

**Comments of Powerex Corp. on
Commitment Costs and Default Energy Bid Enhancements Straw Proposal**

Submitted by	Company	Date Submitted
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Powerex appreciates the opportunity to submit comments on CAISO’s June 30, 2017 Commitment Costs and Default Energy Bid Enhancements Straw Proposal. Although the scope of the current initiative has been limited to refining the existing default energy bid (“DEB”) structure to give suppliers additional flexibility to reflect their commitment costs in their mitigated offers, Powerex submits these comments to encourage CAISO to broaden the scope of this initiative in order to include potential enhancements to the existing DEB structure that allow suppliers located outside of the CAISO balancing authority area (“BAA”) to appropriately reflect, and recover, their opportunity costs.

Under the existing CAISO Tariff, market participants are given three options for the calculation of their DEBs:

- **Variable Cost Option** – Under this option, the DEB is calculated based upon the variable operating cost of the unit, plus a 10% adder.
- **Negotiated Rate Option** – Under this option, the Scheduling Coordinator for a resource may submit a proposed DEB to the CAISO Department of Market Monitoring for review and approval.
- **LMP Option** – Under this option, the DEB is set equal to the lowest quartile of locational marginal prices (“LMP”) at the relevant generating unit’s location during competitive intervals over the last 90 days.

Because CAISO’s local market power mitigation (“LMPM”) measures were historically applied only to resources located within the CAISO’s BAA, the current options for constructing a DEB are understandably designed around the marginal costs of CAISO’s internal resources. More specifically, the current DEBs were designed within the context of:

- a predominantly thermal generation fleet;
- suppliers whose commercial opportunities are limited to sales to the CAISO at the respective resource’s busbar, in CAISO’s day-ahead and real-time markets (with certain suppliers under a must-offer obligation to the CAISO BAA); and
- suppliers whose full output is generally available to the CAISO’s day-ahead and real-time market, (*i.e.* not reduced by load-serving obligations or other contractual commitments).

However, with the development and implementation of the Energy Imbalance Market (“EIM”), the pre-existing LMPM and DEB structures have now been extended to generation resources located outside of the CAISO BAA (*i.e.* resources in other BAAs in the EIM). In addition, FERC orders regarding the market-based rate authorization of some EIM Entities have resulted in all EIM offers submitted by PacifiCorp, Nevada Power Company, and Arizona Public Service Company being limited to the DEB for the relevant generation facility, effectively applying bid mitigation to those units in every interval in the EIM.

Because the existing DEB options were developed several years prior to the design of the EIM, they understandably were not designed in a manner that considers the circumstances of EIM participating resources located outside the CAISO BAA. In particular, the existing DEB structure was not designed to take into account the unique circumstances and opportunities of resources located outside of the CAISO footprint, including:

- Resources located outside of the CAISO face additional opportunity costs that are distinct from the incremental operating costs faced by a resource located within an RTO. For resources within an RTO, all output is sold into the organized market at the price determined for the generator’s busbar. Internal resources thus choose only whether or not to produce energy; they do not face a choice of different destination markets for the sale of their output. In contrast, resources located outside of an RTO have a range of potential “contract path” delivery locations and markets for their output, limited only by their ability to obtain OATT transmission service for delivery. These options “expand” the opportunity costs for external resources.
- These resources also are subject to additional obligations in the form of native load and/or other contractual commitments for their output, outside of the organized market. Supply offered in the EIM is thus generally “residual capability” after these external needs are met, and hence these other needs must be considered in the context of determining opportunity costs.
- Large storage hydro systems also face an additional tradeoff between producing now or conserving the energy in order to produce at a future point in time. This tradeoff is compounded by obligations to meet native load requirements, as well as a myriad of variables and constraints related to hydro production.

Powerex believes that it would be beneficial for CAISO to provide an opportunity to consider how the existing DEB structure could be enhanced to better accommodate the unique circumstances of resources located in EIM Entity BAAs. Ultimately, failure to accurately take into account the opportunity costs faced by such resources will result in market prices that do not provide an efficient market price signal for EIM Participating Resources.

In order to ensure that the extension of the DEB structure reflects the pricing considerations faced by resources located outside of the CAISO BAA that elect to participate in the EIM—and to promote robust participation and efficient use of those resources—Powerex urges CAISO to either expand this stakeholder proceeding or,

alternatively, to consider establishing a new stakeholder process to examine further enhancements to the existing DEB structure.