

## 2012 Stakeholder Initiatives Catalog Comments on Catalog Additions, Deletions, and Clarifications

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Southern California Edison (SCE) offers the following comments on the California Independent System Operator's (CAISO) Draft Stakeholder Initiatives Catalog.

### **I. SCE recommends the addition of two initiatives to CAISO's 2012 Initiatives Catalog.**

#### ***1. Economically Disconnected Price Spikes (N)***

High real-time (RT) price volatility has persisted since the start of Market Redesign Technology Upgrade (MRTU) despite regular identification as a key market issue. The CAISO continues to observe real-time prices spikes of significant frequency and magnitude even after recommendations for improvements in the 2009, 2010, and 2011 CAISO Annual Report on Market Issues and Performance<sup>1</sup>. Factors that likely contribute to economically disconnected RT prices include, but are not limited to, modeling issues (e.g. loop flow), market structure issues (e.g. Hour Ahead Scheduling Process sell off), convergence bidding, market power mitigation, and resource deviation within 5-min RT intervals.

Economically disconnected price spikes have significant impacts to the market, are not indicative of an efficient market, and have caused over half a billion dollars in uplift costs since the start of MRTU<sup>2</sup>. An initiative to improve the RT prices by reducing the frequency and magnitude of non-economic RT price spikes should begin immediately. Contributing factors to economically disconnected price spikes should be identified and evaluated, and subsequently remedial measures must be implemented.

#### ***2. Standard Capacity Product Enhancements (D)***

<sup>1</sup> 2011 Annual Report on Market Issues & Performance, Executive Summary, Recommendations, Page 16:

“highlighted the lack of price convergence in the ISO markets” and “recommends that the ISO remain committed to addressing the underlying causes of price divergence.”

2010 Annual Report on Market Issues & Performance, Executive Summary, Recommendations, Page 11:

“[Addressing] Real-time price spikes and price divergence... should represent the highest priority for the ISO in terms of improving current market performance.”

2009 Annual Report on Market Issues & Performance, Special Revised Executive Summary, Recommendations, Page 20: “Since the first few months of the new market, one of DMM's major recommendations has been to address the systematic divergence between dispatches and prices in the hour-ahead and real-time markets.”

Link: <http://www.caiso.com/market/Pages/MarketMonitoring/MarketIssuesPerformanceReports/Default.aspx>.

<sup>2</sup> Since the start of MRTU in April 2009, CAISO has incurred roughly \$575 million in RTIEO and RTCO uplift costs. See chart on slide 16 in the September 12, 2012 Market Performance and Planning Forum Presentation: [http://www.caiso.com/Documents/Agenda\\_Presentation-MarketPerformance\\_PlanningForum09122012.pdf](http://www.caiso.com/Documents/Agenda_Presentation-MarketPerformance_PlanningForum09122012.pdf).

Since implementation of the CAISO's Standard Capacity Product (SCP) Phase I initiative on January 1, 2010, various issues have arisen concerning substitution requirements, incentive payments, and rule clarifications that were not addressed in Phase II of the CAISO's SCP initiative. The scope of Phase II was limited given that it sought to incorporate only non-dispatchable resources within the framework of the SCP requirements beginning January 1, 2011. These issues must be addressed at the earliest opportunity to avoid costly over-procurement of resources, eliminate incentive payments for resources on planned outage, and add clarity to the rules for situations that were not contemplated when the initial SCP requirements were developed. SCE recommends that enhancements to the SCP program be addressed as a distinct stakeholder initiative, although the item could be rolled into Phase III of the CAISO's SCP initiative which seeks to incorporate Demand Response resources under the SCP requirements.

## **II. CAISO should change the designation of the Transmission Interconnection Process initiative to “Non-Discretionary.”**

SCE recommends that the CAISO change the designation of initiative “10.3 Transmission Interconnection Process” to “non-discretionary” rather than “discretionary,” as it is an initiative that must be addressed in the near future. It is important for the CAISO to develop a CAISO-specific transmission interconnection process to ensure technical reviews and studies will be performed on an integrated basis. SCE has provided more detailed comments on the need for a Transmission Interconnection Process as part of its comments on FERC Order 1000 compliance.<sup>3</sup>

## **III. CAISO should delete a significant number of its listed initiatives as they are of very low priority or are unnecessary.**

With 55 initiatives listed in the CAISO's Initiatives Catalog, it is easy to lose focus on the truly important initiatives that will significantly improve market efficiency. For this reason, SCE suggests that the CAISO delete 15 initiatives that would have minimal or no efficiency benefits. The CAISO should limit its focus to the many initiatives that can greatly or at least moderately improve the market function and that can be practicably achieved. The following 15 initiatives should be deleted:

- 2.3 Marginal Loss Surplus Allocation (F)
- 2.6 Pricing of Minimum Online Constraints (D)
- 3.10 Extended LMP, a.k.a. Convex Hull Pricing (D)
- 5.4 Multi-Segment Ancillary Service Bidding (F)
- 5.5 30 Minute Operating Reserve (D)
- 5.6 Fractional MW Regulation Awards (D)

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<sup>3</sup> SCE comments on “FERC Order 1000 Compliance Initiative Issue Paper”, March 26, 2012, [http://www.caiso.com/Documents/SCE\\_Comments-FERCOrder1000\\_IssuePaper.pdf](http://www.caiso.com/Documents/SCE_Comments-FERCOrder1000_IssuePaper.pdf).  
SCE comments on “FERC Order 100 Compliance Initiative Straw Proposal,” June 15, 2012, <http://www.caiso.com/Documents/SCE-Comments-FERCOrder1000ComplianceStrawProposal.pdf>.

