Comments of Morgan Stanley Capital Group on the ISO Intertie Deviation Settlement Straw Proposal – sabrina.kikkert@morganstanley.com

Summary

Morgan Stanley Capital Group (MSCG) appreciates the opportunity to comment on the issues and solutions presented in the October 08, 2018 Intertie Deviation Settlement Straw Proposal and during the presentation on October 15, 2018 ("Straw Proposal").

MSCG believes that implementing the Under/Over Delivery Charge ("Under/Over Charge") as outlined in Section 7 of the Straw Proposal, with the exception of leaving the E-Tag deadline as it is at T-20, is sufficient to achieve the outcome the ISO desires. Changing the E-Tag deadline from T-20 will cause severe seams issues between the ISO and neighboring BAs harming California`s RPS and GHG goal and reducing liquidity in the real time market.

At the very least, if the ISO does decide to change the E-Tag submittal deadline to T-40, then it must allow for E-Tag changes (including new E-Tags from a different generation source) up until T-20 as long as the total MWs on all E-Tags on the same Transaction ID match the quantity initially submitted at T-40. This will help to alleviate some of the seams issues that are outlined further below.

MSCG Comments

MSCG supports the ISO's initiative to develop an improved settlements structure that will reduce instances where Scheduling Coordinators ("SCs") do not honor their day-ahead or hourly real-time awards on the physical interties. MSCG agrees that the current methodology of the Intertie Decline Charge is not sufficient enough to properly penalize or deter this behavior. MSCG understands why the ISO wants to introduce a new Under/Over Charge in order to achieve its main directive of maintaining an operationally reliable grid. That being said, MSCG believes the proposal to require E-Tags by T-40 is unnecessary and will create sweeping market inefficiency between the ISO and its adjacent Balancing Authorities. MSCG believes that if the ISO implements all of the proposed changes to the penalty in Section 7, except for the suggested tagging deadline, the ISO will deter the behavior of SCs not honoring market awards and meet its objective of having certainty around energy imports. Furthermore, MSCG believes that allowing SCs to adjust their awards in ADS up until T-40 and penalizing more severely SCs who do not deliver E-Tags at T-20 will improve the situation.

Under/Over Delivery Charge

The Straw Proposal has made some significant changes to the Intertie Decline Charge by creating a new Over/Under Charge. The major changes that the ISO is suggesting in Section 7 of the Straw Proposal include[1]:

1. E-tagging requirement of T-40 for Hourly Block Resources and Fifteen-Minute Binding Awards
2. Exclusion of Curtailments in the Calculation
3. Eliminating the 10% Threshold
4. Determining a new Under/Over delivery quantity based on the absolute value of the difference between the reference schedule and the after the fact E-Tag energy profile.
5. Under and Over tagging determinations and allowing Over tagging without ISO curtailments on the intertie
6. Pricing the Under/Over Charge at 50% of the real-time dispatch LMP
7. Evaluating Declines that result in Over-scheduled Intertie

MSCG recommends the ISO implement only changes number 2-7 in the list above as that will be sufficient to dissuade market participants from not delivering on their market awards. MSCG believes that introducing a new tagging timeline for hourly block schedules will create a major seams issue in the market. We will address further in our comments.

The ISO needs to consider whether making a subset of the changes will deter the behavior in the market. In the Straw Proposal the ISO suggests that a majority of "intertie declines occur most commonly due to the submission of bad bids." The ISO also outlines how only 13.05% of declines occur due to reasons beyond the SC's control.[2] If SCs are going to be charged a RTD based penalty for every instance when their Market Awards do not match their final E-Tags at T-20, MSCG believes the behavior of submitting bad bids will cease. If the ISO follows through on all the changes suggested in the Straw Proposal except for changing the tagging deadline MSCG believe the consequences will be severe enough to ensure SCs do not 1) bid speculative energy into the ISO or 2) bid energy they decide later to deliver elsewhere.

The ISO has made it clear in the Straw Proposal that they want to change the tagging deadline so that the FMM market is aware of the energy that is going to be delivered. In order to persuade the market to let the ISO know whether the schedules will be fulfilled by the NAESB tagging deadline of T-20 the ISO could charge a larger penalty to SCs who do not adjust their

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[1] Intertie Deviation Settlement: Straw Proposal – Pg 33 - 39

[2] Intertie Deviation Settlement: Straw Proposal – Pg 28

awards in ADS (i.e. 50% vs. 25%) so that there is an incentive to give the proper information in ADS. The ISO could make ADS available and updateable up until the T-40 deadline. Currently ADS delivers awards to the market between T-70 and T-55. Once the awards are displayed the SC has approximately five minutes to accept or decline the awards and then awards go passively approved if no action was taken. The ISO could change the ADS application so that SCs have until T-40 to approve or decline their award. If the SC declines the award by T-40, a lessor penalty of between 10%-25% of RTD should be sufficient enough to deter bad bids but also provide incentive to give the ISO accurate information by T-40. Furthermore, if the final value in ADS does not match the final E-Tag at T-20 for hourly block schedules (minus curtailments) the larger 50% of RTD penalty is imposed. This graduated penalty structure would incent the market to give the ISO the information they require and would not create the seams issues that changing the hourly block tagging deadline will create.

