FERC Order 716 Compliance
Revised Straw Proposal

Submitted by	Company	Date Submitted
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Brookfield appreciates the opportunity to submit comments to the Revised Straw Proposal for FERC Order 716 Compliance. As described further in our comments below, we support a timely implementation of a 15 minute market that involves coordination with and broader participation from a larger portion of the western interconnect. We also support the CAISO's efforts to resolve the existing real-time market inefficiencies that exist with the current HASP/RT market paradigm that produce excessive uplift costs and the reinstatement of intertie convergence bids. Unfortunately the current proposal does not achieve these goals in a balanced way.

We do not believe the CAISO's current proposal to force movement to a 15 minute market absent coordination with the rest of the western interconnect is the best approach. The proposal provides a number of benefits to those that control flexible generation but is detrimental to power marketers that provide a bulk of the supply provided through intertie points into the CAISO control area through hourly block schedules. Some of the risk also appears to be borne by internal generation as they are subject to changes in prices between the 15 minute and 5 minute markets but can only submit one bid that applies to both markets. The CAISO describes this new proposal as a three settlement system, but in reality it is not as intertie suppliers that are hourly are still subject to being cleared in one process and settled in another.

The CAISO, in coordination with neighboring balancing authorities, must strive to develop a proposal that works for all market participants and further evaluate the benefits that may be gained against consequences that could result by shifting risk from one set of market participants to another.

<u>Brookfield proposes a phased approach to the implementation of the 15 minute market</u>

Brookfield does not want to prevent those that can participate in the 15 minute market from yielding the potential benefits but we also believe the existing hourly market must remain in place at least for a transition period to allow time for the CAISO to coordinate its efforts with the rest or at least a larger portion of the western interconnect.

The current proposal forces hourly block schedules to become price takers in the 15 minute market and eliminates bid cost recovery. The CAISO stated in the February 12 stakeholder meeting that they believed that this would incent more rapid movement to a 15 minute market. We disagree with this approach and believe the incentive and value should come through the 15 minute market itself. If there is value there then the CAISO will see rapid movement in that direction. It isn't clear how this proposed approach would incent surrounding BAs to take on the cost and the burden to modify their existing business practices any more quickly than they would otherwise to meet the requirements of FERC Order 764.

The CAISO's proposed approach resolves one problem which is to reduce the burden of existing uplift costs that are borne by load serving entities and creates a new problem by pushing an unwarranted amount of risk onto suppliers at the intertie points that do not have the option to be flexible. Risk that is currently spread across a large volume of load will now be placed upon a few individual market participants. This risk is reduced as more surrounding BAs are able to accommodate 15 minute scheduling.

Additional coordinated stakeholder discussion between the CAISO, market participants and members of the western interconnect are needed to work through and better understand the issues that must be resolved in order for this 15 minute market to work for all market participants. For example, changes need to be made to tagging procedures as tagging changes are currently not allowed mid-hour and other details that would be best explained and discussed in concert with our adjacent BAAs. Some BAAs may be further along than others in their evolution towards moving to more granular scheduling and that would be helpful to understand as well to aid in determining what level of participation will be possible in the 15 minute market and on what timeline.

During the time these coordinated discussion are taking place, the CAISO can leave the hourly market in place and offer an optional 15 minute market for those that are able to participate. As more BAAs are able to accommodate 15 minute scheduling the CAISO can evaluate at what point the hourly market can be eliminated. As we mention above, if market participants see value in the 15 minute market there will be more incentive for rapid change

Another alternative could be for the CAISO to move forward with its existing proposal but to continue to provide bid cost recovery to block hourly schedules on the interties. As more BAAs move to accommodate 15 minute scheduling the risk is reduced and the CAISO can evaluate at a later time eliminating bid cost recovery for hourly block schedules or determining a sunset date

If the CAISO chooses to move forward with the existing proposal suppliers at the intertie points that choose to continue to participate will have to build the necessary risk premiums into their bids and these additional costs will be borne by load. As a significant portion of the MWs supplied on the interties will initially not be flexible, these increased margins required for the risk may actually cost the load more than the existing uplift costs.

We support the CAISO's proposal in that it allows interties and internal generation to settle and compete at the same prices with the goal of reducing the inefficient uplift costs that result from the existing market design. We believe these goals can and will be achieved but must be approached in a coordinated fashion with the rest of the western interconnect with a phased approach using one of the options specified above. This may take additional time but will result in a market that works for all rather than just some.

