

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**California Independent System) Docket No. ER20-1890-000
Operator Corporation)**

**MOTION TO INTERVENE AND COMMENTS
OF THE DEPARTMENT OF MARKET MONITORING
OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

Pursuant to Rules 212 and 214 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“FERC” or “Commission”), 18 C.F.R. §§385.212, 385.214, the Department of Market Monitoring (“DMM”), acting in its capacity as the Independent Market Monitor for the California Independent System Operator Corporation (“CAISO”), submits this motion to intervene and comment in the above-captioned proceeding.

In this filing, the CAISO proposes to modify tariff provisions regarding the treatment of intertie schedules and related rules regarding electronic tags (E-Tags), and to strengthen the CAISO’s non-delivery charge for deviations from scheduled intertie transactions.¹ DMM supports the proposed tariff changes as an improvement over the current market rules which may reduce the portion of import schedules clearing the real-time market which are not delivered.

¹ *Tariff Amendment to Enhance the Intertie Transaction Market Rules, Request for Waiver of Notice, and Request for Timely Consideration of Order*, California Independent System Operator Corporation, Docket No. ER20 -1890-000. (“Transmittal Letter”) <http://www.caiso.com/Documents/May22-2020-TariffAmendmentIntertie-Deviation-Settlement-ER20-1890.pdf>

I. MOTION TO INTERVENE

DMM respectfully requests that the Commission afford due consideration to these comments and motion to intervene, and afford DMM full rights as a party to this proceeding. Pursuant to the Commission's Order 719, the CAISO tariff states that "DMM shall review existing and proposed market rules, tariff provisions, and market design elements and recommend proposed rule and tariff changes to the CAISO, the CAISO Governing Board, FERC staff, the California Public Utilities Commission, Market Participants, and other interested entities."² As this proceeding involves CAISO tariff provisions that affect the efficiency and potential for market power in the CAISO markets, it implicates matters within DMM's purview.

II. COMMENTS

Background

As noted in the CAISO's *Draft Final Proposal*, the ISO's current charge for declined import bids or non-delivered imports dates back to spring of 2007, when DMM raised concerns about the high level of import bids accepted in the hour-ahead market which were not delivered in real time.³ The charge for awarded import bids that are declined, or accepted and not delivered, that was developed by the CAISO and stakeholders at that time only applies if the scheduling coordinator fails to deliver 10 percent or more of total intertie transactions or 300 MWh during any month. This relatively high monthly threshold is rarely exceeded so that the decline charge does

² CAISO Tariff Appendix P, Section 5.1.

³ *Intertie Deviation Settlement Draft Final Proposal*, CAISO, February 13, 2019, p.14 (Draft Final Proposal): <http://www.caiso.com/InitiativeDocuments/DraftFinalProposal-IntertieDeviationSettlement-UpdatedFeb13-2019.pdf>

not provide a significant financial disincentive for non-delivery of imports under critical system conditions.⁴

The relatively high monthly threshold incorporated in the current decline charge was adopted in large part because at that time the CAISO systems did not have the information needed to distinguish between imports that were declined or not delivered due to factors beyond the supplier's control, such as curtailments of transmission by other balancing areas for reliability reasons. The CAISO has now developed plans to enhance its information systems by fall 2020 to allow the CAISO to identify import schedules which are not delivered due to transmission curtailments for reliability reasons rather than for reasons that are more likely within the supplier's control. In conjunction with this system change, the CAISO is proposing to eliminate this monthly threshold and apply charges to all non-delivered imports except schedules which are curtailed by another balancing area or transmission provider for reliability reasons.⁵ This represents a major improvement over the current decline charge.

Under the CAISO's proposal, the charge for declined or non-delivered intertie resource schedules subject to this charge may also be higher in cases when 5-minute prices are higher than the 15-minute prices. Currently, the charge for undelivered imports (above the monthly threshold) which are subject to this charge is the greater of: (i) 50 percent of the 15-minute price for the intertie, or (ii) \$10/MWh.

⁴ As noted in the CAISO's filing. "experience shows that the current charge creates insufficient incentives for market participants to deliver scheduled intertie transactions, and too many undelivered intertie transactions are not even subject to the charge." Transmittal letter, p. 3.