- 5.7 Frequency/Inertia Procurement (D)
- 5.8 Voltage Support Procurement (D)
- 6.1 Economic Methodology to Determine if a Transmission Outage Needs to be Scheduled 30 Days Prior to the Outage Month (D)
- 6.2 Flexible Term Lengths of Long Term CRRs (D)
- 6.3 Long Term CRR Auction (D)
- 6.4 Multi-period Optimization Algorithm for Long Term CRRs (D)
- 6.5 Release of CRR Options (D)
- 7.1 Allowing Convergence Bidding at CRR Sub-LAPs (D)
- 9.2 Make Whole Process for Wheel-Through Transactions (D)

Two of the above initiatives, which SCE suggests deleting, are listed by the CAISO in its catalog as “FERC mandated.” The first, “2.3 Marginal Loss Surplus Allocation,” is incorrectly characterized as FERC mandated. In its original MRTU Order, FERC clearly states: “We find that the CAISO’s proposed allocation of the over-collection allows the participants to pay the marginal cost of energy, and, thus, we accept the methodology.”<sup>4</sup> Further, in the Rehearing the Commission states: “Thus, we continue to find the CAISO’s proposed method of allocating over-collection to be just and reasonable and deny this rehearing request. Accordingly, we reject all requests for rehearing of the over-collection allocation methodology.”<sup>5</sup> Given the specific FERC direction and lack of support for maintaining this item, the Marginal Loss Surplus Allocation initiative should be deleted from the catalog and CAISO should focus on more important initiatives.

The second FERC mandated initiative that SCE suggests deleting, “5.4 Multi-Segment Ancillary Services Bidding,” has already been completed. FERC directed the ISO to file a report to address the potential benefits of multi-segment bidding for ancillary services, and the CAISO did so in March 2012.<sup>6</sup> Thus, this issue has been completed and is no longer relevant.

Additionally, SCE agrees that the following initiatives, which are already in the CAISO’s list of “Catalog Deletions,” should be removed from CAISO’s 2012 Initiatives Catalog:

- 13.2 Additional Bid Cost Recovery for Convergence Bidding
- 13.6 Consideration of Unaccounted for Energy (UFE) as Part of Metered Demand for Cost Allocation
- 13.9 Creation of a Full Hour-Ahead Settlement Market
- 13.11 Forward Energy Products
- 13.12 Import or Export Bid Submissions from Multiple Scheduling Points
- 13.15 Multiple Scheduling Coordinators (SCs) at a Single Meter (D)

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<sup>4</sup> Paragraph 95, ORDER CONDITIONALLY ACCEPTING THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR’S ELECTRIC TARIFF FILING TO REFLECT MARKET REDESIGN AND TECHNOLOGY UPGRADE, September 21, 2006, ER06-615.

<sup>5</sup> Paragraph 44, ORDER GRANTING IN PART AND DENYING IN PART REQUESTS FOR CLARIFICATION AND REHEARING, April 20, 2007, ER06-615-001.

<sup>6</sup> Multi-Segment Ancillary Service Bidding, Page 21, CAISO Draft 2012 Stakeholder Catalog, September 19, 2012.

**IV. Some initiatives in CAISO’s list of “Catalog Deletions” should be moved back to the list of outstanding initiatives as they are important and have not yet been addressed.**

In its Draft 2012 Initiatives Catalog, CAISO suggests deleting many initiatives that have not yet been addressed despite their potential for significant market efficiency improvements. While some of these initiatives may be addressed under the umbrella of larger initiatives, such as FERC Order 764 or Flexible Ramping Product, these initiatives should remain on their own merit or should be formally combined with other initiatives. Until they are addressed directly or through another stakeholder process, the following important CAISO initiatives should remain in the Initiatives Catalog:

- 13.3 Allocation of Dynamic Ancillary Service Costs \*
- 13.4 Allocation of Intertie Capacity \*
- 13.7 Cost Allocation for Regulation
- 13.8 Cost Allocation for RUC \*\*
- 13.10 Enabling “Bilateral Energy Excluded from Settlements (BEEFS)”
- 13.13 Interchange Transactions after the Real Time Market \*
- 13.14 Intertie Pricing and Settlement \*
- 13.16 PIRP Cost Allocation
- 13.17 Real-Time Imbalance Energy Offset \*
- 13.18 Simultaneous Residual Unit Commitment (RUC) and IFM \*\*
- 13.19 Sub-Hourly Scheduling \*
- 13.20 Transition out of the Participating Intermittent Resource Program (PIRP)
- 13.21 Unit Commitment and Price Formation Improvements \*\*

\* Indicates an initiative that may be addressed under FERC Order 764.

\*\* Indicates an initiative that may be addressed with the implementation of Flexible Ramping Product.

**V. The initiative ranking matrix provided by the CAISO in its catalog should not be the basis of initiative prioritization.**

The initiative ranking system provided by the CAISO in its Draft 2012 Stakeholder Initiatives Catalog does not provide an accurate scale for prioritizing initiatives. The implementation impact in terms of dollars and resources on the CAISO and stakeholders simply is not on the same scale of importance as grid reliability and improving market efficiency. Thus, the CAISO’s proposed ranking systems in which the “feasibility” and “benefit” categories are assigned an equivalent scale will not provide an accurate representation of importance. SCE recommends that CAISO use a more qualitative assessment to short-list a number of high priority initiatives, after which it can conduct a robust cost-benefit analysis of each short-listed initiative to determine the order in which they should be addressed.