

Western Power Trading Forum Comments

on

CAISO's January 5, 2012 Flexible Ramping Product (FRP) Proposal

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WPTF appreciates the opportunity to submit these comments. WPTF will not repeat comments previously provided. Instead we limit our comments to offering input on the CAISO's proposed change to the compensation for FRP resources selected in the real-time pre-dispatch run (RTPD).

WPTF does not support the CAISO's proposed change, as it fails to compensate suppliers with the MCP value of the capacity if the resource is selected in the RTPD and subsequently dispatched for energy. Failure to compensate resources for the capacity value fails to recognize the capacity value of the resource, and it creates a lack of symmetry with resources procured for flexiramp in the day-ahead market (which are paid the ASMP, even if they are dispatched). It also creates an asymmetry between a supplier providing flexiramp and a provider selected for spinning reserves.

The CAISO has not provided an analysis of the incentives this proposed design change creates, but it would seem that a supplier eligible to provide the flexi-ramp product would have an incentive to increase prices bid for either or both the flexi-ramp capacity and the associated energy. Since the likelihood of receiving the capacity payment would appropriately be discounted by the likelihood of being dispatched for energy, the capacity bid price would need to be increased to yield the same expected capacity revenue. Similarly, if the likelihood of receiving a capacity payment is zero when energy is dispatched, the marginal price at which a supplier is indifferent to being dispatched for energy would likely increase. Any concern about potential "over-compensation" associated with the opportunity cost component of the capacity price is mitigated by these incentive impacts.

The CAISO has suggested that providers should not require a capacity-based payment if procured in the RTPD and ultimately dispatched. However, the proper market design would not withhold such a payment. Rather, if in fact providers find the energy compensation sufficient, given the likelihood of dispatch, then they will bid to provide the FRP at zero cost. (Note that there has been no indication that there is any concern with concentration/market power among the suppliers able to offer flexiramp.) If suppliers do not bid to supply the product at zero cost then the suppliers do have a non-zero value to the capacity of their resources relative to providing energy bids alone. For the reasons stated herein the CAISO should revise this portion of its proposal and continue to offer a bid-based capacity payment for all capacity selected under the FRP.