California ISO

Attachment A

Stakeholder Process: Intertie Deviation Settlement Proposal

Summary of Submitted Comments

Stakeholders submitted three rounds of written comments to the ISO on the following dates:

- Round One: Issue Paper comments received 9/5/18
- Round Two: Straw Proposal comments received 10/29/18
- Round Three: Draft Final Proposal comments received 1/8/19

Parties that submitted written comments: Calpine*, DMM (Department of Market Monitoring), MSCG (Morgan Stanley), PG&E (Pacific Gas & Electric), PGP (Public Generating Pool)*, Powerex, SCE (Southern California Edison), SCL (Seattle City Light)*, Shell Energy, Six Cities, SMUD (Sacramento Municipal Utility District), TransAlta, WPTF (Western Power Trading Forum).
**Entity did not submit comments in response to the Draft Final Proposal.*

Stakeholder comments are posted at:
http://www.caiso.com/informed/Pages/StakeholderProcesses/IntertieDeviationSettlement.aspx

Other stakeholder efforts include:

- Issue Paper conference call, 8/22/18
- Straw Proposal stakeholder meeting, 10/15/18
- Draft Final Proposal conference call, 12/19 /18
- Outreach calls with individual entities

Management proposal	Generally or Conditionally Supports	Does not Support	Management response
Remove 10% threshold.	*Supports –* DMM, MSCG, PG&E, Powerex, Shell, Six Cities, SMUD, TransAlta, WPTF	*Does Not Support* – SCE SCE recommends that the existing 10% threshold be lowered rather than removed. They contend not allowing a tolerance for small deviations has the potential to reduce the competition for awards on the interties if market participants deem the decline charge too punitive.	Management is addressing SCE's concern by excluding non-delivery that occurs due to balancing authority area curtailments from being subject to the non-delivery charge. This protects market participants for events outside of their control but holds them accountable to deliver intertie energy when it is economically cleared based on their bid.
Apply charge on a fifteen-minute interval basis.	*Supports –* DMM, SMCG, PG&E, Powerex, Six Cities, SMUD, TransAlta	*Does Not Support* – SCE, Shell SCE claims it is discriminatory to impose the fifteen-minute evaluation interval on hourly block resources. Shell claims the ISO has not correlated intertie declines to emergency grid situations and implementation of the proposed charge has potential to dry up real-time intertie bids.	Hourly block resources have been subject to fifteen-minute settlement since the implementation of the FERC Order No. 764 enhancements. FERC Order No. 764 requires balancing authority areas to offer fifteen-minute scheduling to facilitate the integration of renewable resources. This proposal maintains compliance with FERC Order No. 764 and ensures settlement of the non-delivery charge aligns with the interval in which the deviation occurred. Intertie declines can result in emergency grid situations. For example the ISO had an emergency event on May 3, 2017 and during the heat wave on September 1-2, 2017 in which undelivered imports likely directly impacted grid stability. Management disagrees with Shell's claim that this proposal has potential to dry up real-time intertie

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			bids. The non-delivery charge is stringent enough to encourage delivery of scheduled energy, but it is not large enough to be un-just or un-reasonable. Market participants still have the ability to economically sell energy to the ISO and will not be negatively impacted when the energy is delivered as scheduled. Management does not anticipate a reduction in real-time intertie bids and will be closely monitoring the impact and effectiveness of the non-delivery charge.
Update fifteen-minute market (FMM) logic.	*Supports* – DMM, PG&E, Powerex, SCE, Six Cities *Conditionally Supports* – MSCG, SMUD, and TransAlta support the updated fifteen-minute market logic but request additional information and implementation details.	*Does Not Support* – Shell Shell believes the updated fifteen-minute market logic will cause more work for market participants by requesting submission of an E-Tag transmission profile by T-40. Shell claims the ISO must continue to seek continuity between ISO market timelines and NAESB timelines.	The objective of the proposed fifteen-minute market logic is to ensure more accurate market inputs. At the onset of this stakeholder process, Management proposed a more stringent timeline for market participants by <u>requiring</u> submission of both the E-Tag transmission *and* the E-Tag energy profile by T-40. This proposal was amended based on stakeholder feedback. Management agreed that it is important to improve market inputs while also providing flexibility to market participants – the fifteen-minute market logic presented in the current proposal meets both of these objectives. The primary purpose of the fifteen-minute market is to integrate renewable resources and provide flexibility closer to real-time. The ISO acknowledges that the Western Interconnection continues to schedule bilateral transactions primarily on an hourly basis. The ISO has sought to minimize adverse impacts to the bilateral market in developing this proposal. However, it must also balance this consideration with the need to have a highly efficient real-time market

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			that can effectively incorporate renewable resources in its balancing authority area. Aligning this policy with the purely hourly bilateral market would be a step in the wrong direction. Management will provide additional information and details during the development phase of this project.
Charge will equal 50% of the greater of the 15-minute market or 5-minute locational marginal price, with a $10/MWh floor.	*Supports –* DMM, MSCG, PG&E, Powerex, Six Cities, SMUD *Conditionally Supports –* SCE, TransAlta, WPTF SCE requests economic rationale for use of a $10/MWh floor. TransAlta does not believe the charge should apply when market participants notify the ISO of undeliverable intertie energy in advance of the fifteen-minute market. WPTF supports a settlement structure that does not discriminate	*Does Not Support* – Shell Shell claims the ISO should not rely on non-resource adequacy supply, such as import energy, to maintain grid reliability. For this reason, they claim intertie resources should not be charged for deviations that occur.	Management believes Shell's view does not recognize that intertie resources that economically clear the ISO market are needed for reliability. Resource adequacy requirements require bids from resource adequacy resources but they do not necessarily clear the market. Consequently, undelivered intertie transactions can displace resource adequacy capacity from being available in real-time (e.g., resource adequacy imports and uncommitted internal resource adequacy resources). The $10/MWh floor for the non-delivery charge is used in the existing non-delivery charge structure and is supported by the Department of Market Monitoring. The $10/MWh floor ensures a charge will still apply even if pricing is nominal or negative. In response to TransAlta, Management maintains that the non-delivery charge must apply even if the market participant notifies the ISO of the non-delivery prior to the fifteen-minute market. Advance notification of the non-delivery is beneficial for the ISO operator, but it is still impossible for the hour-ahead scheduling process (HASP) to schedule another hourly block resource

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	between internal and external resources; intertie energy should be subject to the same prices and settlement mechanisms as internal generators.		to compensate for the non-delivery. For this reason, it is important that market participants deliver hourly block resources as scheduled through the hour-ahead scheduling process. This proposal provides an economic incentive to meet that objective. While it is important to maintain comparable pricing signals for internal and external supply, there is a fundamental difference in how these supply resources are scheduled and dispatched in the ISO market. Internal supply resources are generator specific, are subject to bid verification, and are dispatched every 5-minute interval with respect to transmission congestion. To the contrary, the majority of intertie resources are non-resource specific, are not subject to bid verification, and are scheduled for hourly blocks approximately 60-minutes in advance. When these hourly block resources are scheduled, transmission capacity is reserved for that specific transfer. If the transfer is subsequently not completed, it is impossible to schedule another like-kind resource and the transmission goes unused. This yields inefficient market results. For these reasons, the ISO believes it is appropriate to provide an economic incentive for the delivery of intertie energy.