UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Uplift Cost Allocation and Transparency in Markets Operated by Regional Transmission Organizations and Independent System Operators	))))))	**Docket No. RM17-2-000**

COMMENTS OF THE ISO/RTO COUNCIL

The ISO/RTO Council (IRC)[1] submits these comments in response to the Federal Energy Regulatory Commission's (Commission) Notice of Proposed Rulemaking (NOPR) issued in this docket on January 19, 2017. The NOPR proposes to revise the Commission's regulations to require that each regional transmission organization (RTO) and independent system operator (ISO) that allocates the costs of real-time uplift to deviations should only do so to those market participants whose transactions are reasonably expected to have caused the real-time uplift costs.[2]

The IRC members plan to submit separate comments besides these IRC comments. The IRC does not oppose the Commission's efforts to address how uplift and other costs are allocated when they are allocated based on cost causation principles. The IRC also appreciates and

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1 The IRC is comprised of the Alberta Electric System Operator (AESO), California Independent System Operator Corporation (CAISO), Electric Reliability Council of Texas (ERCOT), the Independent Electricity System Operator of Ontario, Inc. (IESO), ISO New England, Inc. (ISO-NE), Midcontinent Independent System Operator, Inc. (MISO), New York Independent System Operator, Inc. (NYISO), PJM Interconnection, L.L.C. (PJM), and Southwest Power Pool, Inc. (SPP). The AESO, ERCOT, and IESO are not subject to the Commission's jurisdiction in this regard and are not joining in these Comments.

2 The Commission also proposes to revise its regulations to enhance transparency by requiring that each ISO/RTO post uplift costs paid (dollars) and operator-initiated commitments (megawatts) on its website; and define in its tariff its transmission constraint penalty factors, the circumstances under which those penalty factors can set locational marginal prices, and any procedure for changing those factors. Each member may comment separately on these issues.

supports the Commission's clarification that the uplift allocation requirements proposed in this NOPR only apply to the extent the ISO/RTO allocates costs of real-time uplift to deviations.[3] The IRC limits these comments to express its concern that applying specific cost causation principles as the sole measure to allocate uplift may create significant design and cost challenges, or create conflicting market signals, in some ISOs/RTOs. Therefore, the IRC requests that any final rule in this proceeding provide each ISO/RTO the flexibility to demonstrate that applying the proposed principles for real-time uplift allocations to deviations are neither just nor reasonable for its market because they either: (1) impose significant costs not justified by the benefits; (2) create market signals that run counter to other essential market incentives to meet a specific ISO/RTO's market's needs; (3) may result in a *mis*-allocation of uplift costs to deviations that can be reasonably expected to reduce (or not impact) uplift at all; or (4) are inapplicable for other reasons.

I. COMMENTS

In the NOPR, the Commission preliminary finds that certain practices of allocating the cost of real-time uplift to market participants who deviate from day-ahead market schedules contradict cost causation principles. The Commission finds that allocating real-time uplift costs to deviations that could not reasonably be expected to have caused those uplift costs can distort market outcomes by inappropriately penalizing behavior that can improve price formation, resulting in unjust and unreasonable rates. To remedy these potential issues, the Commission proposes to require that any ISO/RTO that allocates real-time uplift costs to deviations must do so based on cost causation and must: (1) categorize real-time uplift costs allocated to deviations into at least two categories based on the reason uplift costs were incurred, *i.e.*, a system-wide

[3] NOPR at PP 4 and 36.

capacity category and a congestion management category; (2) within each of the categories, allocate uplift costs to a market participant's relevant "harming" deviations net of relevant "helping" deviations; (3) not allocate deviation-related real-time uplift costs to resources responding to an RTO/ISO-initiated real-time dispatch instruction; and (4) settle real-time uplift costs allocated to deviations using hourly uplift rate calculations.[4]

The IRC understands these requirements would only apply to the extent the ISO/RTO allocates real-time uplift to market participants based on deviations and that the Commission is not proposing to require all ISO/RTOs to allocate their real-time uplift costs based on deviations.[5] The IRC supports the proposal to not require the implementation of deviations-based allocations for real-time uplift in circumstances where such costs are currently allocated using a different methodology. In reviewing the Commission's NOPR, however, the IRC concluded that while it supports the Commission's efforts to ensure rates are just and reasonable throughout all markets, the Commission must consider that forcing the pursuit of cost causation principles at all costs, and to the detriment of other price and market signals, may not be appropriate in all circumstances.

Each of the ISO/RTOs operate its market under different conditions, with a varying mix of resources, a diversity of scheduling rules, and different solutions to the unit commitment and economic dispatch objectives. The causes of real-time uplift arise out of the complex interaction of many factors and the actual cause of such uplift is not always easily identifiable or severable. As reflected in the NOPR, each of the ISOs and RTOs have taken different approaches in allocating real-time uplift costs based on what they, with their respective stakeholders, and with

[4] NOPR at P 35.

[5] NOPR at PP 4 and 36.

the Commission's approval, have found to be just and reasonable. Some of the ISO/RTOs have applied real-time uplift costs to deviations, but not all have.[6] Therefore, the requirements proposed in this NOPR will not apply to all ISOs and RTOs.

