

Chelan County Public Utility District's Comments on the Stepped Constraint Parameters Issue Paper

May 25, 2016

Chelan PUD, a consumer-owned utility in Washington, is an active participant in the bilateral, wholesale power markets in the west and a NERC-registered balancing authority. Chelan PUD offers the following comments on the CAISO's May 5, 2016, issue paper—specifically regarding the EIM transfer limit, the power balance constraint, and lowering of the bid floor.

EIM Transfer Limit

When the ISO initiated the EIM, it instituted a resource sufficiency evaluation to ensure participating balancing authorities have sufficient resources to serve load without over-reliance, or “leaning”, on other EIM balancing authorities. EIM transfers are limited in to or out of balancing authority areas that fail the evaluation. This safeguard confines the effects of resource insufficiency to the balancing authority area that is actually insufficient and protects the balancing authorities that are resource sufficient. EIM Entities retain their reliability responsibilities as NERC-registered balancing authorities. The transfer limit is an effective tool to ensure they remain accountable for resource sufficiency in their individual balancing authority areas.

Chelan PUD is concerned that moving to a penalty structure may weaken resource sufficiency enforcement. A financial penalty will present EIM Entities with an economic option to lean on the capacity commitment made in other balancing authority areas, if doing so is more cost-effective than ensuring their own balancing authority areas are resource sufficient. That is, an EIM Entity could evaluate continuously whether it was more costly to commit its own resources, or simply pay the penalty. If multiple EIM Entities are simultaneously insufficient, and each one assumes that it can just pay a penalty and rely on supply in other balancing authority areas, the combined shortfall creates a reliability risk.

Another issue with resource sufficiency penalties is that the penalties would not be reflected in LMPs. The transfer limit mechanism, however, provides an appropriate market price signal through the LMP. The higher LMPs in an insufficient balancing authority area should incentivize the availability of additional resources, which in turn should reduce the occurrences of resource insufficiency.

Power Balance Constraint

The ISO's paper notes the potential for market improvements from using stepped relaxation of the power-balance constraint. The ISO seeks stakeholder input on using such a methodology to address small infeasibilities. Chelan PUD encourages the ISO to consider taking a holistic approach to shortage pricing in the EIM, instead. The ISO should develop market rules that accurately identify the cost of resolving the constraint, rather than setting an arbitrary relaxation threshold and tier price.

Well-crafted shortage pricing rules are an important market design element. Shortage pricing sends accurate price signals to resources in the market. This will facilitate long-term economic entry through the construction of new supply resources, and it encourages resources that are no longer economic to exit. In the EIM, shortage pricing will also encourage additional voluntary resource participation.

Conversely, constraint relaxation focused solely on resolving small infeasibilities—while appealing as a short-term solution—will suppress real-time price volatility. This will not lead to sustainable, competitive, and robust market outcomes. Chelan PUD appreciates the ISO’s willingness to examine practices in other ISOs and RTOs to determine industry best-practices. The ISO cites the NYISO tiered penalty practice, and notes that the NYISO pricing has evolved to consider the cost of regulation capacity. This model leads to better real-time price formation than using tiers solely to address small infeasibilities. Chelan PUD encourages the ISO to explore a more complete solution for shortage pricing.

Finally, Chelan PUD agrees with the ISO that this approach should apply to both upward and downward power-balance-constraint violations.

Lower Bid Floor

Chelan PUD also supports the ISO’s proposal to lower the bid floor from its current level of -\$150/MWh to a lower level. Chelan PUD agrees that a lower limit will provide an improved incentive for accurate scheduling and better responses to real-time price signals.

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