



Memorandum

To: ISO Board of Governors

From: Benjamin F. Hobbs, Chair, ISO Market Surveillance Committee

Date: January 27, 2016

Re: Briefing on MSC activities from December 2, 2015 to January 26, 2016

This memorandum does not require Board action.

Over the time period covered by this memorandum, members of the Market Surveillance Committee (MSC) held a general session meeting on December 11, 2015, which is discussed in the next section. The MSC also drafted and, on January 26, 2016, adopted an opinion on the ISO's proposed flexiramp product,¹ which is summarized at the end of this memo. Finally, members worked on developing an opinion on the ISO's reactive power compensation initiative, but the draft has not yet been finalized because the ISO has decided to put that initiative on hold in response to the Federal Energy Regulation Commission's November 2015 policy proposal on reactive power requirements for interconnection.² The MSC will be discussing several ISO initiatives with ISO staff and stakeholders at the next general session meeting to be held in Folsom on February 11, 2016.

December 11, 2015 MSC General Session Meeting

There were five topics that were the subject of ISO staff presentations and subsequent MSC and stakeholder discussion.

1. Contingency modeling enhancements
2. Flexible ramping product
3. Bidding rules enhancements
4. Reliability services phase 2
5. Transparency in reporting of planned transmission outages

¹ J. Bushnell, S. Harvey, and B. Hobbs, Opinion on Flexible Ramping Product, Market Surveillance Committee of the California ISO, January 26, 2016, www.caiso.com/informed/Pages/BoardCommittees/MarketSurveillanceCommittee/Default.aspx

²FERC, Proposal to Revise Standard Generator Interconnection Agreements for Reactive Power Requirements for Non-Synchronous Generation, Docket No. RM16-1-000, November 19, 2015.

Discussion of the first topic, contingency modeling enhancements, began with a presentation by Perry Servedio, ISO Senior Market Design & Regulatory Policy Developer. His presentation first summarized the mechanics of how corrective capacity constraints would work in the ISO markets, and how they could serve to increase system transmission capability while simultaneously lowering costs by selecting the most efficient means of meeting the contingency constraint. However, the changes in transmission capability will have an effect on congestion revenue rights (CRRs) that the present CRR allocation system does not recognize. The result could then be congestion revenue shortfalls, in which there is insufficient congestion revenue to cover payments to rights holders. The reasons for this possibility were reviewed, and several alternative modifications to the definition and allocation of CRR rights were discussed. MSC members recognized that the proposals discussed were the result of highly constructive discussions between staff of the ISO and Pacific Gas & Electric. The MSC anticipates writing an opinion on this initiative at an appropriate time.

The flexible ramping product initiative has been discussed in numerous MSC meetings over the last few years. As discussed in our opinion on the initiative, the MSC is pleased to see that the present proposal will effectively deal with the problem of “phantom” ramp, in which generation capacity is presently held back in the fifteen minute market to meet possible ramps in net load, but this headroom has, in general, not been preserved in the five minute market because the flexible ramping constraint is presently only enforced in the former market. During the December 11 meeting, Don Tretheway, Senior Advisor for Market Design and Regulatory Policy at the ISO, made a presentation on some of technical issues that have been dealt with in final revisions of the proposal. Dr. Scott Harvey of the MSC then summarized his analysis of concerns that virtual bidding together with implementation of the product only in the real time markets could result in price distortions in the day-ahead market. As discussed in the MSC’s opinion on the flexible ramping product, we do not believe that any problems will result that have not already occurred under the present flexible ramping constraint, and we believe that convincing evidence of the existence of such problems now is absent.

The third topic, bidding rules enhancements, is a relatively new initiative that addresses how commitment costs are bid and mitigated for possible market power. Cathleen Colbert, from the ISO Market and Infrastructure Policy staff, summarized the issues being addressed in the proposal development process. One issue is how gas price indices are used in order to obtain accurate estimates of gas-fired generation costs in the ISO’s daily markets; these estimates are used in the procedures for mitigating possible market power.

The fourth topic, which was Phase 2 of the reliability services initiative, started with a presentation by ISO staff member Dr. Karl Meeusen, Market Design and Regulatory Policy Lead. The specific topics he reviewed, and which were then discussed by the MSC and attending stakeholders, included:

- substitution procedures for planned outages of designated flexible capacity resources;

- adequacy of rules for substitution for local resources on planned or forced outages; and
- rules for applying the resource adequacy incentive mechanism to multiple (“combination”) resources that provide both flexible and inflexible capacity.

The fifth topic was introduced by a stakeholder, Carrie Bentley of Resero Consultants, who summarized concerns that have been expressed about the nature of information that is released about planned transmission outages and the timing of the release of that information. Ryan Kurlinski, Manager of the Analysis and Mitigation Group within the ISO Department of Market Monitoring, then addressed issues of how inconsistencies between the day-ahead market’s network model and the actual network might be taken advantage of by purchasers of congestion revenue rights (CRRs) to increase payments to CRR holders that are not covered by congestion revenues. The ensuing discussion between ISO staff and stakeholder attendees was highly constructive, and may lead to convergence on some issues concerning outage reporting.

Opinion on Flexible Ramping Product Proposal

The MSC adopted this opinion on January 26, and is submitting it to the Governing Board of the ISO during its February meeting.

In summary, the MSC concludes that the implementation of the flexiramp product design should improve the availability of ramp capability in real-time dispatch and eliminate the inconsistencies mentioned above in the current flexible ramping constraint design between the fifteen and five minute markets. Those inconsistencies, if not eliminated, will hinder, if not preclude, other potential improvements in the flexible ramping product design, and so it is very important to eliminate them, which the present proposal is likely to be successful in doing.

It is possible that, after the ISO has accumulated some experience with market operations with the flexiramp product in place, further improvements will be identified that could be made relating to provision of flexible ramping in the day-ahead market or locational targets. But a necessary first step in moving towards such improvements is to address the inconsistencies in the current design which have already been in place too long and will create more problems the longer they are left unresolved.

The MSC also expressed its support for the proposed revision of the cost allocation procedures. The new procedures will improve incentives for resources and imports to ramping their schedules over time in ways that help the ISO meet forecast changes in net load, rather than worsen ramping problems.