Comments on ISO's December 18, 2012 Presentation on FERC Order 764 Market Changes

Department of Market Monitoring
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Summary

The Department of Market Monitoring (DMM) appreciates the opportunity to provide comments on the ISO's December 18, 2012 presentation on FERC Order 764 Market Changes.

DMM supports eliminating Transmission Reservations from the FERC Order 764 Market Changes Initiative. As discussed in DMM's comments on the Straw Proposal, the Transmission Reservations result in energy being settled on the HASP ITC shadow prices while offsetting energy could settle on the 15-minute market ITC shadow prices.[1] This could create a systematic imbalance between money paid into the real-time markets and money paid out of the real-time markets, which would result in uplift that can be exacerbated by individual market participants exploiting this market inconsistency. DMM recognizes that another method must be found to facilitate hourly block tie resources while providing sufficient flexibility in available intertie capacity to accommodate fluctuations in 15-minute schedules of intertie VERs.

The introduction of *15-minute* intertie resources (as opposed to *hourly block* intertie resources) serve to "reserve" hourly intertie transmission capacity to accommodate fluctuations in intertie VERs' 15-minute schedules. VERs scheduled at their 15-minute forecasts (some with decremental bids) will compete economically with these 15-minute intertie resources for the intertie capacity during each 15-minute market run. Therefore, the hour-ahead process needs only to determine the appropriate amount of intertie capacity to allocate to hourly-block intertie resources. Energy bids from 15-minute intertie resources can compete with the energy bids from hourly-block intertie resources in the hour-ahead optimization to limit the intertie capacity reserved for hourly-block intertie resources.

There is no need to use Transmission Reservation bids to efficiently allocate hour-ahead intertie capacity between 15-minute and hourly-block intertie resources. However, there is a need for the ISO to propose an alternative to Transmission Reservations for determining how to manage the allocation of intertie capacity between:

[1] See DMM's comments on the FERC Order 764 Market Changes Straw Proposal at http://www.caiso.com/Documents/DMM-Comments-FERC_Order764MarketChangesStrawProposal.pdf

- Economically bid hourly-block intertie resources (i.e, not self-scheduled); and
- Excess flexible intertie capacity (beyond that secured by 15-minute intertie resources) to accommodate potential increases in intertie VERs' 15-minute schedules over their hour-ahead forecasts.

If the ISO is going to allow hourly-block intertie resources to bid economically (as opposed to only accepting self-schedules for hourly blocks), DMM supports eliminating BCR eligibility for those hourly block intertie resources. Making hourly-block intertie resources ineligible for BCR creates the proper market incentives for the hourly-block intertie resources to incorporate the 15-minute market price risk into their bids. To the extent this increases the cost of hourly-block intertie resources relative to 15-minute intertie resources, this will create appropriate price signals for these hourly-block resources to transition to providing 15-minute scheduling flexibility.

Finally, we encourage the ISO to start discussions as soon as possible on how it will create proper incentives for resources to follow their real-time dispatches. Allocating Flex Ramp no-pay and Flex Ramp costs to uninstructed deviations may provide some incentives to follow real-time dispatch. However, detailed analysis of these incentives will be required to determine if they are sufficient to motivate resources to follow dispatch instructions, or if another mechanism (such as an Uninstructed Deviation Penalty) is necessary.