

# FERC Order 764 Compliance 15-Minute Scheduling and Settlement Draft Final Proposal

Submitted by	Company	Date Submitted
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## Summary

Powerex is pleased to have this opportunity to provide these additional comments in response to the FERC Order 764 Compliance 15-Minute Scheduling and Settlement Draft Final Proposal (“Draft Final Proposal”) published on March 26, 2013.

Powerex remains generally supportive of the direction that the CAISO is heading with respect to the core re-design of the physical real-time market, with some limited exceptions.

However, Powerex is not supportive of the concurrent reinstatement of convergence bidding on the interties as part of this initiative and strongly recommends the CAISO commence a separate stakeholder process on convergence bidding in CAISO markets.

Powerex provides these specific comments on the changes between the Revised Straw Proposal (published on February 5, 2013) and the Draft Final Proposal. For other elements that were unchanged from the Revised Straw Proposal, Powerex refers the CAISO and interested parties to previous Powerex comments filed in this stakeholder initiative.

## Powerex Comments on Changes from Straw Proposal

- *Added provision to allow a single intra-hour economic schedule change for intertie hourly block schedules.*

Powerex is supportive of this provision as it allows for a market based response to, for example, VER schedules that increase/decrease their output within the scheduling hour. It also allows participants with hourly block schedules an option to limit their exposure to unfavorable prices, thereby nullifying the need for a BCR mechanism.

- *Removed provision for bid cost recovery for all hourly block schedules including those that allow an intra-hour schedule change.*

Powerex is supportive of this measure. Powerex believes any bid cost guarantee for intertie hourly block schedules (other than to those that are following either the CAISO’s IFM hourly, or the CAISO’s Real-Time 15-minute or dynamic dispatches) may cause market inefficiencies and substantial unintended consequences, such as RTIEO uplift.

However, Powerex does support the CAISO respecting the bid price for intertie resources that follow either the CAISO’s IFM hourly dispatch, or the CAISO’s Real-Time 15-minute or dynamic dispatches, as such entities are following the dispatch instruction of the CAISO’s core 2-

dispatch, 2-settlement framework. Providing hourly bid cost recovery or make whole payments to such resources is both just and reasonable, and, should avoid any substantial unintended consequences.

- *Modified approach so that intertie energy schedules on e-tags will be updated by the ISO based upon cleared market awards. Scheduling coordinators can opt-out of this automated process.*

Powerex believes this feature may be very difficult to design and implement, particularly when a single award is represented by multiple e-tags, but does not oppose the concept.

- *Clarified hourly block schedules decline charge.*

Powerex is generally supportive of the HASP reversal charge, but believes that this rule needs to be clarified to stipulate that physical awards are not merely e-tagged but that the e-tag is implemented (and approved by all reliability entities on the e- tag) before the award may be subsequently changed in the 15-min dispatch.

Powerex continues to believe that the CAISO's overall incentive framework for failing to perform on physical awards requires review and further discussion. This discussion should include (i) the differential treatment between failures to perform on IFM awards and HASP advisory awards, (ii) the potential impacts to reliability of the CAISO's decision to treat delivery on physical intertie awards as an economic option, and (iii) the consistency with the CAISO's guiding principles, particularly cost causation and accurate price signals.

- *Described changes to PIRP under Order 764 market design.*

Powerex has no additional comments at this time.

- *Modified convergence bidding position limits to original per intertie approach.*

Powerex does not support this proposal. Powerex believes that intertie-specific limits will hinder the important ability of market participants to respond to (and eliminate) price anomalies. While Powerex is sympathetic to CAISO's desire to minimize the implementation risks of a new real-time market, Powerex does not believe intertie-specific position limits are beneficial.

More specifically, given that intertie convergence bidding awards will settle at the same SMEC as internal physical and virtual awards, the risk of escalations in RTIEO uplift, as experienced in the previous implementation of intertie convergence bidding is largely removed in this new design. However, intertie-specific position limits may significantly harm market efficiency by preventing a competitive response without a corresponding risk reduction benefit to uplift costs.

Nonetheless, if position limits are deemed necessary by the CAISO, Powerex strongly believes an SC aggregate position limit across all intertie is far preferable to an intertie-specific position limit.

- *Clarified inter-SC trade pricing in real-time.*

Powerex has no additional comments at this time.

- *Added a clarification to the current rule that requires an e-tag to be submitted prior to the HASP for an intertie transaction scheduled in the day-ahead market to be reduced in the real-time market at a profit.*

Powerex does not feel it is appropriate that IFM schedules that are not allowed to e-tag in the day-ahead, due to the RUC results, are to be exempt from the HASP reversal rule. The CAISO's approach further creates opportunity to implicitly virtual bid, with both market efficiency and potentially, significant reliability consequences.

## **Additional Comments**

### **Day-Ahead Dual Constraint Issue**

Powerex feels that, while CAISO's proposal for dealing with the DA dual constraint issue is an improvement over previous proposals, it may still not be sufficient.

