CALIFORNIA ISO

California Independent
System Operator

Proposed Distribution of LMP Marginal Loss Surplus

Market Surveillance Committee Meeting

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Problem Statement

- Locational Marginal Pricing (LMP) results in surplus revenues associated with marginal losses
- CAISO's initial proposal (accepted by FERC) would include Day Ahead marginal loss surplus in CRR Balancing Account:
  - Supports CRR revenue adequacy on ongoing basis
  - Balance goes to PTOs at end of year to reduce TAC and WAC.
- In the August 2005 MRTU stakeholder meetings:
  - Some stakeholders (primarily ETC and TOR entities) who do not benefit from TAC/WAC reduction objected to this method of distributing the surplus
  - Other load serving entities wanted a more expeditious distribution of the surplus
- In response CAISO now propose to distribute the DA marginal loss surplus to all Metered Demand (load plus exports)

Options Considered

- Option 1: Credit to CRR Balancing Account (initial design)
- Option 2: (ETCs and TORs only) Credit back SC specific marginal loss charges to SCs eligible for reimbursement of congestion charges:
  - Option 2A: Credit back full marginal loss charges
  - Option 2B: Credit back 50% of marginal loss charges
  - Option 2C: Credit back at a % based on system-wide ratio of marginal loss surplus to marginal loss charges
- Option 3: same as Option 2, but excluding ETCs for which the respective PTO is the SC.
- Option 4: (All Demand) Distribute system-wide marginal loss surplus based on Metered Demand (new CAISO proposal)

Option Not Considered

- In the stakeholder discussions, some questioned the merits of marginal loss pricing in general and asked for use of scaled marginal losses.
- After careful analysis, the CAISO concluded that such a change would mean a fundamental modification of the MRTU design, and despite not being an efficient market solution, would not be a viable option in the MRTU implementation time frame.
- The CAISO's proposed solution may to some extent address the underlying concerns of the entities that preferred such a different solution by mimicking scaling of marginal losses in settlement stage rather than in the pricing stage.

CAISO Proposal Justification

- Addresses stakeholder concerns:
  - ETCs and TORs share in credit back
  - More expeditious credit back than TAC/WAC reduction through CRR Balancing Account surplus
- Simpler to implement than SC specific surplus computation and credit back
- Reduces ambiguity that could arise with SC specific surplus computation and credit back
- Addresses potential concerns with differential treatment of SCs with balanced schedules associated with SC specific surplus computation and credit back
- Consistent with original proposal for HASP/RT marginal loss surplus credit (to Metered Demand).

Request for MSC Input

- Any concerns with the overall proposed approach?
- Specifically:
  - As proposed, DA and HASP/RT marginal loss surplus would be combined and credited back to metered demand. Any suggestions or concerns?
  - As proposed, the surplus and credit back ($/MWh Metered Demand) would be computed hourly, but with no regional (LAP) disaggregation. Any comments or concerns?
  - Day ahead marginal loss surplus would not be available as additional insurance (in addition to SFT insurance) for CRR revenue adequacy. Any concerns?