Two-Tier Allocation of Bid Cost Recovery

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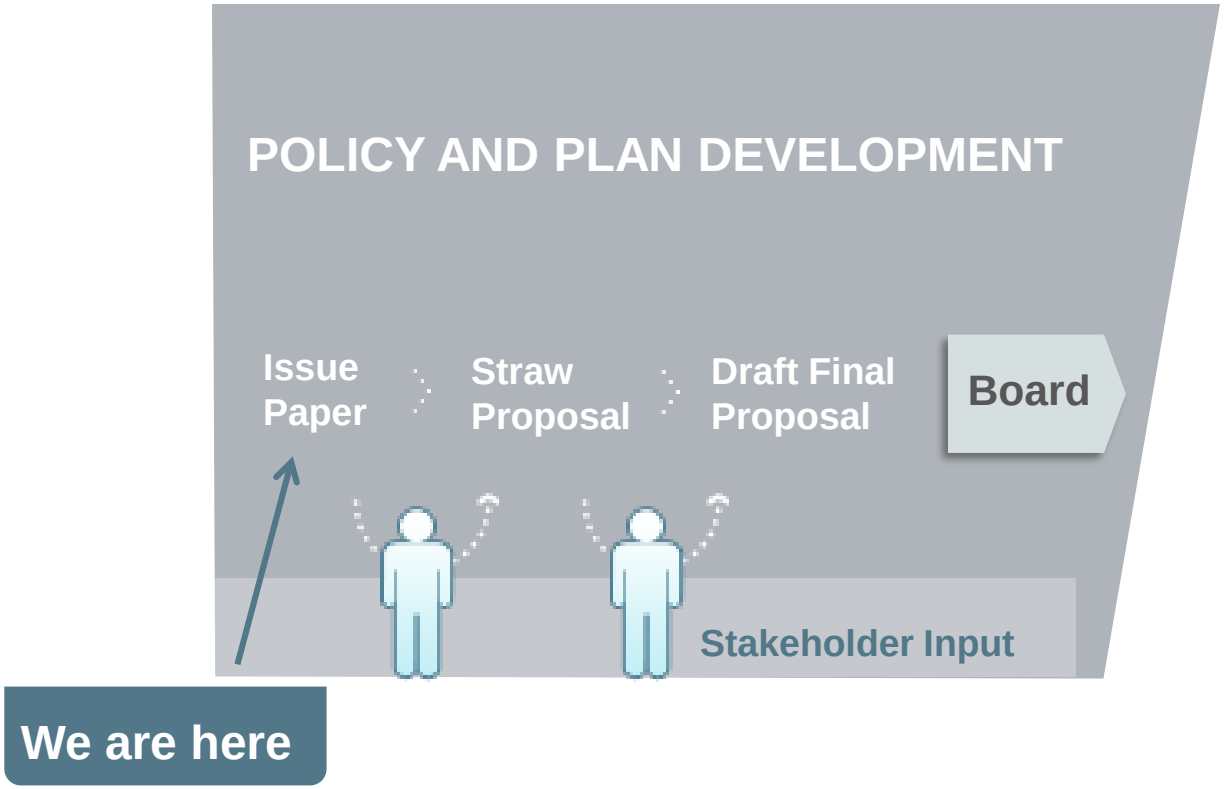
Agenda

Time	Topic	Presenter
1:00–1:05	Introduction	Kim Perez
1:05–2:00	Purpose and Background	Jordan Curry
	Considerations and Examples	Jordan Curry
	Data	Jordan Curry
	Stakeholder Input	Jordan Curry
2:55–3:00	Next Steps	Kim Perez

ISO policy initiative stakeholder process



Purpose of this initiative

- Real-time bid cost recovery (BCR) uplift is allocated in a single tier to measured demand.
- BCR provides resources with a payment to make up any shortfall between their market revenue and bid cost.
- The costs of these BCR payments are funded through uplift charges. This paper explores developing a two-tier allocation method for real-time market BCR uplift.

Background

- FERC concluded in the ISO's MRTU tariff filing that the ISO had not "justified the socialized allocation of real-time uplift costs." and directed the ISO to allocate real-time BCR costs "in a two tier method similar to the day ahead."
- For example, the first tier of BCR could be allocated to under-scheduled load with the rationale that this is the driver for incremental energy needs in real-time and associated BCR costs.

Background (continued)

- In June 2012, FERC accepted the ISO's motion for an extension of time (to develop cost allocation principles) and again in September 2014 (to gain experience with significant market changes affecting BCR in May 2014).

- FERC directed the ISO to submit any tariff modifications addressing this issue by April 30, 2017.

Considerations

- Two-tier cost allocation
  - Allocates a portion of the total pool of costs to a subset of market participants identified as directly causing that portion of the costs.
  - Remainder socialized across a broader range of market participants that benefit from those costs.
- Integrated Forward Market (IFM) and Residual Unit Commitment (RUC) exhibit natural cost causation rationale for the two-tier approach, because it is possible to associate a "purchase" volume with each of the IFM and RUC uplifts.
  - e.g. RUC procures 50 MW for under-scheduled load irrespective of actual real-time conditions

Considerations (continued)

- Current real-time BCR uplift currently allocated to scheduling coordinators in a single tier based on load and exports.
- Rationale is that aside from under-scheduled load, there are often other real-time conditions that simultaneously contribute to BCR costs.
  - Transmission outages or unscheduled flow causing different congestion than modeled in the day-ahead market are such examples of such conditions.
  - Consequently, these costs are allocated to load and exports, which is the portion of the market benefiting from the generation receiving real-time BCR payments.