⁵ A listing of all changes being proposed by the CAISO to address deficiencies in the existing non-delivery charge is provided on page 4 of the transmittal letter.

The CAISO is proposing to change this charge to the greater of: (a) 50 percent of the 15-minute price for the intertie; (b) 50 percent of the highest of the three 5-minute prices for the corresponding 15-minute interval, or (c) \$10/MWh. Although 15-minute prices have tended to be systematically higher than 5-minute prices in the CAISO in recent years, 5-minute prices can spike to very high levels at or near the CAISO's \$1,000/MWh bid cap for short periods of time during a small portion of 5-minute intervals. Thus, this change can create a significant increase in the non-delivery charge during intervals when 5-minute prices spike above 15-minute prices.

The CAISO also proposes to improve incentives for importers to *accept* or *decline* cleared import bids sooner in the real time market process by imposing a higher potential charge for import schedules which are not declined in advance and are then not delivered in real time.⁶ If a schedule that is not e-tagged in real time is not declined in advance, the non-delivery charge will be the greater of: (a) 75 percent (rather than 50%) of the 15-minute price for the intertie; (b) 75 percent (rather than 50%) of the highest of the three 5-minute prices for the corresponding 15-minute interval, or (c) \$10/MWh. This creates a financial incentive for suppliers that anticipate not delivering energy to decline an hour-ahead award through the automated dispatch system (by t-40) rather than waiting and not submitting an e-tag by t-20. In this situation, even though awards declined via the automated dispatch system occur after the hour-ahead market process has been completed, this more timely additional information makes real-time schedules more accurate. This information also provides grid operators more timely notice of non-delivered energy,

⁶ Transmittal letter, p. 24.

which can help operators take any manual actions that may be needed to ensure reliability.

Reliability and market impacts of proposal

The CAISO's proposal is aimed primarily at increasing reliability by reducing the potential for large non-deliveries of imports. The new penalties and transmission rules established under the proposal may also have some effect in terms of decreasing the supply and/or increasing the cost of imports. However, to the extent the proposal eventually allows the CAISO to reduce out-of-market actions taken to defend against this source of real-time uncertainty, the new rules may ultimately reduce overall costs and increase market efficiency.

The CAISO's draft final proposal states that "in order to maintain stable grid conditions, the ISO operators may be prepared to cover the maximum amount of potential undelivered energy on the interties across all hours."⁷ As noted in the CAISO's filing, "especially during stressed conditions, CAISO grid operators may need to take out-of-market actions in anticipation of undelivered imports. These include increasing the real-time market's load forecast and/or dispatching additional imports outside of the market."⁸ In addition, in order to protect against the general uncertainty surrounding real-time supply, CAISO operators often issue *exceptional dispatches* to manually commit additional gas resources and ramp units up to provide additional out-of-market energy. Although needed to preserve reliability,

⁷ Draft final proposal, p. 35.

⁸ Transmittal letter, p. 2.

these various manual actions create additional uplift costs and can decrease real-time market prices.

To the extent the proposed tariff changes decrease non-delivered import schedules, particularly under stressed system conditions when real-time prices tend to be highest, this could help to reduce the various manual actions taken to defend against overall real-time uncertainty. However, as explained in DMM's memo to the CAISO Board on this proposal, it is important that the actual level of undelivered imports be accurately tracked so that the CAISO operators have an accurate indication of the potential level of undelivered imports when taking actions to defend against this uncertainty.⁹

Resource adequacy imports

As noted in DMM's comments in the CAISO stakeholder process and numerous DMM reports, DMM has expressed concerns that current rules for resource adequacy imports could allow a significant portion of resource adequacy requirements to be met by high priced day-ahead import bids that are not backed by actual resources that are available in the real-time market.¹⁰ Imports used to meet resource adequacy requirements are not required to originate from specific generating units or to be backed by specific portfolios of generating resources. These

⁹ *Comments on Intertie Deviation Proposal, Memorandum to ISO Board of Governors*, Department of Market Monitoring, February 4, 2019: http://www.caiso.com/Documents/Decision_IntertieDeviationSettlementProposal-DMM_Comments-Feb2019.pdf

¹⁰ *Comments on Intertie Deviation Settlement Draft Final Proposal*, Department of Market Monitoring, January 18, 2019, pp. 1-3: <http://www.caiso.com/InitiativeDocuments/DMMComments-IntertieDeviationSettlement-DraftFinalProposal.pdf>

imports can be bid at any price up to the \$1,000/MWh bid cap and do not have any further obligation if not scheduled in the day-ahead market or residual unit commitment process.

