Stakeholder Comments

Bid Cost Recovery and Variable Energy Resource Settlement Straw Proposal, April 9, 2015

Submitted by	Company	Date Submitted
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SDG&E appreciates the opportunity to comment on the CAISO's Bid Cost Recovery and Variable Energy Resource Settlement straw proposal.

The CAISO should cleanly and simply use a new energy classification for real time deviations for Variable Energy Resources (VERs). This will be the fourth attempt by the CAISO to correctly classify and settle the energy for VERs. The first attempt occurred during the original Spring Release 2014 changes which went live 5/1/2014. The second effort was under PRR 799 which was implemented 12/1/2014. The third instance was "Market Issues Bulletin: Residual imbalance energy settlement and ramp rate changes for self-scheduled variable energy resources" which was dated 3/10/2015. SDG&E recommends the CAISO consider using a new energy classification instead of continuing the contortions of applying Residual Imbalance Energy (RIE) to VER energy. We are very concerned that as the market becomes more complex and has to evolve to ever increasing quantities of VER energy, using the RIE energy classification will result in more unintended consequences. Also, SDG&E believes this is the appropriate time and forum to re-think the VER energy classification and proactively lay a solid foundation for the future.

The market has already experienced unintended consequences. Most notable was the application of the Performance Deviation Metric (PDM) which was taking the worse of Default Energy Bid (DEB), Locational Marginal Price (LMP) or bid to settle the VER energy that was classified as RIE. This ultimately cost the market $23M. This issue is still applicable to the VERs that are economically bid into the market. Although this straw proposal is a step in the right direction- attempting to rectify this problem- it doesn't go far enough. The CAISO is still proposing not settling some portions of RIE energy at the LMP to prevent market manipulation. By creating a new energy classification for VER energy, SDG&E believes that this unintended consequence could be eliminated. By reclassifying VER Energy, the CAISO could

specify exactly how the unit would be paid without having to make the complex adjustments to RIE outlined in the straw proposal.

The CAISO has found it necessary to force a ramp rate of "9999 MW/min" to prevent VER energy classified as RIE to be settled using the PDM. While we're glad the CAISO put in a fix to prevent the underpayments to VERs, SDG&E would prefer not having the CAISO's systems forced with hard coded numbers to be ignored for certain settlement calculations. This leads to future problems as new or altered calculations and algorithms will have to account for this. Again, this is a situation we feel could be solved through a new energy classification.

SDG&E believes that with VER energy soon providing over 30% of the generation it is time to decouple it from the settlement of thermal units. Our concern is that by trying to treat VER energy the same as thermal energy's classification and settlement the CAISO will continue to have to tweak their systems and processes which will lead to even more complications down the road. SDG&E recommends the CAISO take the time to think this through and get VER classification designed right for the long run.

Finally, SDG&E does not support the CAISO using a default energy bid (DEB) for VERs. We find this a serious issue that the CAISO must address. We believe it to be nearly impossible to set an accurate DEB by technology type or calculate a correct DEB for VERs using a standard calculation methodology as can be done with thermal units. With the various applications of the DEB in the CAISO processes and settlements, SDG&E is concerned about unintended consequences, especially with an inaccurate number. As mentioned previously, with VER energy providing over 30% of the generation, it is time to consider rules specific to VERs and not simply apply thermal unit rules.