Stakeholder Comments Template

Shell Energy Comments to: RI Phase 2 – Day-of Market 7/6/11 Initial Straw Proposal

Submitted by	Company	Date Submitted
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This template is for submission of stakeholder comments on the topics listed below, covered in the RI Phase 2 – Day-of Market 7/6/11 Initial Straw Proposal posted on July 6, 2011, and issues discussed during the stakeholder meeting on July 11, 2011.

Please submit your comments below where indicated. Your comments on any aspect of this initiative are welcome. If you provide a preferred approach for a particular topic, your comments will be most useful if you provide the reasons and business case.

Please submit comments (in MS Word) to phase2ri@caiso.com no later than the close of business on July 22, 2011.

Summary: Shell Energy believes that the ISO should focus on use of existing AS products and that a new RTIS needs much more discussion and justification of need. Shell Energy also believes that an hour-ahead market (HAM) is the most transparent mechanism for resolving the current problems (RTIEO, Convergence Bidding, etc.) associated with trying to settle two "non-concurrent" markets (HASP and RT) simultaneously and that a HAM will benefit the market in the long term.

1. Please provide any comments on the ISO's proposed schedule, timeline, or process for this stakeholder process.

   Answer: The ISO's timeline appears optimistic given the scope of Phase 2, and we encourage the ISO to give adequate time to the issues to establish workable market designs going forward, even if it delays the process by several months.

2. Are there additional goals or operational challenges that the ISO should be addressing through this stakeholder process?

   Answer: No comment at this time.

3. Please indicate whether your organization agrees with the guiding principles listed in the straw proposal. If not, please indicate why not. If you would like to have other guiding principles added, please describe those additional principles.

   Answer: We agree with the ISO's guiding principles. In particular, the ISO has expressed concern about integration of renewables and the need for more resources to provide a firming function to integrate renewables. We understand that when the ISO states guiding principles that "The ISO market ensures an efficient mix of resources to maintain reliability and attracts new investment when and where needed" and "The ISO market relies on price signals to incent participant behaviors that align with ISO operating needs" that the ISO is more focused on a well functioning market than prices – albeit high or low. For example, annual "low" ancillary services prices do not necessarily reflect a well functioning market, especially when the ISO needs more units which provide ancillary services to integrate more renewables to meet state RPS goals. If resource adequacy provides a base revenue, then ancillary services revenues provide the additional revenues needed by a generation owner to be able to construct and operate a resource that can provide those AS. A well functioning market is difficult to quantify, but one measure would be to track the amount of new generation that is built as a result of CPUC mandates or directives, including units procured under the CAM mechanism, as compared with generation units with cost recovery coming from market revenues in the DAM, RT, AS, and potentially the HAM.

4. Please provide your organization's views on any incremental ancillary services you believe are necessary to accommodate the intermittency of renewable resources.

   Answer: It is unclear at this point whether a new RTIS service is needed. With regulation energy and energy from spin and non-spin, and imbalance energy dispatched in 5 minute intervals, potentially moving to 15 minute intervals, it seems that there are sufficient market mechanisms that a 1-minute RTIS dispatch for imbalance energy is not needed and may confuse markets. In addition,while the ISO has determined that it needs additional flexibility to order on units under the flexiramp construct, this should be a procurement mechanism of last resort, and dispatch should be monitored and reported and the ISO should view use of flexiramp as a failure of existing AS markets, with a regular review of what needs to be changed in AS markets to minimize use of flexiramp.

5. Does your organization believe that Residual Unit Commitment should be performed more granularly than daily (i.e. on-demand RUC)? Is on-demand RUC needed if the 15 minute unit commitment, either in RTED (Option A) or RTPD (Option B) looks forward 8-10 hours?

   Answer: RUC was designed as a DA product to allow the ISO to procure capacity which represented the difference between DA supply and the ISO's DA load forecast. If the ISO has a need for real time RUC, the ISO should ensure that ancillary services and imbalance energy price signals are insufficient to create demand for energy needed in RT. Next, it should look at whether existing products such as additional ancillary services procurement can meet this need. Next, it may evaluate whether reinstatement of previous products, such as the "replacement reserve" product is warranted. We do not support a short term RUC, and if the ISO moves forward in this direction, it should use a separate name for the product.

