

Dynergy Comments on the August 21, 2009
Preliminary Results of Detailed Ranking of High Priority Market Enhancements
and the August 21, 2009 Updated Catalogue of Market Design Initiatives
September 4, 2009

Submitted by Brian Theaker

I. Comments on the Market Initiatives and Release Planning Process

The CAISO notes, in the Executive Summary of the Preliminary Results of Detailed Ranking of High Priority Market Enhancements, that "[t]he two-step ranking process is not intended to be conclusive or prescriptive, but rather to provide critical input to the CAISO for developing a corporate strategic plan followed by market design and implementation planning." This statement continues to reflect a fundamental problem in the process to enhance or add new functionality to the CAISO's nascent and unfinished LMP market, namely, that the process consists of three separate activities: (1) the market initiatives ranking process; (2) the CAISO strategic planning process; and (3) the design and implementation planning process. If the market initiatives roadmap ranking process and strategic planning process are not fully integrated, the market initiatives roadmap ranking process will become a frustrating and useless exercise. Market participants cannot provide a meaningful ranking of various initiatives unless they know all of the information relevant to the implementation of those initiatives. The CAISO cannot perform the ranking exercise only once a year, because information relevant to the ranking process may change throughout the year. If the CAISO truly values the input from market participants regarding the ranking of various initiatives, it must allow market participants to re-rank the initiatives based on new information.

II. Comments on high-priority ranking

Dynergy supports the CAISO's "high priority" ranking especially for these initiatives:

- **Enhancements to the Standard Capacity Product.** The CAISO's so-called Standard Capacity Product is nothing of the sort unless the CAISO applies the SCP's availability requirements, penalties and sanctions to all Resource Adequacy capacity. As the CAISO's ranking notes, implementing truly standard availability requirements should not be burdensome from a software or systems perspective. To demonstrate its commitment to fair and non-discriminatory markets, the CAISO should press forward with resolution of the policy issues, and implementation of these SCP "enhancements", as quickly as possible.
- **Applying the rules and procedures for applying the Resource Adequacy Must-Offer Obligation for a subset of hours.** However, this should not turn into another "out" for resources that count in full towards meeting RA obligations but are not fully dispatchable or have other limitations.
- **Load Aggregation Point Granularity.** Another FERC mandated item, charging the costs of serving load in a particular area to the customers taking service in that area reflects sound market design and cost-allocation principles. To that end, and

Dynergy Comments on the August 21, 2009
Preliminary Results of Detailed Ranking of High Priority Market Enhancements
and the August 21, 2009 Updated Catalogue of Market Design Initiatives
September 4, 2009

for the same reasons, Dynergy urges the CAISO to include in this item the allocation of ancillary services costs on a more granular level.

- **Simultaneous RUC and IFM.** The failure to reflect the costs of the CAISO's post-DA reliability actions (e.g., RUC commitments) in DA prices discourages load serving entities from responsibly bidding or scheduling their demand in the DA market. While convergence bidding will provide market some opportunity to counteract strategic load bidding, reflecting RUC actions in IFM prices will provide further support for more meaningful DA prices.

Dynergy questions the "high priority" ranking assigned to these initiatives:

- **Multi-Day Commitment in the IFM.** In theory, the ability to look at expected conditions two or three days in advance will yield more efficient commitment decisions for units with very long start-up lead times. However, as the CAISO is well aware, 48-hour or 72-hour weather and load projections are not consistently reliable. The value of this functionality depends on being able to make accurate projections of conditions multiple days in advance. Given the relatively few number of extremely long start-up units, Dynergy questions whether this initiative warrants a "high" priority.

III. Comments on the Updated Catalogue of Market Design Initiatives

A. Categorizing an initiative as "non-discretionary".

Dynergy requests the CAISO to provide more information as to how the CAISO determines that certain initiatives, while not directed by FERC, are "non-discretionary". Such classification, which is perceived as effectively bypassing the stakeholder ranking process, must be fully and transparently explained, and stakeholders should have an opportunity to thoroughly understand the need for and question such classification.

As an example, the classification of changes to the IFM supply bid pool is now ranked as "non-discretionary". When, at the onset of MRTU, market participants raised issues regarding the IFM not picking up units that appeared to be in the money, the CAISO announced that no changes in the IFM bid pool were needed and indicated its intent to simply monitor the situation. However, following only two hours of high prices on July 26 – which appear to be the result of inflexible bidding and scheduling practices rather than a fundamental flaw in market design – the CAISO now classifies this initiative as "non-discretionary".

The CAISO must provide objective criteria for classifying initiatives as "non-discretionary" and should demonstrate to market participants how those criteria are met before making such classifications.

B. Dynamic Pivotal Supplier Test for Market Power Mitigation

While this initiative's ranking of "medium" is preferable to "low", Dynergy urges the CAISO, to promote market competition, to adopt a demonstrated technology already in place in PJM – dynamic pivotal supplier analysis – within a reasonable time frame. FERC has already directed the CAISO to move from annual competitive path analysis to seasonal competitive path analysis.¹ Off-line seasonal competitive path analysis will continue to consume substantial CAISO resources that could and should be directed towards better uses.

C. Full Hour-Ahead Market for Energy and Ancillary Services

In the last two weeks, two issues – the unexpectedly high real-time imbalance energy offset charges Real Time, and the restoration of functionality to procure ancillary services from the non-dynamic system resources in HASP - have highlighted the collateral effects of not having a full Hour-Ahead market. While FERC accepted the CAISO's proposal to implement HASP because of concerns about delaying MRTU, it simultaneously encouraged the CAISO to move towards a full hour-ahead market.² Dynergy urges the CAISO to follow the Commission's guidance and raise the priority of this initiative.

D. Voltage Support and Black Start Procurement

Dynergy finds disingenuous the CAISO's position that while FERC ordered the CAISO to look into the need and feasibility of these products, the fact that the Commission did not specify the timing of those initiatives means the CAISO can classify them as discretionary.

FERC did mandate a time frame for plans to implement these initiatives:

Therefore, we will direct the ISO to submit its proposed structure and timeline for implementing competitive procurement of Voltage Support and Black Start services within 120 days of the date of this order.³

On January 26, 2006, the CAISO submitted to FERC **a plan that called for the implementation of these products by 2009.**

Dynergy urges the CAISO to fully disclose its plans for the implementation of these products as soon as possible.

Dynergy appreciates the opportunity to submit these comments.

¹ FERC's September 21, 2006 order on the MRTU market design, 116 FERC ¶ 61,274, at P 1032.

² *Id.* at P 204.

³ 112 FERC ¶61,350 at P 22.