FERC Order 764 Compliance
Draft Final Proposal

Submitted by	Company	Date Submitted
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The CPUC appreciates the opportunity to comment on CAISO's draft final proposal on FERC Order 764. We support the CAISO's proposal to offer intra-hourly scheduling for its benefits to Variable Energy Resources (VERs) and reducing uplift costs to ratepayers.

The current market design makes it difficult for VERs to bid into the market. Shortening the time between bid and market run reduces risk for VERs and therefore supports California's goals of reducing Green House Gas emissions.

Also, ratepayers are being subjected to uplift costs, which then have subsequent distortionary effects on the market. When Hour Ahead Scheduling Process (HASP) prices differ from Real Time Dispatch (RTD) prices, ratepayers are forced to pay the difference as an uplift cost. This also means that participants in HASP are being shielded from loss at the expense of ratepayers. This incentivizes HASP prices to miss the RTD and then forces loss onto ratepayers who have no information and cannot adjust their behavior anyways. By moving both HASP and RTD to a single 15-minute settlement, the uplift cost caused by this market design is removed. This correctly shifts the risk of misjudgment from the ratepayers over to the generators. This better aligns generators' incentives to accurately price the market and also forces risk onto those who can build that risk into a bid price.

Convergence bidding

In light of the historical problems with convergence bidding on the interties, as well as the concerns expressed by the Department of Market Monitoring (DMM), CPUC is concerned about the reinstatement of convergence bidding on the interties. CPUC supports the CAISO's 5% limit on convergence bidding on the interties and the subsequent phased-in approach, so long as the initial 5% period will include an opportunity to observe how the markets will operate during the peak summer months. CPUC also urges CAISO to work with DMM to monitor convergence bidding on the interties for gaming.

Implicit Virtual Bids and Worse-of Pricing

Because bids in the 15-minute market are submitted at T-37.5 and decisions to schedule are made closer to the run of the real-time market, there is an opportunity for participants to profit on better information that may be available closer to the real-time run. A potential scenario for gaming the market rules is if a resource is paid the 15-minute price but later perceives that prices will be lower in the 5-minute market they can choose to not supply their scheduled amount and buy it back at the lower real time price, in essence creating a virtual demand bid. Such implicit bids undermine market certainty, create opportunities for profit without adding benefits to the market, and incentivize over-estimation of prices which are borne by load. In order to remove the incentive to game price differences in the 15-minute and 5-minute settlements, CPUC supports worse-of pricing for uninstructed deviations from the CAISO's 15-minute dispatch.

Interaction with Order 764 Compliance Strategies of Other Western Transmission Providers

How Order 764 reforms instituted by other westwide transmission providers will interact with those made by the CAISO to jointly influence future westwide scheduling and market activity is obviously of considerable importance. For this reason, CPUC Staff and presumably other stakeholders are very interested in any information that the CAISO can provide regarding Order 764 compliance developments in other Balancing Authority Areas and western regions, any relevant discussions with these other areas, and any implications for future performance under the CAISO's proposed reforms.