Stakeholder Comments

Commitment Costs and Default Energy Bid Enhancements Straw Proposal

Submitted by	Company	Date Submitted
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Southern California Edison (SCE) offers the following comments on the Commitment Costs and Default Energy Bid Enhancements (CCDEBE) Straw Proposal[1] of the California Independent System Operator (CAISO).

SCE does not support separation of the mitigation process to a different stakeholder process and the CAISO should address several concerns raised by the Department of Market Monitoring

Market power mitigation should be addressed, in its entirety, in CCDEBE

The CAISO has stated its intent to move parts of the market power mitigation (MPM) proposal to the anticipated Real Time Market Enhancements initiative. SCE cannot support any proposal that does not include the complete design and discussion of the MPM proposal within this CCDEBE stakeholder process. The CAISO should work through all the details of the MPM process with the stakeholders within the CCDEBE initiative.

The CAISO should provide more details and address concerns brought up by stakeholders

SCE is concerned that several issues with the CAISO's proposal lack details and need to be addressed. The Department of Market Monitoring (DMM) raised several concerns during the July 6 meeting. These include but are not limited to: designing a truly dynamic MPM[2]; the lack

[1] http://www.caiso.com/Documents/StrawProposal_CommitmentCosts_DefaultEnergyBidEnhancements.pdf

[2] The excessive simplification of assumptions that deviate from actual market conditions, as pointed out by the DMM for slide 75 of

of details on the mechanics, the feasibility, and the costs[3]; and the ability to determine non-competitive congestion components for critical constraints given that these non-binding constraints will produce $0 shadow prices. The CAISO and the DMM should, together, evaluate the applicability and sufficiency of the proposed MPM and also determine whether any non-transmission constraints have an impact on the proposal.

SCE is also concerned that the CAISO proposes not to address Exceptional Dispatch (ED) mitigation. ED is a low probability event, however, not having a mitigation process designed for it precludes the CAISO from having the right tools to address reliability issues. SCE supports the DMM position that the CAISO should design an ED mitigation process.

The DMM proposal made at the beginning of this initiative should be a faster implementation than the CAISO proposal and is already being done by the CAISO

SCE continues to support the DMM proposals for permanently updating DA indices with ICE information, for updating RT indices with same day gas information, and for using ICE Monday-only trading information to inform the index for that day. Since the CAISO already does so, on a temporary basis, SCE does not see the obstacle preventing the permanency of such features. The DMM has demonstrated the ability of these to cover most of the gas costs procured at prevailing market prices[4]. SCE does not see the other two parts of the DMM proposal[5] as being counter to the CAISO proposal.

The proposed 300% commitment cost cap should exclude penalties

While SCE supports generator compensation for penalties (only if following the CAISO dispatch), such penalties should be separately recovered, after the fact[6]. Penalties can be

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http://www.caiso.com/Documents/Agenda_Presentation_CommitmentCosts_DefaultEnergyBidEnhancementsStrawProposal.pdf , which would make the MPM not actually dynamic.

[3] Raised by WPTF.

[4] http://www.caiso.com/Documents/DMMComments_CommitmentCosts_DefaultEnergyBidEnhancementsWorkingGroupMar30_Apr202017.pdf

[5] Points #2 and #3 on DMM comments. Ibid.

[6] As SCE noted in its prior comments. http://www.caiso.com/Documents/SCEComments_CommitmentCosts_DefaultEnergyBidEnhancementsWorkingGroupMar30_Apr202017.pdf

included in the bid[7] but should not be included in the calculation of the commitment cost cap; i.e. penalties should not be included in the reference level calculation. SCE is not opposed to resources recovering their costs but is opposed to a design that would allow unreasonable exploitation for profit. For example, if penalties were to be included, with a gas penalty of $50/ MMBtu and a 10 heat rate, the result is a $50x10 = $500 cost. The CAISO proposal would mean a 3x$500 = $1500 cap, just with the gas penalty included. This would result in an inaccurate representation of actual commitment costs.

SCE is concerned with the CAISO proposal for liquidity for ex ante supplier provided adjustments

The proposed, 5-10 price quotes from 2 different counterparties[8], does not seem to represent a liquid market. The CAISO should work with the DMM to determine a larger sample of counterparties (and price quotes, based on the DMM's determination) that would provide a reasonable representation of a liquid market. Further, the counterparties should be required to be unaffiliated.

An example to consider, as a starting point, is the industry accepted methodology outlined in the Edison Electric Institute Master Agreement that deals with price determination for certain market events (e.g. termination). The CAISO and the DMM should develop a similar methodology that uses some average of a sample[9] of price quotes from unaffiliated parties. To the extent they cannot get at least three quotes from Reference Market-Makers, then some administratively set price, that is acceptable to the DMM, could be considered. However, SCE cautions that given the ex ante and supplier-provided nature, whether the price quote represents a "liquid" market may remain moot.

SCE believes the default assumption of system competitiveness requires further assessment

[7] As long as the total bid is under the cap.
[8] Page 61.
http://www.caiso.com/Documents/Agenda_Presentation_CommitmentCosts_DefaultEnergyBidEnhancementsStrawProposal.pdf
[9] That can be consistently demonstrated to be judiciously sampled.

SCE would like an analytical study performed to assess the default assumption of the competitiveness at the system level. There are several reasons to question the validity of such an assumption.

1. The mandated retirement of OTC units will result in replacement by a small number of gas units.
2. The state's goals for increasing reliance on renewable generation will result in significantly fewer dispatchable resources. While the remaining dispatchable fleet may have sufficient supply/ramping capability, the ownership concentration of these dispatchable resources is unclear. Thus, while the capability of the system may be sufficient, it is not clear that the number of suppliers within the market will be sufficient to produce competitive outcomes.
3. SCE believes that the CAISO should review and report on the recent ~$600/MWh DA price event to determine if it is contrary to the assumption of system competitiveness.

SCE requests the CAISO clarify the treatment of hourly MLC bids

SCE notes that there are resources within the CAISO that operate in gas regions where the gas day is not aligned with the DA market time horizon and thus face intra-day variation of MLCs between different hours. For example, El Paso's gas day starts at 7am. A resource operating in this region may have different MLC bids for HE1-7 than for HE 8-24. Given the CAISO representation of the proposal of treatment by STUC in section 7.1.3.1 of the Straw Proposal, will all of the hourly MLC bids submitted at the time of unit commitment be honored or will STUC lock-in the MLC for the hour of unit commitment and ignore the subsequent MLC bids? For example, in Figure 2 (page 18) of the Straw Proposal, before the commitment decision is made, the minimum load costs for HE 7, 8 and 9 are all distinct. When the model commits the unit, will the minimum load cost recovered in HE 8 and 9 be the same ~$1500 that was bid for HE7? Or, will the unit recover its hourly specific minimum load bids for HE 7, 8 and 9?