

## Discretionary Initiatives High Level Ranking Template

NCPA appreciates the opportunity to provide the following rankings and comments on the 2013 Stakeholder Initiatives Catalog.

### Initiative 1: 6.6 Regulation Service Real-Time Energy Make Whole Settlement

High Level Prioritization Criteria Matrix

		Criteria	HIGH	MEDIUM	LOW	NONE	Your Score
			10	7	3	0	Use 0, 3, 7, or 10
A	Benefit	Grid Reliability	Significant Improvement	Moderate Improvement	Minimal Improvement	No Improvement	10
B		Improving Overall Market Efficiency	Significant improvement	Moderate improvement	Minimal improvement	No impact	10
C		Desired by Stakeholders	Universally desired by stakeholders	Desired by majority of stakeholders	Desired by a small subset of stakeholders	No apparent desire	X
D	Feasibility	Market Participant Implementation Impact (\$ and resources)	No Impact	Minimal Impact	Moderate Impact	Significant impact	10
E		ISO Implementation Impact (\$ and resources)	No Impact	Minimal Impact	Moderate Impact	Significant impact	7
						<b>Total</b>	

**Grid Reliability** (*provide a detailed explanation of how and why this initiative provides an improvement in grid reliability*) –

The ISO has put a great deal of emphasis on the need for available flexible generating resources in maintaining grid reliability as intermittent generating resources are added to the fleet. Indeed, there are several initiatives recently completed, ongoing, and upcoming focusing on market design changes that will provide financial incentives for flexible resources to bid into the market. Given that flexible generation has been deemed crucial to the grid as it evolves, it is

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paradoxical that we are finding the revenue stream from providing the market with regulation energy from a flexible combined-cycle resource to be so volatile as to make us re-evaluate the risk-return on providing that ancillary service to the market.

As noted in our comments on the Stakeholder Initiatives Catalog, regulation energy is settled at the real-time price even though the dispatch of regulation energy is not related to the economic optimization that produces that real-time price. All-too-frequent real-time price spikes expose owners of resources on regulation to risk that can erode or negate revenue from the regulation capacity payment. In the worst cases, the current settlement regime can lead to situations in which market participants are effectively *paying* to provide regulation energy to the market.

NCPA recommends that the settlement of regulation energy be revised such that exposure to real-time prices is limited to the resource's default energy bid. When providing regulation down, RT energy should be bought back at the lesser of LMP and DEB, and when providing regulation up, RT Energy should be sold back at the greater of LMP and DEB.

**Improving Overall Market Efficiency** (*provide a detailed explanation of how and why this initiative provides an improvement in market efficiency*) –

It is not the efficiency of the market for regulation capacity that we question here. Rather, it is the settlement rules for regulation energy provided in real time. The payment for a good or service in an efficient market appropriately represents the value of the good or service, but the revenues from providing regulation is being negatively impacted by a completely different price unrelated to the regulation capacity price. Specifically, the real-time price, which is the value of energy in the 5-minute timeframe, is being applied to regulation energy which occurs in the 4-second timeframe and is not even part of an economic optimization. While there is a need to settle up the energy associated with regulating, we argue that the current methodology of settling that energy at the volatile real-time price creates risk which in turn sends a perverse signal to market.

**Market Participant Implementation Impact (\$ and resources)** (*provide a detailed explanation of what you expect the impact to be in terms of \$ and resources*) –

NCPA does not anticipate any need for additional funds or resources in order to implement changes to shadow settlement should changes be made.

**ISO Implementation Impact (\$ and resources)** (*provide a detailed explanation of what you expect the impact to be in terms of \$ and resources*) –

NCPA recognizes that there would need to be changes made within the settlement system in order to put new rules in place relative to the pricing of regulation energy. The changes

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envisioned here are minor and narrow in scope and, as such, we would expect them to be relatively straightforward to implement.

### **Initiative 2: 14.2 Cost Allocation Overall Market Review**

There are seven sub-initiatives in the Cost Allocation Overall Market Review, and that all but two are being deleted. It is noted that some of the cost allocation issues were addressed in the FERC Order 764 Market Changes initiative, and that others will be addressed in “future initiatives.” NCPA requests elaboration on the fate of the 5 cost allocation issues being deleted from the Catalog. In particular, we would appreciate a discussion of which issues the ISO feels have been addressed through the FERC Order 764 changes, and what future initiatives will include scope for resolving the remaining cost allocation issues.