The IRC is concerned that the Commission's NOPR does not adequately recognize the need to weigh the proposed real-time uplift allocation reforms against the feasibility and the costs of pursuing such reforms. As an example, it is not always apparent what resource or load caused the real-time uplift for compensating resources for real-time commitments such as no-load, start-up and bid cost guarantee payments. Some of the ISOs and RTOs allocate such uplift costs to deviations from the day-ahead market on the simple premise that uplift incurred in the real-time market is in part due to deviations from a resource's (load or generation) day-ahead schedule. The Commission proposes that ISO/RTOs separate such allocations into at least the system-wide capacity category and the congestion management category. The system-wide capacity category would include real-time uplift related to resource commitments made to ensure sufficient system-wide online capacity to meet energy and operating reserve requirements. The congestion management category would include real-time uplift related to resource commitments to manage transmission congestion on specific constraints.

Separating real-time commitment uplift costs in such categories presents implementation challenges for some ISOs/RTOs. Uplift costs are not always incurred solely based on these distinctions, and in many cases there may be no natural, non-arbitrary basis for ascribing the proportion of a unit's uplift payment to allocate to the two proposed uplift cost categories (*e.g.*, when a generating unit's commitment simultaneously addresses both congestion and system capacity needs). In some markets, the categories proposed by the Commission may also be

[6] NOPR at PP 4 and 37.

incorrect. Further, such refinements would require some ISOs and RTOs to implement significant system and procedural changes to track whether market participants have both load and generation in that interval, whether their movements offset the impact on congestion and system needs, and then apportion the uplift attributable to deviations based on those determinations. Such refinements would also require changes in the market software and the settlements systems to ensure the proper data flow to make such allocations accurate. Depending on the size of the uplift, the marginal difference in distributing costs, and the cost of implementing such changes, it may not be just and reasonable to pursue the categorization proposed by the NOPR.

The Commission also proposes that the ISO or RTO not allocate real-time deviation-related uplift costs to a resource the ISO or RTO instructs to deviate from its day-ahead schedule, either through a market-based or out-of-market instruction. The Commission finds these help to address differences between the day-ahead market solution and real-time system needs and therefore should not be allocated the deviation-based costs. The IRC does not disagree with the Commission that the instructed deviations may help address differences between the day-ahead market solution and real-time system needs. The IRC cautions, however, against making general statements that instructed deviations should be exempt from cost or uplift allocation. The ISO or RTO may find it necessary to allocate uplift or the cost of procuring other products to instructed deviations from the day-ahead schedule to create the proper incentives to provide a particular product the ISO/RTO market may need, such as ramping capacity that addresses real-time flexibility needs.

The IRC recognizes that the Commission's proposed rules would apply only if the ISO/RTOs allocate real-time uplift costs to deviations. However, the allocation of uplift costs on cost-causation principles is often difficult and infeasible because uplift costs are incurred based on a myriad of factors that lead to the commitment or dispatch of resources. To identify, track, and process the allocation of such costs to the factors presumed to have caused the uplift requires significant systems and procedures that are costly to adopt and operate. The Commission should weigh, on the one hand, the benefits of adopting such cost causation refinements to uplift allocation, and on the other hand, the costs of adopting and maintaining the systems needed to implement such rules.

The Commission states its goal is to put the right incentives in place to target behavior that reduces real-time uplift by targeting those that cause the uplift.[7] The IRC believes that the ISO/RTO's efforts are better placed in developing market rules and products that reduce uplift costs and pursuing further enhancements to price formation in their respective markets. In other markets, the uplift amounts maybe so little that it does not justify adopting elaborate schemes for allocating the costs. Each of the ISO/RTOs is focused on developing such products and market rules that incentivize behavior and fit their specific market and system needs with these goals in mind. Forcing the ISO/RTOs to adopt expensive uplift allocation schemes *in lieu* of refinements to their market rules that reduce uplift and improve price formation will only detract them from these important efforts.

In its final rule, the Commission should clarify that the requirements in this rulemaking apply narrowly to deviation-based real-time uplift allocations. In addition, the Commission should provide the ISO/RTOs that choose to allocate real-time uplift costs based on deviations the ability to demonstrate that the benefits of adopting the additional refinements are outweighed

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[7] NOPR at PP 2 and 6-7.

by the costs of adopting such changes, or run contrary to other market signals needed in that market and, therefore, need not be adopted.

The IRC respectfully requests that the Commission provide flexibility to each ISO/RTO to develop and implement solutions to comply with the reforms established by any final rule in this proceeding. As noted herein, implementation of the proposed real-time uplift allocation reforms by the affected ISOs/RTOs may require significant system and market design changes. The ninety day period proposed by the NOPR for the development of compliance filings is insufficient for adequately considering and developing such significant changes. Therefore, the Commission should provide regional flexibility for the implementation timeline and reforms contemplated by the NOPR. Existing regional differences will play a significant role in developing appropriate solutions to achieve the Commission's objectives and the timeline necessary to implement any required changes. Any final rule issued in this proceeding should account for these conditions.

II. CONCLUSION

The IRC respectfully requests that the Commission consider these comments in this proceeding.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I certify that I have served the foregoing document upon the parties listed on the official service list in the captioned proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 10th day of April, 2017.

/s/ Grace Clark

Grace Clark