Intertie Deviation Settlement Initiative – Draft Final Proposal

Submitted by	Organization	Date Submitted
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SCE appreciates the opportunity to submit comments on the draft final proposal for the intertie deviation settlement initiative. The proposed under/over delivery charge mechanism strengthens incentives for the delivery of energy awards on the interties. The mechanism realigns the performance of intertie resources with the CAISO's operational expectations of resource performance on the interties. In addition, the mechanism requires that scheduling coordinators face the risks associated with their scheduling actions and operating decisions on the interties in the day-ahead and real-time energy markets.

The CAISO has requested comments on the following specific items and welcomes additional comments not covered by the listed items. SCE offers the following comments:

1. **Curtailed E-Tags will be excluded from the under/over delivery charge, which allows for removal of the 10% threshold.**

SCE agrees that curtailed E-Tags for reliability reasons should be excluded from the under/over delivery charge since this decision outcome is outside of the scheduling coordinator's control. In addition, SCE recommends that *force majeure* events be excluded from the under/over delivery charge.

Removal of the 10% threshold due to the exclusion of curtailments for reliability reasons from the under/over delivery charge raises some concerns. First, the absence of a threshold presumes that resources can maintain the level of dispatch without deviation. In reality, such resource performance is never a guarantee due to the inflexible operation of some mid-merit and base load resources at some points along their operating curve. It is typical for resources to operate within a deadband which, when appropriately specified can result in the desired performance that the CAISO seeks. A specific target dispatch point for which no tolerance exists for small deviations has the potential to reduce the competition for awards on the interties if the charge rate is deemed too punitive relative to the award for perfect performance. SCE recommends that the 10% threshold be lowered rather than removed.

2. **The under/over delivery charge will be evaluated in each fifteen-minute interval as opposed to the decline charge, which is applied on a monthly basis.**

Currently, the decline charge treats all hours as interchangeable. This treatment allows resources to trade-off hours in which under-deliveries occur with hours in which over-deliveries occur while remaining within the 10 per cent threshold. Had the charge been implemented with no-tradeoffs across hours within the month, the revenue collection for the decline charge potentially would have been greater. Although the performance of intertie resources under the proposed under/over delivery charge in each fifteen-minute interval provides a very strong incentive for intertie resources capable of responding to fifteen-minute dispatch instructions only, the same conclusion is unlikely to hold for hourly block resources. Hourly block resources, without the capability to respond to fifteen-minute dispatch instructions, do not usually exhibit the desired dispatch response within the fifteen-minute interval as fast ramp-rate resources or other fifteen-minute capable resources. The latter exhibit the agility to adjust their performance quickly along their operating curve which is not a characteristic of hourly block resources. Therefore, it is discriminatory to impose the fifteen-minute evaluation interval on hourly block resources.

SCE welcomes a distinction in the evaluation of hourly block resources with and without the fifteen-minute dispatch option in relation to the under/over delivery charge just as the settlement process stablishes a distinction between these two categories of resources.

3. **The logic for the 15-minute market (FMM) will be based on the submission of an E-Tag transmission profile instead of the assumption that an E-Tag will be submitted.**

SCE supports the distinctive logic for the fifteen-minute market that relies on the submission of an E-Tag transmission profile instead of the assumption that an E-Tag will be submitted. This approach provides relief between the poor alignment of submission deadlines within the scheduling process and the approval process for E-Tags.

SCE requests clarification on whether incremental energy awards made to intertie resources within the fifteen-minute market process will be considered an operational adjustment under the proposed under/over delivery mechanism.

4. **Declined and undelivered energy will be subject to the under/over delivery charge = 0.5 X MAX (FMM LMP, RTD LMP), with a $10/MWh minimum**

SCE supports application of the under/over delivery charge in situations where the energy award is declined or undelivered when *force majeure* events do not contribute to the scheduling coordinator's actions observed in the real-time market. Further, SCE notes that the CAISO does not offer any plausible explanation of its guiding principles that led to the $10/MWh floor for the charge.

Certainly an economic interpretation to the floor for the charge is expected and should be offered by the CAISO to its stakeholders. Incentives that elicit efficient behavior should be associated and aligned with the operating decisions that asset managers make throughout the trading day. Whether those decisions relate to the start-up, continued operation or shutdown of the intertie resource or the decision to make the resource available elsewhere when the opportunity cost for the resource is higher in an alternative operating environment.

SCE recommends that the CAISO presents an economic rationale for the floor included in the design of the under/over delivery charge.