T-40 E-Tagging Requirement for Hourly Block Resources

The ISO has outlined the intent to introduce a Real-time tagging deadline of T-40 for hourly block resources. The reason presented is that the NAESB/NERC standard for T-20 is too late for the ISO to schedule additional energy in the FMM when a SC does not meet the award they accepted in ADS and there is insufficient liquidity in the RTD market to cover any undelivered shortfall. There is a significant amount of intermittent generation scheduled from the Pacific Northwest into California and a considerable portion of this generation is held in the BPA Balancing Authority. According to California legislative requirements this generation needs to be direct delivered from the source to the sink as evidenced by the E-Tag in order to count towards California's RPS goals.[3] The GHG Mandatory Reporting Requirements outlined by the California Air Resources Board (CARB) also require direct delivery from Specified Sources in order for GHG reporting to be recorded accurately.[4]

The challenge arises in that BPA finalizes its wind super forecast between T-40 and T-29 depending on whether a wind farm has contracted for Committed or Uncommitted Scheduling services[5]. With the ISO instituting a T-40 E-Tag deadline, this will leave little to no time for market participants to fully schedule their renewable generation directly into California conflicting with California's stated RPS and GHG goals. Many market participants manage these

[3] https://www.energy.ca.gov/portfolio/

[4] Mandatory Reporting Requirements (MRR) for Electricity Suppliers are outlined here: https://www.arb.ca.gov/cc/reporting/ghg-rep/regulation/mrr-2016-unofficial-2017-10-10.pdf

[5] Committed Scheduling timelines are outlined in the Committed Scheduling Business Practice: https://www.bpa.gov/transmission/Doing%20Business/bp/tbp/Committed-Scheduling-BP-V08.pdf Uncommitted Scheduling timelines are outlined in the Uncommited Scheduling Business Practice: https://www.bpa.gov/transmission/Doing%20Business/bp/tbp/Uncommitted-Scheduling-BP-V03.pdf.

variable resources by balancing their resources on many E-Tags. Once the final wind forecast is given at T-40 another flexible generation E-Tag that has either already been submitted to the ISO on approved transmission or is available to ramp up with a new E-Tag is adjusted either up or down to account for the new wind forecast. The SC has energy to meet the ISO award but it needs to be balanced so that the full amount of the available renewable energy can be scheduled and Specified Sources can be accurately accounted for with respect to GHG MRR.

It is also important to note when discussing tagging deadlines and changing sources that large ACS suppliers as classified by CARB (currently there are three: Powerex, BPA Marketing and Tacoma) are not bound by these Source Specific requirements because their entire system is deemed to have a single Emissions Factor. This allows them to allocate resources 'behind the fence' by E-tagging off one system source and ramping units up and down in the background. These rules largely benefit these larger suppliers, to the detriment of the rest of the market. Market participants that are not backed by large ACS systems need to manage their intermittent resources on an hour to hour basis and require independent E-Tags for both the intermittent resource (i.e. wind) and the flexible resource that offsets this intermittent resource (i.e. flexible hydro). The proposed rules as they are laid out will severely discriminate against market participants that cannot change sources in the background.

Allowing Changes to E-Tags post T-40

If the ISO insists on taking a snap shot of the E-Tags at T-40 in order to properly allocate awards for the FMM, the ISO should still allow additional E-Tags and adjustments to existing E-Tags up until the NAESB E-Tagging deadline. The T-40 deadline should only be to determine volume delivered, not the source. Therefore it should be that SCs are permitted to change the source of E-Tags, including submitting new E-Tags, up until T-20 to match the volume at T-40 for the first FMM interval. This would solve the problem presented by the ISO of not being able to determine how much volume to clear in the FMM but it would not create a reliability problem should the liquidity of the RTD not be enough. Allowing tags to be adjusted and added after T-40 would ensure that SCs are able to move sources should resource generation availability change, forecasts change or other events making the original source unavailable. Allowing this flexibility in tagging should increase the market efficiency and will still allow the ISO to procure the proper energy needed in the FMM rather than the RTD.

The ISO outlines in the Straw Proposal that it receives E-Tags through its interchange transaction scheduler (ITS) system. The ITS system was said to produce a receipt of E-Tags and allows ISO operators to calculate net scheduled interchange and verify scheduling limits are not exceeded for the upcoming hours. MSCG requests that ISO develops the Over/Under Charge so that it uses the total volume delivered for each market award (sum of E-Tags per Transaction

ID) and not use a snapshot of a finite, static list of E-Tags that is taken at T-40. The net scheduled interchange taken at T-20 to check out with balancing authorities (total of all E-Tags) would still be accurate and it would allow for the market flexibility that is required to adhere to California RPS and GHG Regulations.,

Additional E-tagging Question

- The ISO outlined that the ISO operators will no longer curtail schedules when the total E-tag amount is larger than the market award. Does this mean that SCs will be able to schedule at T-40 above their market award as long as the intertie is not overscheduled? If this is accurate, is the ISO not concerned about SCs scheduling large amounts of energy to take advantage of a high RTD price? This seems counterintuitive to the stated goal of having accurate E-Tags matching ADS awards and MSCG requests that the ISO clarify this issue in the next iteration of the whitepaper.

MSCG thanks the ISO for consideration of our comments.