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Comments of Northern California Power Agency
Bid Cost Recovery Enhancements
June 3, 2016 Straw Proposal

June 30, 2016

Northern California Power Agency ("NCPA") appreciates the opportunity to provide the following comments in response to the CAISO's June 3, 2016 Bid Cost Recovery Enhancements Straw Proposal.

Two-tier Real-time Uplift Charge Allocation

While NCPA appreciates that the original FERC order mandating the move to a two-tier real-time BCR allocation was intended to lead to better alignment of cost allocation with cost causation, NCPA is not convinced that developing a two-tier allocation methodology, as proposed as option one by the CAISO, will accomplish that objective. As the CAISO explains in detail, there are a number of factors that may influence real-time BCR uplift costs, and developing a methodology that is intended to establish a clear cost causative linkage will be imperfect. Based on such, and the fact that CAISO anticipates that other market design changes that will become effective in the near future will likely reduce the magnitude of real-time BCR uplift costs going forward, NCPA strongly supports CAISO's second proposed option; <u>maintain status quo</u>. NCPA contends that development of a highly complex alternative solution to an issue the magnitude of which is unknown, and which the CAISO concedes may be substantially mitigated by the impending implementation of market enhancements, is not a valuable use of CAISO's limited staff resources and time, and in itself may create unintended behavioral incentives, all for a solution that is not definitely better than current practice.

The CAISO has indicated it will pursue additional analysis to provide insight into how the allocation proposal would play out empirically. NCPA appreciates this and agrees that this is an important aspect to consider, especially in light of the facts that: (1) allocation to load would simply mimic the status quo; (2) allocation to supply would, as noted by the CAISO, ultimately be passed to load; and (3) allocation to import deviations may be inappropriate since those changes represent legitimate market re-dispatch as noted by the MSC.

IFM Tier 1 Uplift Cost Allocation Modification

NCPA does not support modifying the current methodology used for allocating IFM Tier 1 Uplift costs. The CAISO has not provided sufficient evidence to prove that existing resources' minimum operational constraints are the source of the "burden" on the system, or that self-scheduling directly results in over-generation conditions. The CAISO itself has implemented measures such as minimum online constraints to ensure that sufficient generation is online and operating at minimum load to ensure reliable operations of the grid.

Furthermore, the CAISO has myriad past and ongoing market design changes aimed at providing incentives for resources, especially flexible resources, to bid into the CAISO markets. NCPA advocates that the CAISO refine and leverage the tools it has in the market and that it take time to evaluate the impacts of the implementation of upcoming market changes. Relying solely on additional administrative measures rather than leveraging the market is a "blunt instrument" approach and runs counter to the aims of improving market efficiency, minimizing implementation and administrative costs, and avoiding unneeded complexity.

BCR for Units Operating Across 24-Hour Periods

NCPA recommends that given that the magnitude of this issue is small, and implementation and shadow settlement are challenging, the change does not warrant CAISO or stakeholder resources.