Thus, a scheduling coordinator can meet resource adequacy capacity requirements for imports by simply submitting a relatively high energy bid in the day-ahead market. In the rare case in which a high priced resource adequacy import bid was accepted in the day-ahead market, the scheduling coordinator can avoid actually providing this capacity by re-submitting a very high priced import bid in the hour ahead scheduling process or by simply not submitting an e-tag in real-time.

The higher non-delivery charge for deviations from scheduled intertie transactions established in this filing would not address this reliability and market design problem. As noted above, scheduling coordinators can avoid having bids accepted by simply submitting very high bid prices. In the event a bid was occasionally accepted, the non-delivery charge incurred if the scheduling coordinator does not deliver the energy in real time would be very small compared to the capacity payment or value the scheduling coordinator would receive by using such import bids to meet monthly or annual resource adequacy capacity requirements.

Thus, DMM clarifies that the higher non-delivery charge for real time imports established through this filing should not be viewed as a step towards addressing the more fundamental reliability and market design problems associated with the CAISO's rule for resource adequacy imports. The CAISO is considering steps to address the issue of resource adequacy bidding and scheduling on the interties in its current resource adequacy enhancements initiative.

Tariff language

In the tariff language proposed in the CAISO filing, the final paragraph of Section 30.5.7.1 reads as follows:

If the Scheduling Coordinator fails to submit a valid E-Tag consistent with these deadlines, then the CAISO will set the MW quantity of the FMM Schedule associated with the Self-Schedule Hourly Block to zero for each FMM interval of the hour.¹¹

Setting the fifteen minute market (FMM) schedule to zero for each FMM interval of the hour seems to imply that if the importer does not submit an energy profile equal to the amount of the HASP schedule by T-20, then the ISO will set the settled energy for the import in FMM intervals 1 and 2 to 0 MW. However, the draft final proposal included with the ISO's filing indicates that the logic used to determine binding awards for FMM intervals 1 and 2 will be the minimum of (1) HASP schedule, (2) ADS accepted value, and (3) E-Tag transmission profile.¹²

Thus, there appears to be a contradiction between this proposed language and the draft final proposal that was presented to and approved by the CAISO Board. The language in the clean tariff implies that the e-tag at t-20 is also determinant of FMM binding awards for intervals 1 and 2. However, the draft final proposal clearly does not include the T-20 E-Tag energy profile as a binding award determinant for those intervals.

DMM assumes the CASIO intends the tariff language to be consistent with the draft final proposal and requests the CAISO clarify this issue and file amended tariff language resolving this discrepancy.

¹¹ Transmittal letter, p. 38 (Attachment A – Clean Tariff Language).

¹² Transmittal letter, p. 97 (Draft final proposal, Section 7.1, Figure 16).

III. CONCLUSION

DMM supports the options filed by the CAISO in this proceeding as an improvement to current tariff provisions. To the extent the proposal eventually allows the CAISO to reduce steps to defend against this uncertainty about real-time imports, these new rules may ultimately reduce costs and increase market efficiency. To realize these potential benefits, it is important that undelivered imports be accurately tracked so that the CAISO operators have an accurate indication of the potential level of undelivered imports when taking actions to defend against this uncertainty. As explained in these comments, DMM also believes additional steps are needed to effectively address reliability and market issues associated with the CAISO's rules for import bids used to meet resource adequacy capacity requirements.

DMM respectfully requests that the Commission afford due consideration to these comments as it evaluates the proposed tariff provisions before it.

Respectfully submitted,

/s/ Eric Hildebrandt

Eric Hildebrandt, Ph.D.
Executive Director, Market Monitoring

Ryan Kurlinski
Manager, Analysis & Mitigation Group

California Independent System
Operator Corporation
250 Outcropping Way
Folsom, CA 95630
Tel: 916-608-7123
ehildebrandt@caiso.com

Independent Market Monitor for the California
Independent System Operator

Dated: June 12, 2020

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service lists in the above-referenced proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 12th day of June, 2020.

/s/ Candace McCown

Candace McCown