Memorandum

To: ISO Board of Governors

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

Date: October 20, 2011

Re: Briefing on MSC Activities from August 17, 2011 to October 4, 2011

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 participated in discussions with staff and stakeholders on the renewable integration market & product review, phases 1 and 2. These critical initiatives are intended 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 are continuing to work with staff to provide reviews of the market changes to be proposed under the review. We plan to issue an opinion on phase 1 proposals on participating intermittent resource program, minimum bids, and bid cost recovery in November, 2011, in time for the December Board meeting.

We also held an official MSC meeting on September 30, where phase 1 and 2 principles and proposals were discussed with stakeholders, as well as the development of proposals for integration of transmission planning and generator interconnection.

1. Renewable Integration Market & Product Review, Phase 1

At previous MSC meetings, most recently being March 18, the MSC has discussed the participating intermittent resource program, reductions in the energy bid floor, and bid cost recovery, which are the three most salient proposals in the on-going phase 1 review.

In the September 30 meeting, the latest versions of these proposals were reviewed.[1] ISO staff summarized the proposals, and the MSC members and stakeholders discussed a number of issues concerning those proposals. Among those issues discussed was the desirability of continuing the Participating Intermittent Resource

[1] Fifth Revised Straw Proposal Renewable Integration: Market and Product Review, Phase 1, September 28, 2011, http://www.caiso.com/informed/Pages/StakeholderProcesses/RenewablesIntegrationMarketProductReviewPhase1.aspx

Program in some form versus phasing it out, as was proposed in earlier versions of the phase 1 proposal. Some MSC members commented favorably on the reallocation of risk represented by the present proposal, in which the cost of the (in effect) insurance provided by the participating intermittent resource program against imbalance charges would be borne by the load serving entity purchasing the wind energy, rather than by all consumers. The possibility of incorporating improved forecast information from wind producers was also discussed.   Some MSC members commented on the bid floor, which is scheduled to be implemented in two stages (first dropping to -$150/MWh and then later to -$300/MWh).   In their comments, they suggested that it would be desirable to allow enough time between the two stages to have sufficient market data to assess the impact of the bid floor change upon market bids and outcomes before committing to the second reduction. This assessment should recognize that the purpose of the dropping the bid floor was to elicit more bids from wind and other producers to reduce output in real time.

A draft MSC opinion is in preparation and will be issued in early November.

2. Renewable Integration Market & Product Review, Phase 2

The MSC has been interacting with stakeholders and staff on formal stakeholder calls and through informal staff consultations since June 2011 on the phase 2 proposals. In August, the ISO issued a revised proposal.[2]   During the September 30 MSC meeting, ISO staff summarized the phase 2- market vision and roadmap, giving an overview of all the anticipated initiatives.

Three MSC members then presented their perspective on the economic issues involved in creating a flexi-ramp product.   Chairman Hobbs indicated that flexi-ramp is essentially a fix to a deterministic generation scheduling software procedure that compensates for the procedure's present inability to consider the range of possible outcomes that load and wind (as well as equipment outages) might take in the coming hours.   Under a scheduling software procedure that that considered multiple possible outcomes, flexi-ramp would automatically be provided to meet possible net load paths that are either higher than average, or have steeper ramps.   Generators would be paid for providing this ramping capability by earning more energy revenues during the intervals that experience high prices as result of those high loads or steep ramps.

Member Scott Harvey provided a perspective on several issues involved in paying for flexi-ramp.   He pointed out that since suppliers of flexi-ramp resources have a high probability of being called upon to provide energy, it is appropriate to consider ways to consider those

[2] Revised Straw Proposal - Renewables Integration Market and Product Review Phase 2, Aug. 28, 2011, www.caiso.com/informed/Pages/StakeholderProcesses/RenewablesIntegrationMarketProductReviewPhase2.aspx

resources' energy bids when scheduling them for flexi-ramp and energy. He also pointed out the desirability of devising a penalty system that would allow for flexible relaxation of the flexi-ramp requirement. Such a system would allow release of more flexi-ramp during real-time intervals with high energy prices, while holding back more flexi-ramp for future contingencies when energy prices are low.

In member Steven Stoft's presentation, he presented a proposal to allocate costs of flexi-ramp based on what resources and loads were responsible for the need for the ramp product. Deviations of resources and load from schedules are a major reason why flexi-ramp is required, and so should be allocated costs accordingly. He noted that when deviations are helpful (result in less consumption of flexi-ramp), resources should in that case be rewarded and not punished.

No formal MSC opinion has been requested at this time regarding the phase 2 market vision and roadmap. However, when particular proposals resulting from phase 2 are to be presented to the Board in early 2012, the MSC will issue opinions to accompany them.

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.[3] During the September 30 MSC meeting, ISO staff briefed the MSC and stakeholders on the overall initiative, and highlighted two issues for the MSC's consideration. 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.

We will be communicating with ISO staff on these issues, and plan to issue a formal opinion when a proposal is to be submitted to the Board.

4. Other

Effective October 1, 2011, Dr. Steven Stoft has resigned from the MSC. We thank Dr. Stoft for his contributions to the committee on recent issues and wish him the best in his future endeavors.

[3] www.caiso.com/informed/Pages/StakeholderProcesses/TransmissionPlanning_GenerationInterconnectionIntegration.aspx