

CDWR-SWP Suggestions to CAISO and MSC on the High RUC Availability Payment LMPs

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On December 11, 2008, California Independent System Operator (CAISO) and the Market Surveillance Committee (MSC) jointly held a stakeholder meeting to discuss, among other things, the high Residual Unit Commitment (RUC) Availability Payment Locational Marginal Prices (LMPs). The CAISO and the MSC invite suggestions to solve the high RUC Availability Payment LMP problems. The California Department of Water Resources State Water Project (CDWR-SWP) appreciates the opportunity and submits the following comments and suggestions.

Per the CAISO presentation on the RUC procedure, it is noted that not all of the RUC target components were populated. Apparently, either forecasting software is not running properly or the Hour Ahead Scheduling Process forecast results are not being incorporated into the CAISO Forecast of CAISO Demand (CFCD), thus detrimentally affecting the RUC target. CAISO needs to continue to increase the accuracy of the RUC target, so that the RUC procedure will commit the right amount of resources. Despite this implementation concern, CDWR-SWP believes the following RUC design issues must be addressed.

Problems:

High RUC Availability Payment LMP discourages other capacity products: The current design of the pricing mechanism for the RUC Availability Payment may be yielding prices that are too high compared with other capacity products such as Resource Adequacy (RA) and Interim Capacity Procurement Mechanism (ICPM). RUC must be available to CAISO only for several hours in advance of the real time operation, while generators that are designated as ICPM must be available to CAISO for the whole month and RA must be available to CAISO for the whole year. As a result, the high RUC Availability Payment design discourages generators from offering ICPM capacity to CAISO or RA capacity to Load Serving Entities. Generators could choose to wait until the last day to offer the RUC capacity to CAISO in the Day Ahead Market (DAM) instead.

High RUC Availability Payment LMP creates problems in the IFM: When generators that voluntarily submit energy offers to the DAM to supply energy in the Integrated Forward Market (IFM), they are able to recover only the energy cost. However, if they are committed in the RUC instead of being committed in the IFM, they will also be able to recover the capacity cost through the Availability Payment in addition to the energy cost. Consequently, generators are paid less when committed through IFM than when committed through RUC. In order to

earn the Availability Payment revenue, generators could submit energy offers so high that they would not be committed in the IFM but must be committed later in the RUC to meet the CFCD, which is not elastic. This could result in low supply commitment or high LMPs in the IFM.

High RUC Availability Payment introduces problems in RTM: Generators that are submitting energy offers in the RTM could include the opportunity cost that they lost in the previous markets. When RUC Availability Payments are high, generators that are not awarded RUC Availability Payments and are submitting energy offers in the RTM could include the opportunity cost ---- the RUC Availability Payment ---- as part of their energy offers to recover the related opportunity cost as well as the energy cost. As a result, the RTM LMPs could be higher than expected.

Solutions:

To solve the above problems, capacity revenues for suppliers must be comparable under all circumstances. To make sure the capacity revenues for generators are comparable for supply resources that are designated as RA resources, ICPM resources, or are committed in the IFM, RUC, and RTM, CDWR-SWP proposes two optional solutions for CAISO and MSC to consider:

- Reset the RUC Availability Payment bid cap or the RUC LMP cap to a lower level so that capacity revenue under the RUC is comparable to that under other situations.
- To the extent the above proposal is not acceptable; CAISO could modify the Bid Cost Recovery mechanism to have a capacity revenue cap for all the generators, so that capacity revenue for all the generators will be limited at the same level.

Clarifications:

In providing the above comments and suggestions, SWP would like to clarify that the Ancillary Services are not the same as the above capacity services, so they should not be within the scope of the RUC Availability Payment issue.