4a.

Type	Sub-type	Market Based Offer	Cost Based Offer
Energy	Variable Cost	<b>X</b>	<b>X</b>
MLC	Variable Cost	<b>X</b>	<b>X</b>
	Fixed Cost	<b>X</b>	<b>X</b>
TC	Fixed Cost	<b>X</b>	<b>X</b>
SUC	Fixed Cost	<b>X</b>	<b>X</b>

WPTF supports the last option which provides suppliers the most flexibility to accurately reflect their willingness to generate under competitive conditions while still enabling accurate representation of costs to generate when uncompetitive conditions are detected. This is under the assumption that an effective mitigation mechanism is able to be developed otherwise the costs of potential over-mitigation and benefits of the added flexibility should be carefully considered.

4. Market Based Commitment Cost Offers Subject to Market Power Mitigation

- a. Assuming the California ISO proposes to support market based offers for commitment cost components, please respond to the following:
  - i. Is the current method used to cap commitment costs resulting in over-mitigation of units and/or regularly limiting suppliers’ ability to submit prices based on their

willingness to sell when there is unlikely to be market power concerns? If so, please explain.

Yes, the current bid cap structure for commitment costs essentially mitigates all resources 24x7 regardless of uncompetitive conditions or not.

- ii. Would a dynamic assessment performed in tandem with the energy mitigation be preferable to stakeholders similar to that described in the March Market Working Group slides 50?

WPTF supports a market design where mitigation is only applied when uncompetitive conditions are detected. To the extent a dynamic assessment can be effectively developed and implemented such that resources are not over-mitigated, as was the case with the static competitive path assessment for mitigation of energy offers, WPTF would be supportive.

- iii. Would stakeholders support considering a static competitive path assessment for commitment cost mitigation if a dynamic one is not feasible? A static competitive path assessment might take the form of a structural test (pivotal supplier test) that identifies paths likely to be uncompetitive based on assumed or representative historical conditions.

See response to 4.a.iv below.

- iv. Provide feedback on the California ISO's conceptual proposal to introduce a dynamic market power mitigation test for commitment cost offers (March Market Working Group slides 45-50).

This is a perfect opportunity to learn from the past. Energy offers were initially mitigated based on a static competitive assessment. The ISO then moved to dynamic assessment as the static assessment often resulted in mitigation when uncompetitive conditions did not exist. Rather than spending effort now developing a static test without first exploring a dynamic test is the preferred route. WTPF is supportive of the ISO exploring a dynamic competitive assessment for commitment cost offers, and if found infeasible, then consider a static test. However, if a dynamic test is not effective or requires significant development time such that it is preferred to start with a static and move to a dynamic later, that is not necessarily a bad option. While a static test is blunt and likely result in inaccurate mitigation, it if provides for more flexibility more often than not while a dynamic test is being explored, the short-run benefits may outweigh the costs. However, the ISO would need to commit to continue developing a more effective dynamic test and the static test would just be a placeholder.

## 5. Cost Based Framework and Validation Deterring False or Misleading Submissions

- a. Is the current method of determining the mitigated energy price (default energy bid) or the maximum allowable levels for commitment costs imposing too large of a price risk on suppliers to potentially incur losses? If so, please explain. Please discuss what, if any, implications there are to suppliers' business of price risk imposed based on California ISO limiting bids, cost based through maximum allowable levels or market based through mitigation, to different levels than suppliers' cost expectations.



- b. Regardless of whether market based offers are introduced for the commitment cost components or not, the ISO seeks stakeholder feedback on whether it should introduce bid-in cost based offers to resolve concerns raised. We previously asked if the California ISO should re-examine its policy that gas-fired units' costs can be estimated with other technology types cannot as well as should we consider moving to a bid-in cost based offer. As shown from the content in the March Market Working Group slides 18-19 and the April Market Working Group slides 16-18, the California ISO currently believes to transition to a technology neutral bidding design a bid-in cost based offer would likely be necessary. We are seeking feedback on whether technology agnostic treatment should be a key design principle as the California ISO evaluates a straw proposal for these issues?

WTPF supports the ISO adopting technology agnostic treatment as a key design principle but this should not be the driving factor that determines the ultimate design if its at the risk of providing flexibility for the majority of resources.

- c. In lieu of bid-in cost based offers should the California ISO consider introducing fuel price adjustments to its reference level calculations to reduce the risks that suppliers' will not have mitigated prices that reasonable reflect their cost expectations? Such a process would closely resemble those performed by the Eastern RTO/ISOs such as NYISO's examined at the April Market Working Group meeting.

WPTF encourages the ISO to further consider and develop bid in cost-based offers for mitigation. Providing fuel price adjustments would only address gas-fired resources which, given the pending RPS goals, will continue to decline.