SDG&E Comments on Modifying Limit on IFM Supply Pool

SDG&E appreciates the opportunity to comment of this issue, which has been one of our "pet" issues for resolution. SDG&E understands the reasons behind the current market design that limits the IFM supply pool to those bids that have passed the MPM process. We support the market design premise that all bids which pass on to the IFM should undergone MPM. However, the experience from July 26 reveals that when the ISO and Market Participants (MP) have a widely different view on forecast demand, the current market design breaks down. On that day over the peak hours, the MPM-cleared supply pool was so limited relative to MP bid-in demand, that an artificial supply scarcity was created, resulting in unjustifiably high market prices.

The desired end-state is a sufficiently large supply of MPM-cleared supply bids in the IFM to satisfy bid-in demand without creating artificial scarcity. The issue in reaching this desired end-state is how to determine the proper demand forecast for the MPM process in a prescribed, repeatable manner that yields a robust supply pool in the IFM.

The ISO presentation on August 14 proposed four options and SCE presented a version of one of those options. SDG&E's recommendation is Option 3, use greater of ISO demand forecast or bid-in demand in MPM. SCE presented a variation on Option 3, which selected a "reasonable" demand forecast derived from bid-in demand. While SDG&E supports the underlying Option 3 principle in the SCE approach, the determination of the bid-in demand forecast needs better definition.

The analysis of the results from July 26 provides a potential answer to which bid-in demand to use for the MPM process. On July 26, the marginal energy component in two hours, HE 17 and HE 18, was over $400/mw. Presumably, few, if any, MPs submitted an economic demand bid to purchase any meaningful quantity for a price above $400, a market heat rate in excess 110,000 MMBtu/kwhr. One can reasonably conclude that the LMP in those hours was set 100% by price taker demand bids. As shown in the presentation on August 14, rerunning the market using cleared demand as the MPM demand forecast (green line on slide 7) resulted in LMPs that very closely approximated using all supply bids, mitigated and unmitigated, in the IFM. These results suggest that using the price taker demand quantity in the MPM process, which was approximately 3 GW higher than the ISO demand forecast, would have resolved the artificially supply scarcity in the IFM.

SDG&E recommends that the ISO use the higher of the ISO demand forecast or bid-in price taker demand in the MPM process. This comparison should be performed in every hour and the higher quantity in each hour should be used for the MPM process. Using the higher of the ISO demand forecast or price-taker demand bid results in a simple, repeatable process that can be quickly implemented as an interim solution until longer term solutions can be addressed. SDG&E also recommends that this solution be implemented quickly as a separate Tariff modification on its own schedule, independent of any related long term solutions.