Option for hourly block schedules to curtail once an hour

Brookfield appreciates the CAISO's effort to provide an option for hourly static intertie schedules to manage their risk by having the option to curtail once per hour if the 15 minute market is no longer economic. However, we have a number of concerns with this element of the proposal.

1) From our understanding there is no option that exists within WECC rules to curtail firm power for economic reasons, only for reliability reasons. In addition surrounding BAAs will have to have processes in place to accommodate these curtailments and it is not clear that those processes exist today. In essence the CAISO is creating a new product for firm energy with an option to curtail for economic reasons that is not recognized by adjacent BAs, existing standard WSPP agreements, or existing contracts. The only market participants that can put this option into practice are those who have their own system/portfolio of resources that they can manage directly. For example, a BAA that can agree with themselves for a custom product.

2) While the CAISO will provide make whole payments to the intertie supplier in the event they are decremented from their day-ahead schedule, that supplier will still be out of the money as a result of incurring costs to procure hourly transmission. The CAISO would also need to provide compensation for the unused transmission. As many participants don't have flexibility and there is no 15min transmission market, many market participants will likely not use this option absent additional cost recovery. One for the initial dispatch and a second value for curtail price (should be lower by the transmission costs so represents the marginal cost net of sunk transmission)

3) CAISO should offer the option for market participants to submit a bid with a price at which they are willing to curtail in addition to a price for dispatch rather than just being curtailed at any price below their bid price. This could also help to address # 3 above.

4) The logic doesn't hold for why the CAISO is willing to offer bid cost recovery to a schedule that can only be curtailed once and then is locked for the hour, but will not provide the same for hourly schedules. The two products being offered are essentially the same once they are dispatched for the hour but if one is allowed to dispatch down they will receive more guarantees than an hourly schedule.

The bottom line is more evaluation and discussion is needed to determine whether or not this option truly exists in WECC rules impacts to adjacent control areas and what is needed in the form of updated business practices, processes, procedures before the CAISO can move forward assuming this is a workable solution. The costs may outweigh the benefits of instead pursuing a slower but more coordinated approach to a 15 minute market.

Other Proposal Details

It is difficult to provide comments on additional detailed elements of this proposal when from our perspective the bigger picture approach to implementing the 15 minute market is flawed. However, we want to call out our perspectives on these additional components of the proposal in the event this design can come together as a coordinated package based on the input we provided above.

"Worse-of" Pricing

Brookfield supports the CAISO's proposal to not apply worse of pricing to deviations that occur between the 15 minute and 5 minute dispatch. It makes sense to pay or charge deviations in the market in which the deviation occurred. As far as concerns about implicit virtual bidding you cannot consistently predict the outcome of the physical constraint and therefore, cannot guarantee a profitable virtual bid.

Hourly Block Process Decline Charge

It is not clear why the decline charge would not apply also to economic bids cleared in the 15 minute market. Is it because the decline is only for hourly schedules and the CAISO does not intend to have a decline option for 15min schedules? If there will be a decline option then 15 minute schedules should pay similar penalties as hourly block schedules.

Two Constraint Issue

Brookfield's preference to resolve the two-constraint issue would be for the CAISO to remove the physical constraint from the IFM, treat the Day-Ahead market as a financial market and allow any necessary physical adjustments to occur in the real-time market. The CAISO has not expressed willingness to support this option in the past due to reliability concerns. That being said we believe the proposal to utilize RUC to make adjustments appears to be an alternative that warrants further discussion.

Position Limits for Convergence Bids

As we have stated in prior comments, we continue to oppose the application of more stringent position limits upon the reinstatement of intertie convergence bids. We don't believe any party has made the case as to why limits should be stricter than those initially put in place in February 2011. We recommend an initial limit equal to 5% at each intertie, the same limit that was in place prior to the suspension of intertie convergence bidding.

PIRP Elimination

As we have expressed in prior comments, we are supportive of the proposed changes offered to variable energy resources to offer DEC bids, provide more granular forecast data and participate in the 15 minute market. All of these elements will better allow variable energy resources to manage their exposure to deviation charges and potentially eliminate the need for PIRP going forward. However, there may be a need for grandfathering of some contracts where suppliers with long-term contracts could be financially harmed due to the elimination of PIRP. At this time Brookfield is evaluating its existing contracts to determine whether grandfathering is required. The outcome of our analysis and necessary responses from counterparties was not available in time to include our position within these comments. We agree with the CAISO that it would be beneficial to further work through the details of the 15 minute market proposal prior to attempting to determine what grandfathering may be required for PIRP resources.