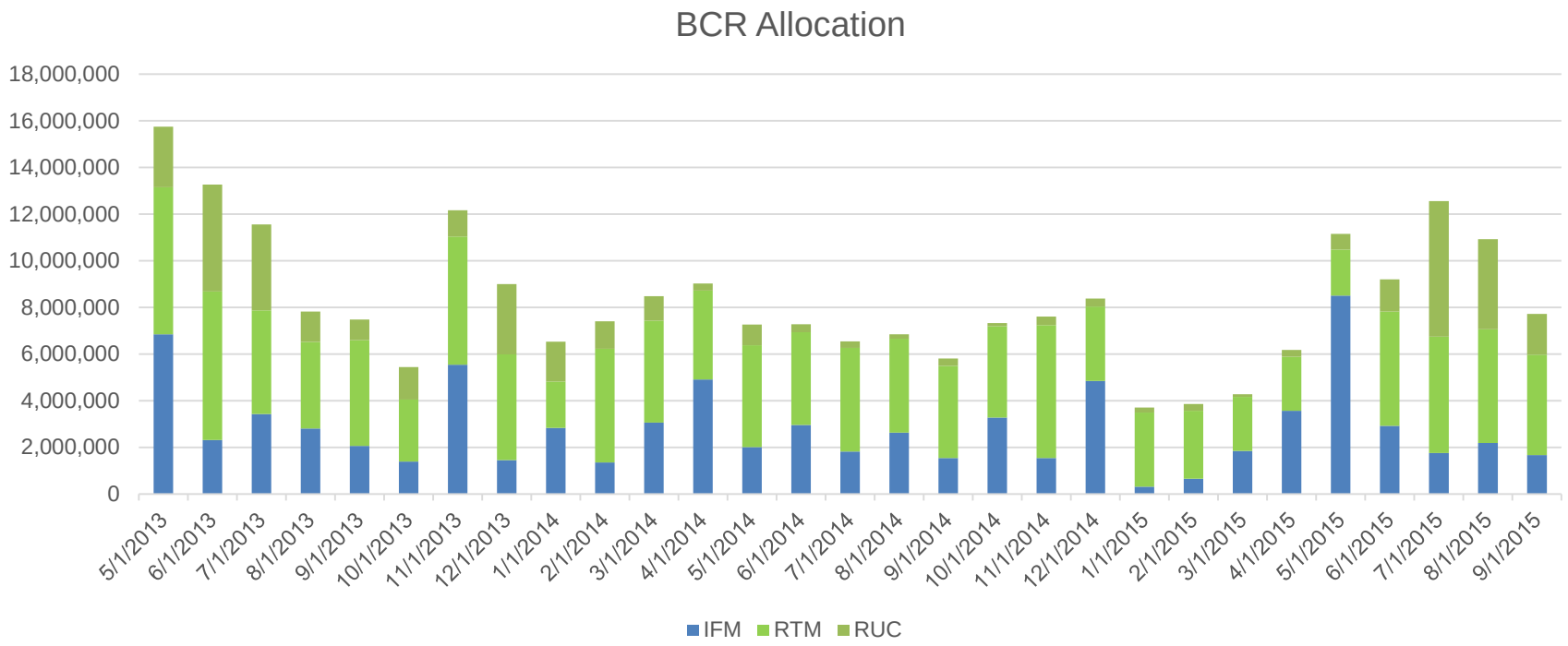
2008 bid cost recovery issue paper proposals

- In 2008, the ISO proposed two options for allocating real-time BCR.
  - Option 1: allocating to scheduling coordinators based on supply bidding and real-time demand not scheduled in the day-ahead that may drive real-time bid-cost recovery costs
  - Option 2: net negative uninstructed supply and demand deviations

Example

Scheduling Coordinator's Schedule	Tier 1 Allocation	
Load • DA schedule = 50 MW • Meter = 55 MW Generation • DA schedule = 50 MW • RT bid max = 55 MW	Option 1 <u>Allocated 0 MW</u> • (Meter – DA load schedule) – (RT bid max – DA load schedule) • (55 MW – 50 MW) – (55 MW – 50 MW) = 0 MW	Option 2 <u>Allocated 5 MW</u> • Meter – DA load schedule • 55 MW – 50 MW = 5 MW

Data analysis



- Prior to May 2014 market changes real-time BCR was approximately 47% of total BCR uplift.
- After the May 2014 market changes real-time BCR was approximately 52% of total BCR uplift.

Stakeholder Input

The ISO requests stakeholder input regarding the following:

1. The merit of the previous proposals for two-tier allocation of real-time BCR uplift included in the 2008 BCR issue paper. (Recognizing that changes may be necessary to reflect BCR changes made since the time the ISO developed the issue paper.)
2. Alternatives to allocation of real-time BCR uplift, including maintaining the current allocation of real-time BCR uplift to measured demand.
3. Additional considerations, if any, for determining the appropriate method to allocate real-time market BCR.
4. The scope of additional market data analyses that would be appropriate to assess the benefits of a two-tier allocation of real-time market BCR.