Powerex generally agrees with the approach of identifying which IFM physical intertie awards can be e-tagged day-ahead in the RUC run. However, Powerex believes these schedules that are allowed to e-tag Day Ahead, must also be obligated to e-tag day-ahead - not given the option to e-tag Day Ahead.

In Powerex's view, allowing participants with an option to e-tag IFM awards in the Day Ahead timeframe may be based on a misplaced belief that this practice leads to increase physical intertie liquidity, thereby lowering IFM clearing prices below the efficient market outcome. However in practice, the CAISO's reluctance to institute a Day Ahead e-tagging requirement does little to increase real IFM physical liquidity but rather results in an undesirable co-mingling of (i) real physical supply with Day Ahead resource sufficiency / unit commitment behind it, and (ii) implicit virtual bidding and/or prospective real-time supply. It is imperative to proper functioning LMP markets that physical and virtual bidding activities are clearly delineated, both from a reliability perspective and a cost allocation/market efficiency perspective.

There are several reasons why Powerex recommends application of Day Ahead e-tagging obligation, consistent with efficient market outcomes. By allowing entities to sell energy in the IFM to the CAISO that it has not yet procured and therefore cannot be e-tagged:

- The CAISO is undermining its own IFM RUC process. The primary purpose of the RUC process is to commit additional generation capacity to meet potential real-time demand that exceeds committed supply in the IFM run. By allowing future prospective real-time supply (that implicitly has no Day Ahead capacity or resource sufficiency behind it) to be effectively recognized as firm physical supply in the CAISO's IFM market processes, the CAISO has presumably very little ability to predict how much IFM intertie supply may show up on a given hour. This not only prevents the CAISO's ability to accurately assess and procure both sufficient and efficient levels of RUC capacity to backstop failures to deliver on the interties, it prevents the CAISO from allocating such RUC costs to SCs bidding prospective real-time supply in the IFM, consistent with cost causation.
- The CAISO is sending a powerful disincentive to SCs with the ability to commit physical generation and transmission Day Ahead to stop incurring costs to do so, since such Day Ahead physical capacity commitment carries no CAISO settlement value and is not required under the CAISO's market rules. If all entities happen to react concurrently to this price signal (and rely on prospective real-time supply to meet their IFM awards) the

CAISO may find itself without sufficient resources in real-time on the interties in any given hour, creating a reliability condition.

- By including prospective Real-Time supply in the IFM process, without procuring RUC capacity to backstop it, the CAISO is more susceptible to Real-Time price spikes, as inevitably some of this prospective Real-Time supply that has been relied upon Day Ahead will not show up, and no alternative generation capacity has been committed Day Ahead to make up the shortfall. Price spikes are a well-documented market efficiency concern in CAISO markets.

### **Reinstatement of Convergence Bidding on the Interties**

Powerex supports the CAISO's approach to settle all convergence bids, both internal and on the interties, at the applicable IFM and 15-minute market LMPs. However, Powerex refers the CAISO to its previously submitted comments in which Powerex discusses issues that the CAISO needs to address before reinstating convergence bidding on the interties.

To summarize these comments, Powerex believes that prior to reinstating convergence bidding on the interties the following circumstances must be present:

1. The CAISO reasonably expects that convergence bids will efficiently converge prices, increasing the efficient commitment and dispatch of physical resources.
2. The CAISO and DMM do not have any significant concerns that there is a potential for substantive undesirable outcomes.
3. The CAISO develops and enforces rules that clearly delineate virtual bidding activities (explicit and implicit) from physical activities, and applies costs consistent with cost causation (i.e. Day Ahead e-tagging requirement, appropriate disincentives for failures to deliver on physical awards, energy product type clarity and enforcement, Day Ahead resource sufficiency test etc.).

Powerex urges the CAISO to commence a separate stakeholder process to review convergence bidding more holistically in its markets, including considering the options to:

- a) Continue with existing internal nodal convergence bidding framework without convergence bidding on the interties;
- b) Expand the existing internal nodal convergence bidding framework to include convergence bidding on the interties; or
- c) Retreat to an internal zonal convergence bidding framework.

### **CRR Clawback Rule**

Powerex reiterates its concerns on the CRR clawback rule, particularly as it applies to interties and the new real-time market design. Under the CRR clawback rule, and the CAISO's proposed virtual bidding position limits, virtual bids on the interties will actually be exempt from the CRR clawback rule, while real physical generators such as dispatchable resources and VERs will be exposed to the CRR clawback rule, including under conditions where generation output is reduced due to legitimate physical reasons such as VER output reductions and/or due to CAISO economic dispatch in real-time. In essence, the CAISO's CRR clawback rule will

effectively treat virtual bids on the interties as physical, and physical resources, under certain conditions, as virtual.

Powerex urges the CAISO to commence a separate stakeholder discussion to discuss a redesign of the CRR clawback rule.