California Department of Water Resources State Water Project Comments to CAISO's 2012 Stakeholder Initiatives Catalog

October 10, 2012

California Department of Water Resources (CDWR) welcomes CAISO's initiative to update the 2012 Stakeholder Initiatives Catalog with the latest version of current documents, proposed policy changes, and enhancements to the CAISO market design and infrastructure planning processes.

Desired Initiatives Missing or Not In Catalog

1) CDWR would like CAISO to consider adding to the 2012 Stakeholder Initiative Catalog the following non-discretionary discussion:

The inability of a balanced congestion rents hedging mechanism, i.e. Congestion Revenue Rights, to provide an adequate hedge to the congestion rents resulting from imbalanced schedules.

Description of the proposed CDWR non-discretionary issue:

One of the biggest improvements of the Market Redesign and Technology Upgrade (MRTU) is that a Market Participant could schedule independently its loads and resources using MRTU's Integrated Forward Market (IFM) feature. The biggest setback of this MRTU improvement is that it is impossible to obtain an adequate hedge of congestion rents resulting from imbalanced schedules using the CAISO's current balanced hedging mechanism, i.e. Congestion Revenue Rights (CRR). The CRR is a balanced product, the CAISO's current CRR design only allows CRRs being requested between resources and loads. The CRR Upper Bound (UB) feature further restricts the amount of CRRs that a Market Participant (MP) can request based on the MP's historical load.

In order to be compliant with FERC Order 741 – Minimum Credit Requirement for CRRs, CDWR continuously monitors congestion rents resulting from CDWR's (imbalanced) schedules and CRR revenues of CRRs that CDWR owns. For 2011, CDWR's congestion rents were three times larger than the CRR revenues. We would like to mention that CDWR almost maxes out its CRR allocation and CDWR's participation in the CRR auction is not a viable solution to provide additional hedge. The difference between the congestion rents value and CRR revenues value is the result of congestion rents for the excess generation (when CDWR generation exceeds CDWR load – mostly during On-Peak periods) and congestion rents for the excess load (when CDWR load exceeds CDWR generation – this occurs mostly during Off-Peak periods). Among these two sources of congestion rents that cannot be hedged with CRRs, the congestion rent generated by the excess load is the most significant (95% of the entire cumulated excess generation and excess load congestion

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rents). The Power Point presentation attached to this document shows, conceptually, how the congestion rents resulting from imbalanced schedules could result in three times higher congestion rents than those resulting from balanced schedules.

Through CDWR's CRR Team discussions with CAISO's CRR Team, we found out that there is at least one other market participant that has raised the same issue described above.

2) <u>Re-introduce Participating Load (PL) Enhancements a CDWR non-discretionary issue:</u>

Following the development of Proxy Demand Resource (PDR) in 2009 the CAISO postponed solutions for eliminating barriers to Demand Response for PL and CDWR would like to see priority given to this issue.

Existing Initiatives

2.7 Regulatory Must-Run Pump Load (D)

<u>Comment</u>: CDWR has been working with ISO on this initiative in order to make it a workable solution. CDWR has provided an alternative solution to the ISO's initial proposal which had some conflicting issues. A recent communication with ISO indicates that it is making some progress in terms of feasibility of implementation. CDWR believes this initiative should not be placed in a discretionary (D) category because of the need for such a regulated protection to some of the critical pumping facilities. A Stakeholder process for this initiative should be kicked off as soon as ISO finalizes a feasible solution.

3.6 Two-tier Rather Than Single Tier Real-Time Bid Cost Recovery (BCR) Allocation (F)

<u>Comment</u>: CDWR would like to see more priority placed on this initiative even if it is moved to Section 11.4.

