Intertie Deviation Settlement Draft Final Proposal

Comments by Department of Market Monitoring

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Summary

DMM appreciates the opportunity to comment on the ISO's *Intertie Deviation Settlement Draft Final Proposal*.[1] In this initiative, the ISO proposes to strengthen the penalties on undelivered or declined intertie resource schedules. DMM supports the proposal as a substantial improvement over the current HASP Decline Charge.

However, the enhancements do not resolve DMM's longstanding concerns that rules for RA imports could allow a significant portion of resource adequacy requirements to be met by imports that may have limited availability and value during critical system and market conditions.[2] Therefore, DMM continues to recommend that the ISO re-consider rules concerning resource adequacy requirements met by imports.[3] DMM appreciates that the ISO has committed to addressing resource adequacy bidding and scheduling on the interties in its Resource Adequacy Enhancements initiative.[4]

DMM supports some of the adjustments that the ISO made in the Draft Final Proposal to the Under/Over Delivery Charge. Basing the charge on the greater of the FMM or RTD price and setting the floor at $10/MWh rather than $0/MWh should strengthen the incentives for market participants to deliver their real-time market awards. DMM also supports the ISO not adopting a policy of accepting over-tagged intertie quantities by default.

Rules for resource adequacy imports

The ISO proposes stricter penalties on undelivered or declined intertie resource awards. The proposal will strengthen the financial incentives for import resources that do not have must offer obligations to only participate in the day-ahead or real-time markets when the scheduling coordinator expects to be able to procure energy near its offer price. This should provide an incremental improvement to the reliability of the import resources bidding into the ISO markets

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[1] *Intertie Deviation Settlement Draft Final Proposal*, California ISO, December 12, 2018: http://www.caiso.com/Documents/DraftFinalProposal-IntertieDeviationSettlement.pdf

[2] *2014 Annual Report on Market Issues and Performance*, Department of Market Monitoring, June 2015, pp. 187-188: http://www.caiso.com/Documents/2014AnnualReport_MarketIssues_Performance.pdf

[3] *2017 Annual Report on Market Issues and Performance*, Department of Market Monitoring, June 2018, p. 259: http://www.caiso.com/Documents/2017AnnualReportonMarketIssuesandPerformance.pdf

[4] *Intertie Deviation Settlement Straw Proposal*, CAISO, October 8, 2018, p. 40: http://www.caiso.com/Documents/StrawProposal-IntertieDeviationSettlement.pdf;

Resource Adequacy Enhancements Issue Paper, CAISO, October 22, 2018, pp. 8-9: http://www.caiso.com/Documents/IssuePaper-ResourceAdequacyEnhancements.pdf and could reduce the amount of excess energy that the ISO sometimes procures before the T-20 e-Tag submission deadlines. Therefore, the proposal is likely to improve reliability as well as overall market efficiency. DMM supports the proposal as an improvement over the current market design.

However, the stricter non-delivery penalties fall short of resolving DMM's longstanding concerns that rules for resource adequacy imports could allow a significant portion of resource adequacy requirements to be met by imports that may have limited availability and value during critical system and market conditions. Imports used to meet resource adequacy requirements are not required to originate from specific generating units or to be backed by specific portfolios of generating resources. These imports can be bid at any price up to the $1,000/MWh bid cap and do not have any further obligation if not scheduled in the day-ahead market or residual unit commitment process.

The proposed improvements to the financial incentives for imports to deliver their real-time market schedules are almost certainly not substantial enough to incentivize power marketers to back all resource adequacy imports with specific generating resources (or firm energy sources) prior to showing the import as annual or monthly resource adequacy. As Powerex explains in its comments on the Issue Paper, a power marketer selling resource adequacy not backed by physical generation incurs less costs than a physical supplier of resource adequacy and is therefore likely to be able to offer resource adequacy at a lower price than a physical supplier.[5] As a result, the lack of a requirement for resource adequacy imports to be backed by physical generation creates financial incentives for load serving entities to meet some of their resource adequacy requirements with imports that may have limited availability during critical system conditions.

The failure to make resource adequacy resources available to the ISO when subject to a must-offer requirement is a violation of the ISO tariff (Sections 9.3.10.6.1, 37.2.4.1, 40.6.2 and 40.7.2). Therefore, a scheduling coordinator relying on short-term energy purchases from external markets to meet resource adequacy import obligations faces regulatory risks from potential FERC enforcement actions. However, there is significant uncertainty over how the relevant tariff obligations and any sanctions may be applied in cases of potentially infeasible bids from resource adequacy resources. Therefore, the ISO should not rely on potential FERC enforcement actions to incentivize scheduling coordinators to back import resource adequacy with physical generation.

Instead, DMM continues to recommend that the ISO re-consider its rules concerning resource adequacy requirements met by imports. DMM appreciates that the ISO has committed to addressing resource adequacy bidding and scheduling on the interties in its Resource Adequacy Enhancements initiative.[6] DMM recommends that the ISO facilitate a thorough public stakeholder discussion and come to an explicit policy decision on whether or not resource

[5] *Comments of Powerex Corp. on Intertie Deviation Settlement Issue Paper*, September 5, 2018, p. 12: http://www.caiso.com/Documents/PowerexComments-IntertieDeviationsSettlement-IssuePaper.pdf

[6] *Intertie Deviation Settlement Straw Proposal,* p. 40.

Resource Adequacy Enhancements Issue Paper, pp. 8-9.

adequacy capacity must be backed by specific generation resources and how any such requirements should be enforced in practice. This discussion should include rules for capacity that other balancing areas may count towards meeting resource sufficiency obligations in any extended day-ahead market design.

Improvements to Straw Proposal in the Draft Final Proposal

In comments on the Straw Proposal, DMM recommended that the ISO consider a few changes to the Under/Over Delivery Charge. In particular, DMM recommended that the ISO base the charge on the greater of the FMM or RTD price and that the ISO set the floor at a positive value rather than $0/MWh. DMM also recommended that the ISO not have a policy of accepting over-tagged intertie quantities by default.[7]

DMM appreciates that the ISO made these adjustments in the Draft Final Proposal. Basing the charge on the greater of the FMM or RTD price and setting the floor at $10/MWh rather than $0/MWh should strengthen the incentives for market participants to deliver their real-time market awards.

If the ISO had changed its policy to default to accepting over-tagged quantities, this could have had a detrimental impact on the efficiency of the ISO's real-time market solutions and prices. Therefore, DMM supports the ISO's final proposal to continue adjusting E-tags that exceed market awards prior to the operating hour, at the discretion of the ISO operator.

[7] *Comments on Intertie Deviation Straw Proposal*, Department of Market Monitoring, November 13, 2019, p. 3: http://www.caiso.com/Documents/DMMComments-IntertieDeviationSettlement-StrawProposal.pdf