

Stakeholder Comments

Revised Draft Final Proposal – Mitigation for Exceptional Dispatch in LMPM Enhancements Phase 2

Submitted by	Company	Date Submitted
Wei Zhou – (626) 302-3273 Aditya Chauhan – (626) 302-3764	Southern California Edison	November 14, 2012

Southern California Edison (SCE) appreciates the opportunity to comment on the California Independent System Operator (CAISO) and Department of Market Monitoring (DMM), October 30, Revised Draft Final Proposal on Mitigation for Exceptional Dispatch (ED) in Local Market Power Mitigation (LMPM) Phase 2¹.

SCE agrees with the CAISO that this important stakeholder process should address the gap in identifying and mitigating EDs that have local market power. While we agree the current system is completely inadequate and must be changed, SCE does not believe the CAISO proposal addresses the problem. Further, as requested by stakeholders, the CAISO should provide the justification for various details of its proposal.

SCE does not support the CAISO’s proposal

SCE is unable to support the CAISO’s proposal as the CAISO’s proposal has not changed since its September 4, Draft Final Proposal². Further, the CAISO has still not provided justification for either its general approach or the details within.

I. The CAISO should justify why ED supply is mixed with market supply.

The CAISO proposal does not justify why non-market, ED supply should be treated the same as market supply.

a. Mixing the ED supply with market supply can potentially fail the entire new LMPM process.

As demonstrated by the examples in our previous comments, treating ED supply as market supply can make not only ED units, but also non-ED units, skip market power mitigation when mitigation needs to be applied. This can potentially fail the entire new LMPM process at times, for example, when the system is tight which likely provides more opportunities for local market power being exercised (through higher bid price or increased amount of transmission congestion or both), however if an ED is called under such conditions, it may defeat the whole purpose of the market power mitigation by making all resources in its area skip mitigation when mitigation is most needed.

b. SCE proposal of running DCPA without ED supply has not been addressed.

The CAISO’s proposal has still not addressed the SCE proposal in its comments on the

¹ <http://www.aiso.com/Documents/RevisedDraftFinalProposal-ExceptionalDispatchMitigationRealTime.doc>

² <http://www.aiso.com/Documents/DraftFinalProposal-ExceptionalDispatchMitigationRealTime.pdf>

Straw Proposal. Beginning on Page 2 of its comments³, SCE lays out, in detail, an easily implementable, viable test of competitiveness. This test does not have a static dependence on historic data and as opposed to a forecast, is an actual test of competitiveness. The CAISO should seriously review and consider the SCE proposed test.

c. No economic support for mixing non-market and market supply.

An Exceptional Dispatch is: (i) Out-of-market, non economic supply and (ii) Can relieve the congestion that was supposed to be tested thereby compromising market testing. The CAISO has not addressed either of these stakeholder concerns.

II. The CAISO should provide support for its 10 hour and 75% thresholds.

The CAISO has not provided any justification for the arbitrary chosen 10 hour and 75% thresholds. The CAISO's analysis in its proposal is completely dependent on the validity of these assumptions and does not justify these assumptions.

a. Hypothesis test is unnecessary.

A statistical test tells us whether at a given confidence level, the data at hand will reflect or fail to reflect a hypothesis. Note that the test outcome does not validate the assumption – it just tells us that at a specific confidence level, given the data at hand, the assumed parameter does or does not show statistically significant deviation from the test statistic. In sum, no hypothesis test will provide justification for the arbitrarily chosen thresholds. Further, while such thresholds may be indicative of descriptive statistics of historic market data, statistical tests on historic market data will not provide information on current or future determination of competitive behavior⁴.

Finally, the proposal itself states that, “The value 0.75 is chosen to correspond to the “reasonably confident” portion of the statement about determining that a constraint for which an Exceptional Dispatch is made is competitive. Higher degrees of confidence (generally from 0.90 to 0.99) are most often applied in statistical hypothesis testing. A higher confidence level in this test reduces the likelihood that the historical data will conclude the constraint is competitive.”⁵. While such statements do not reflect appropriate statistical analysis, SCE reiterates that statistical testing of historic data is not a reasonable proxy for a dynamic competitiveness test.

b. The three pivotal supplier test cannot be used to justify proposed thresholds.

The proposal states that, “We have used a lower confidence level here in recognition of the conservative three pivotal supplier test that underlies the historical data on which this statistical test is based.”⁶

Such a statement is not supportable. As the DMM's own analysis shows, three pivotal suppliers have been observed in the CAISO market.⁷ Thus, the three pivotal supplier test is not conservative but in fact the minimum necessary test level for determination of competitiveness. Further, any determination of confidence levels based on such incorrect

³ <http://www.caiso.com/Documents/SCE-CommentsExceptionalDispatchMitigationRealTime-StrawProposal.pdf>

⁴ As Dan Yang mentioned during the November 6 stakeholder conference call, the prior year cannot be used to predict competitiveness for the current year. A reliable test would not utilize historical data but provide economically relevant information based on existing market dynamics.

⁵ Page 7, <http://www.caiso.com/Documents/RevisedDraftFinalProposal-ExceptionalDispatchMitigationRealTime.doc>

⁶ Page 7, <http://www.caiso.com/Documents/RevisedDraftFinalProposal-ExceptionalDispatchMitigationRealTime.doc>

⁷ Figure 4.3, Page 85, Market Issues and Performance Annual Report, <http://www.caiso.com/2b66/2b66baa562860.pdf>

assumptions implying that three pivotal suppliers may not be observed in the market, will lead to inappropriate analysis. Such a position undermines the treatment of the outcomes of the pivotal supplier tests which are an integral part of competitiveness testing.

III. A static lookback does not support an assumption that paths are accurately deemed competitive.

The CAISO should propose a testing methodology rather than a static lookback that deems a path based on the historic probability of being deemed competitive. There is no justification for a competitiveness assumption and such an assumption is inadvisable given that historic deeming of competitive behavior relies on the same arbitrary assumptions.

a. 60 days lookback is static and no support has been provided to justify the sample size of 60.

The CAISO should provide justification for using a 60 day sample to apply its thresholds. Any competitiveness determination based on historic values is static and not dynamic which represents a disconnect with the CAISO's general movement toward dynamic testing.

b. No testing is being performed in the CAISO proposal, only forecasting.

Since there is no actual competitiveness testing but rather an assumption drawn based on historic values, the proposal does not represent any form of reliable competitiveness determination.

IV. No support for Path 15 & 26 exemption.

The CAISO has not provided any support for the arbitrary exemption of Path 15 and 26 from competitiveness testing.

V. Market competitiveness is compromised if key points are not addressed.

SCE refers the CAISO back to its Draft Final proposal comments⁸. With two emergency filings on ED, the CAISO's existing ED position has serious and clearly obvious flaws. SCE strongly urges the CAISO to address the issues it has repeatedly mentioned in its prior comments during this stakeholder process as well as these comments offered. Failure to do so could jeopardize the integrity of market competitiveness determination.

⁸ <http://www.caiso.com/Documents/SCE-Comments-ExceptionalDispatchMitigationRealTimeDraftFinalProposal.pdf>