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Comments of Northern California Power Agency 2013 Stakeholder Initiatives Catalog

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Northern California Power Agency (“NCPA”) provides the following comments in response to CAISO’s 2013 Stakeholder Initiatives Catalog. NCPA requests that the following discretionary initiative be added to the catalog and be treated as a high priority item:

- Regulation Service Real-Time Energy Make Whole Settlement

In the current CAISO market a market participant can transact Regulation Up and Regulation Down Ancillary Services with CAISO. Regulation Up and Regulation Down service provides an option for CAISO to dispatch a generator up or down in real-time (depending on the product transacted) within a defined capacity range. Signals are delivered to the generator every four (4) seconds via automatic generator control signals (“AGC”). When the generator is dispatched off of its scheduled operating level, the difference between the amount of energy that is produced within the awarded regulation capacity range and the amount of energy scheduled is treated as regulation energy and settled as a form of real-time instructed imbalance energy. Instructed imbalance energy is settlement by the CAISO at the real-time LMP, and the market participant is either paid or charged by the CAISO for such difference.

NCPA has experienced many circumstances where the price at which the instructed imbalance energy settlement results in a significant net loss to NCPA, even though the resource providing the regulation service to CAISO performed as dispatched by CAISO. NCPA has experienced many instances where it has sold Regulation Down capacity to CAISO, the CAISO dispatched the unit down in real-time, and NCPA was forced to buy back energy from CAISO in real-time for a significant loss. For example (hypothetical for confidentiality reasons; ignores time interval for simplicity):

- Regulation Down Capacity Sold – 10 MW
- Price for Regulation Down Capacity - \$5 / MW
- Settlement for Regulation Down Capacity - \$50 paid to NCPA

- Regulation Down Capacity Dispatched – 8 MW
- Resulting Instructed Imbalance Energy – 8 MW
- Real-Time LMP - \$500 / MWh
- Resulting Energy Settlement - \$4,000 charge to NCPA

The CAISO has been very clear that Regulation services is and will continue to be a very important tool for managing variability and uncertainty on the system. NCPA strongly believes that the current settlement structure, in which a market participant providing this valuable service can be significantly harmed for providing the service, is completely contradictory to the price signal that should be provided through the market to incent the provision of the service. If the CAISO would like market participants to continue providing Regulation service, and increase the amount offered overtime, the settlement of instructed imbalance energy associated with Regulation capacity that is dispatched by CAISO needs to be adjusted to ensure that the market participant is not financially harmed; otherwise the risk and reward balance is simply not equitable.

NCPA requests that CAISO add a new initiative to the catalog to develop a solution to this issue so that a market participant is not financially harmed when providing Regulation service to CAISO. For example, a simple rule where the price for the instructed imbalance energy associated with Regulation Down could be equal to the minimum of a resource's cost or the real-time LMP, or the price for the instructed imbalance energy associated with Regulation Up could be equal to the maximum of a resource's cost or the real-time LMP. NCPA is open to consider other solutions to address this issue, but to ensure the market is providing the correct incentives for a product that will be very important for reliability in the future, NCPA believes this issue should be assigned a very high priority and be addressed as soon as possible.