8.2 Standard RA Capacity Product for Demand Response (F)

<u>Comment</u>: Comments are on the section 8.4 as the ISO proposes to merge this initiative with the initiative *8.4 non-flexible RA resource capacity performances and must offer obligation.*

8.3 Multi-year Forward Reliability Capacity Pricing Mechanism (D)

<u>Comment</u>: This initiative as described will include designing a multi-year forward reliability capacity pricing mechanism for transacting generic and flexible capacity. It is apparent that a long-term

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resource adequacy (RA) would be established prior to developing tools for multi-year procurement. Is this pricing mechanism a part of the future long-term RA process or is it itself a long-term RA process?

8.4 Non-flexible RA Resource Capacity Performance and Must Offer Obligation (D)

<u>Comment</u>: This initiative will establish Standard Capacity Product (SCP) availability payments and non-availability charges for demand response (DR) resources. In case of a generating resource, SCP availability will be determined based on reported forced outages. The same concept may not apply to DR resource such as a pseudo gen from a participating load used for RA. Forced outage and maintenance outage that is normally applicable to a generating resource is not defined for DR resources in the tariff and Business Practice Manual (BPM). There could be differences among wholesale and retail demand response programs in terms of what constitutes an outage. CDWR anticipates that the stark contrast between a generating resource and a DR resource in terms of outages will be addressed adequately in this initiative thereby eliminating ambiguity in the tariff and BPM.

Since the initiative 8.2 SCP III for DR, a FERC mandated (F) initiative, is merged in the initiative 8.4, the initiative 8.4 should not be categorized as D because a part of it is FERC mandated.

8.5 Seasonal Local RA Requirements (D)

<u>Comment</u>: CDWR supports assessment of local reliability on a more granular basis. To the extent ISO study yields lesser requirements for non-summer period, adopting an efficient measure without compromising reliability is prudent. It may lower the cost to market participant as it frees up redundant local capacity during non-summer months.

9.1 FERC Order 764 Market Changes (I, F)

<u>Comment</u>: CDWR supports CAISO's effort to group multiple initiatives affected by FERC Order No. 764. RTIEO cost control remains an issue and finding solutions to the described real-time "imbalance" contributors is crucial.

13.15 Multiple Scheduling Coordinators (SCs) at a Single Meter (D)

<u>Comment</u>: CDWR would like to see CAISO keep this initiative alive and find solutions for existing CDWR facilities that could benefit from this.

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CDWR's Rankings of CAISO's Stakeholder Catalog Initiatives:

10 points – Inability of the CRR to provide an adequate hedge to congestion rents resulting from imbalanced schedules. First rationale for rating this initiative the highest is that CDWR's load amounts to 4-5% of the CAISO's entire load. CAISO could easily estimate the amount of CDWR's un-hedged portion of congestion rents.

The second rationale is that FERC asked ISOs to obtain feedback from their customers on how well the new energy markets perform. Of particular note, FERC asked ISOs to obtain feedback from their customers on how well the new concept of CRR/FTR/ or other type of congestion financial hedging mechanism performs in the newly designed energy markets compared with the financial hedging mechanism offered by the ETC. CDWR believes that CAISO's current CRR design falls way short of allowing market participants to obtain an adequate hedge of the congestion rents incurred in the IFM. Moreover, CDWR considers the "perfect hedge" provided under ETC is by far a better product than the current CRR design on providing adequate hedge under IFM.

9 points - Release of CRR Options – The reason we pick this as the second ranked priority is that the release of CRR options may be a solution to the CDWR proposed non-discretionary issue (described above).

8 points – 6.6 Review the CRR Clawback Rule (D) – CDWR has asked CAISO numerous times to provide examples on how the CRR Clawback rule works. So far CAISO has not yet provided any examples on how the rule works.

7 points – Regulatory Must Run Pump Load. This initiative continues to stall even though CDWR needs to protect its primary function of water delivery.

6 points – Revive Participating Load Enhancements, CDWR remains a large contributor to CAISO Demand Response, but has not received long awaited corrections that would allow CDWR resources to participate more fully since the beginning of MRTU.

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