Intertie Deviation Settlement
Straw Proposal

Comments by Department of Market Monitoring
November 13, 2018

Summary

DMM appreciates this opportunity to comment on the ISO's *Intertie Deviation Settlement Straw Proposal.* 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.[1] Therefore, DMM continues to recommend that the ISO re-consider rules concerning resource adequacy requirements met by imports.[2] DMM also recommends some minor adjustments to the ISO's Under/Over Delivery Charge proposal that could further strengthen the incentives for market participants to deliver their real-time market awards.

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 at or below its offer price. This should provide an incremental improvement to the reliability of the import resources bidding into the ISO markets 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.

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[1] *Report on import resource adequacy*, Department of Market Monitoring, September 10, 2018: http://www.caiso.com/Documents/ImportResourceAdequacySpecialReport-Sept102018.pdf

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

2016 Annual Report on Market Issues and Performance, Department of Market Monitoring, May 2017, pp. 251-252: http://www.caiso.com/Documents/2016AnnualReportonMarketIssuesandPerformance.pdf

2015 Annual Report on Market Issues and Performance, Department of Market Monitoring, May 2016, p. 239: http://www.caiso.com/Documents/2015AnnualReportonMarketIssuesandPerformance.pdf

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

[2] *2017 Annual Report on Market Issues and Performance*, p. 259.

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.[3] 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.[4] DMM recommends that the ISO facilitate a thorough public stakeholder discussion and come to an explicit policy decision on whether or not resource 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

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[3] *Comments of Powerex Corp. on Intertie Deviation Settlement Issue Paper*, September 5, 2018, p. 12: http://www.caiso.com/Documents/PowerexComments-IntertieDeviationsSettlement-IssuePaper.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 that other balancing areas may count towards meeting resource sufficiency obligations in any extended day-ahead market design.

Strengthening incentives for delivery of imports

DMM recommends that the ISO consider several changes to the proposal that could strengthen the incentives for intertie resources to deliver their real-time schedules.

Strengthening under/over delivery charge

The ISO proposes that the under/over delivery charge for each MWh of under or over delivered intertie energy in each fifteen minute interval will be:

$$\text{Max}[\textit{Penalty Floor}, 0.5*\text{LMP}^{\text{RTD}}]$$

DMM recommends that the ISO consider strengthening this penalty in two ways. First, DMM agrees with Powerex's proposal that the charge be based on the higher of the RTD or FMM LMP, rather than the RTD LMP alone.[5] Specifically, the penalty should be revised to:

$$\text{Max}[\textit{Penalty Floor}, 0.5*\max(\text{LMP}^{\text{RTD}}, \text{LMP}^{\text{FMM}})]$$

The potential of under-delivered imports contributes to the ISO taking actions and incurring costs in the HASP or FMM market time frames to defend against non-delivery of imports (such as biasing up the HASP and FMM load forecast). The cost of this forward procurement to mitigate for uncertainty in five-minute market delivery will often increase FMM prices or out-of-market costs while suppressing RTD prices. As a result, RTD prices will often not reflect the cost impact of under-delivered import awards. Therefore, it is more appropriate to base the penalty on the higher of the RTD and FMM prices, rather than the RTD price alone.

Second, DMM recommends that the ISO consider setting the *Penalty Floor* at a positive value rather than the $0 floor the ISO is currently proposing. During periods of excess supply in CAISO and the rest of the west, CAISO may have negative prices. Under these conditions, over-delivery of imports or under-delivery of exports could be detrimental to CAISO market efficiency and reliability. The ISO's proposal for a $0 floor would result in no penalty on this kind of detrimental scheduling.

Not permitting over-tagging of hourly block awards

Powerex proposes that the ISO should not allow a scheduling coordinator to tag an import or export quantity in excess of the ISO's real-time market award.[6] There may be reasons for the ISO to allow over-tagged quantities in isolated circumstances. However, if the ISO's default policy is to accept over-tagged quantities, this could have a detrimental impact on the efficiency of the ISO's real-time market solutions and prices. DMM encourages the ISO to give thorough

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[5] *Comments of Powerex Corp. on Intertie Deviation Settlement Straw Proposal*, October 29, 2018, pp. 6-8: http://www.caiso.com/Documents/PowerexComments-IntertieDeviationSettlement-StrawProposal.pdf

[6] *Powerex Comments on Straw Proposal*, p. 8.

consideration to a market design proposal that would only allow over-tagged quantities in situations where ISO operators consider them necessary. If the ISO decides not to adopt such a proposal, it would be beneficial for the ISO to provide a clear rationale for this aspect of the ISO's proposal.