6. Please provide your organization's views on replacing today's Hour Ahead Scheduling Process (HASP) for inter-ties with a simpler method that would not involve establishing

separate hourly prices for the inter-ties and that would not include bid cost recovery. Please suggest proposals concerning what accommodations are necessary at the inter-ties to provide scheduling flexibility for western market entities.

Answer: We commend the ISO for seeking input on how to make the current HASP process "work" with different markets and different time frames which settle against each other. We believe that the only way HASP can operate successfully as currently devised is to ensure that BCR and RTIEO are included in operation of the HASP. As neither of these appear desirable to the ISO, we ask the ISO to seriously consider a full HA market (HAM) with clearing prices, so all resources – load, interties, VB's and supply which choose to participate in the HAM – can financially clear in the same markets and timeframe. In addition to contributing to market efficiency, this will eliminate the need for BCR and RTIEO. We believe in the long term, that the HAM will be an ongoing and important part of the market, even as a 15-minute RT market is being considered at FERC and debated in the industry. Implementation of a 15-minute RT market with intertie settlements will take significant implementation work across the industry, and can be expected to take a long time to get FERC, NERC, WECC, OATI and market participants operational and commercial systems in place. We believe that the HAM will be a significant market in the long term, and that an investment now by the ISO to fully implement HAM will not be wasted.

7. Does your organization prefer a two settlement market or a three settlement market? Please describe why.

   Answer: We support a three settlement market, with DAM, HAM and RTM providing a financial settlement. We believe that the HAM allows for an alignment in settlement times that cannot be achieved by mixing HA and RT settlements in the current HASP construct, and that a new HAM will still have enduring value if and when a 15-minute RTM is operational.

8. Please provide your organization's feedback on the concept of a 1 minute Real Time Imbalance Service (RTIS).

   Answer: We do not see value in a 1 minute Real Time Imbalance Energy service. It is unclear how the ISO will distinguish between this and 5 minute Imbalance Energy dispatch, and why this new service is needed. We do not object to bi-directional service, however, the ISO will then need to alter its systems to determine how to procure bi-directional regulation, which does not seem trivial.

   a. Does your organization agree that with RTIS, regulation should be changed to a bi-directional service? – see above

   b. Is one minute the correct dispatch interval for RTIS? – see above

   c. How should RTIS be bid, selected, and dispatched? Should a mileage bid be used for dispatch with a market clearing mileage price determined each minute? – see above

d. Does your organization's opinion on RTIS differ depending on whether Option A or Option B is chosen? – see above

9. Please comment on your organization's preference for Option A or Option B with regard to the real time market. If neither option is feasible in your view, please provide input on how the real time market should be configured.

   Answer: We prefer Option A. We believe that FERC and other market participants are moving towards a 30-minute or 15-minute settlement, and that the ISO should pursue a 15-minute settlement.

   a. Would 15 minute real time prices enable price responsive demand or demand response? – Yes.

   b. In Option A, with 15 minute RTED, what is your organization's opinion about a 10 minute ramp period? – A 10 minute ramp, with 5 min prior and 5 min post, should be sufficient, with ramping energy prorated as it is today.

10. How often should renewable resources be allowed to schedule?

    Answer: Renewable resources should be able to schedule the same as all other resources. In this respect, a new Hour Ahead Market would be beneficial for renewables, as well as other resources, and we hope that the ISO will give this serious consideration.

    a. In Option A does every 15 minutes make sense? Yes, for all resources.

    b. In Option B should renewable generation be able to schedule every 5 minutes, 15 minutes, or some other time interval? – Treat all resources equally.

    c. Does it make sense to limit this scheduling opportunity to only renewable resources, or should it apply more generally? Who should be able to schedule more granularly than hourly? – Apply to all.

11. Please provide any other comments your organization would like the CAISO to consider through this initiative.

    Answer: Because we are moving towards more frequent dispatch and bid adjustment, we would support the ISO's consideration of allowing daily bidding of start-up and minimum load costs up to 200% of the proxy bid calculation, as opposed to the current cap of 100% of the ISO calculated proxy cost. This will be important for a market that can accurately reflect costs, as opposed to the current constraints that either daily SU/ML costs must be submitted only up to a daily cap of 100% of proxy or a monthly cap of 200% of proxy.