

# Memorandum

**To:** ISO Board of Governors

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

**Date:** December 8, 2011

**Re:** **Briefing on MSC Activities from October 5, 2011 to November 30, 2011**

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***This memorandum does not require Board action.***

Over the period covered by this memorandum, the Market Surveillance Committee has had several areas of activity. Members of the MSC have continued discussions with staff and stakeholders on the renewable integration market & product review, phases 1 and 2. The purpose of these initiatives is to ensure that the ISO market products and procedures can accommodate increased penetration of renewable resources as the market moves towards the 2020 State of California target of 33%. We issued a draft opinion on phase 1 proposals on participating intermittent resource program, minimum bids, and bid cost recovery on November 18, 2011, and will vote on the final opinion at the December 8, 2011 MSC meeting.

We have also provided feedback to ISO staff on the development of the ISO's proposed Integration of Transmission Planning and Generator Interconnection, and plan to issue an opinion on the proposal in the near future.

## **1. Renewable Integration Market & Product Review, Phase 1**

The phase 1 draft final proposal by the ISO<sup>1</sup> proposed changes to three features of the market (participating intermittent resource program, reductions in the energy bid floor, and bid cost recovery) in order to promote more economic bids when prices are negative. Individual MSC members were consulted by ISO staff during the development of that proposal. In our November 18 draft opinion, we formally commented on each of the parts of the proposal.

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<sup>1</sup> <http://www.caiso.com/Documents/DraftFinalProposal-RenewableIntegrationMarket-ProductReviewPhase1.pdf>

In the draft opinion, the MSC strongly supported the goal of encouraging economic bids that would allow for downward generation adjustments in response to negative real-time prices. We also supported the general direction of the ISO's proposals as likely being effective in advancing that goal in the short-run, which is the focus of phase 1 of the market and product review process.

We also recommended some modifications to specific aspects of the proposals. Regarding the bid cost recovery portion of the proposal, we supported the decrease in the bid floor to  $-\$150/\text{MWh}$ . However, we recommended that the proposed further decrease to  $-\$300/\text{MWh}$  not be automatically implemented, but rather be implemented only if it is concluded that insufficient economic bids were elicited by the  $-\$150/\text{MWh}$  floor; that appreciably more economic bids would result from dropping the floor further; and that negative side effects of having dropped the bid floor to  $-\$150/\text{MWh}$  are absent or acceptably small.

We also supported the separate calculation of bid cost recovery for the day-ahead and real-time markets, anticipating that it will remove important disincentives to bidding in real-time. However, we were unable at the time of writing the draft opinion to conclude with confidence that the proposed performance measure and persistent uninstructed energy check features of the proposal would function as intended. We therefore recommended extensive testing and, if appropriate, refinements of the concept, which we understand that the ISO staff will be conducting. We look forward to reviewing the results of that testing with the staff and stakeholders.

## **2. Renewable Integration Market & Product Review, Phase 2**

The MSC members have taken particular interest in the development of the conceptual basis of the flexible ramping product, which is an important part of the ISO's Phase 2 review. We have earlier (August 17) issued an opinion on certain aspects of the design of payments for flexible ramping, and extensively discussed the issue at the September 30, 2011 MSC meeting.

There is also significant stakeholder interest in the issue. The California Public Utilities Commission has asked the MSC to issue an opinion on some issues concerning the flexible ramping product, as described in the ISO's November 1, 2011 straw proposal.<sup>2</sup> We look forward to reviewing the proposal at the December 8, 2011 MSC meeting and to developing a draft opinion at an appropriate time in the near future.

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<sup>2</sup>[www.caiso.com/Documents/FlexibleRampingProductStrawProposal.pdf](http://www.caiso.com/Documents/FlexibleRampingProductStrawProposal.pdf)

### **3. Integration of Transmission Planning and Generator Interconnection**

The ISO is in the process of considering how the two separate transmission planning processes that it oversees can be better integrated. Members of the MSC have discussed with ISO staff two issues concerning the planning process in several phone calls, as well as attending the stakeholder working group meeting on November 30<sup>th</sup>. Two issues have been addressed. One is the allocation of ratepayer financed transmission to a generation pocket among parties with proposed generation in the interconnection queue when the total requests exceed the capacity of the new transmission. The second issue is how costs for constructed interconnection capacity with excess capacity should be allocated to generators who subsequently request to use that capacity.

These issues will be discussed further at the December 8, 2011 MSC meeting. We intend to issue a formal opinion when a proposal is to be submitted to the Board.