SDG&E's Comments FERC Order 764 Market Changes Draft Final Proposal

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SDG&E appreciates the opportunity to comment on the CAISO's FERC Order 764 Final Draft Proposal. With the notable exception of reinstating convergence bidding on the interties, discussed below, SDG&E largely supports the key elements the Final Draft Proposal, and believes it is a significant step forward in addressing several major problems with the CAISO's current markets.

Reinstating Convergence Bidding on the Interties

SDG&E continues to oppose reinstating convergence bidding (CB) the interties in this forum. SDG&E appreciates the CAISO's effort to minimize the possibility that reinstating CB on interties will create substantial uplift by liquidating convergence bidding positions in the same market optimization as physical bids for both internal resources and interties. Additionally, SDG&E appreciates that the modified e-tagging proposal coupled with the inclusion of a buy-back rule based on higher of the IFM or 15-minute price for untagged imports (lower of for exports) should also help minimize uplift. However, SDG&E is concerned that despite these efforts there is too great a risk that significant uplift due to CB could still occur, and believes additional study in necessary to ensure unknown consequences will not occur. Consequently, SDG&E suggests stripping convergence bidding on interties from this initiative, and recommends the CAISO conduct further analysis and comprehensively vet appropriate protections in a separate initiative.

The CAISO system has changed considerably in the time since CB on interties was initiated and subsequently suspended. Congestion has become a more significant driver of CAISO market outcomes, as demonstrated by the extensive use of Minimum Online Commitment (MOC), and the initiation of the new CAISO Contingency Modeling Enhancements initiative. Also, the extended SONGS outage in SP 15 is causing a number of congestion problems. Exactly how CB on the interties will impact congestion in SP 15 has not been sufficiently studied or demonstrated to market participants. Similarly, flexibility to respond to the increased intermittency coupled with the loss of flexible Once-Through Cooling will put additional burden on the interties. It is unclear, without further study, how resuming convergence bidding on the interties will interact with and impact this new environment.

Finally, SDG&E also opposes the use of any ridged timeframe for easing CB position limits when CB is eventually returned on the interties. There must be defined metrics and triggers for gradually increasing CB position limits and off-ramps if reinstating CB causes disruptions and outcomes similar to its initial roll out. In sum, SDG&E feels strongly that the current CAISO proposal is still far too risky to be considered for implementation as part of a broader Order 764 compliance effort. SDG&E recommends the CAISO conduct further analysis and comprehensively vet appropriate protections in a separate initiative.

PIRP Modifications

SDG&E supports the proposed modifications to the Participating Intermittent Resource Program (PIRP) contemplated in this effort, particularly the proposal to eliminate the monthly netting provision. In its comments, CalWEA opposes the revisions, arguing "[i]f PIRP, as we know it, is changed as CAISO proposes without grandfathering these projects, there will almost certainly be a widespread disruption in the market, as the contracting parties are forced to sort out the allocation of deviation risk without PIRP and the financing community fears the worst."[1] Similarly, IEPA argues that eliminating the "fundamental features of the PIRP program including the netting duration, undermines existing contracts and risks abrogation of contracts if certain parties can no longer comply with the requirements of their contracts as a result of the CAISO's actions."[2]

SDG&E is unconvinced. The power purchase agreements between SDG&E and intermittent resources do not depend on the continued existence of the PIRP program in general, or any of its specific provisions in particular. Rather, nearly every contract contemplates that PIRP may change, or be eliminated, at a future time, and allocates benefits, burdens and risks accordingly. Contrary to CalWEA and IEPA's assertions, SDG&E believes only *one* contract in its existing portfolio that *may* necessitate renegotiation if PIRP were significantly modified or eliminated – and that potential renegotiation is dependent not on the mere modification of the program, but on the magnitude of any actual financial impact generated by the modification . If the other IOUs PIRP contract review mirrors SDG&E's, calls for grandfathering to hedge against "widespread market disruption" associated with the proposed PIRP modifications are largely misplaced, and borne of theoretical rather than actual concerns.

1 CalWEA Comments to CAISO on FERC Order 764 Implementation Revised Straw Proposal, p4-5, http://www.caiso.com/Documents/CalWEA-Comments-FERC_Order764MarketChangesRevisedStrawProposal.pdf
2 Comments of the Independent Energy Producers Association on the CAISO's Revised Straw Proposal Regarding FERC Order 764 Compliance 15-Minute Scheduling and Settlement, p2, http://www.caiso.com/Documents/IEP-Comments-FERC_Order764MarketChangesRevisedStrawProposal.pdf