California ISO

Stakeholder Comments Template

Intertie Deviation Settlement: Draft Final Proposal

This template has been created for submission of stakeholder comments on the Intertie Deviation Settlement Draft Final Proposal that was published on December 13, 2018. The Intertie Deviation Settlement Draft Final Proposal stakeholder meeting presentation, and other information related to this initiative may be found on the initiative webpage at: http://www.caiso.com/informed/Pages/StakeholderProcesses/IntertieDeviationSettlement.aspx

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Upon completion of this template, please submit it to initiativecomments@caiso.com.

Submissions are requested by close of business on **January 8, 2019.**

Please provide your organization's comments on the following topics:

1. Curtailed E-Tags will be excluded from the under/over delivery charge, which allows for removal of the 10% threshold.

Response: Shell Energy supports the ISO's proposal that curtailed e-tags would be excluded from UODC. *The ISO must provide supporting data in settlements to allow SCs to verify that the outage was recognized and settled properly, including the affected intertie, MW curtailed and duration of curtailment*. The ISO must indicate in its BPM which circumstances apply to UODC as it relates to curtailments issued by the Reliability Coordinator, BAAs and/or Transmission Service Providers.

2. The under/over delivery charge will be evaluated in each fifteen-minute interval as opposed to the decline charge, which is applied on a monthly basis.

Response: Shell Energy believes that the ISO has underestimated the impact of its proposed UODC, and such a draconian approach will result in loss of real time energy supply bids or schedules, resulting in higher costs to California ratepayers. While the ISO has demonstrated that in 2 situations (October and November 2017) they experienced high decline rates, the ISO has not shown that there were grid reliability problems or that the exposure to the RT price was not sufficient for market participants to change their behavior. The ISO has chosen to implement more penalties without demonstrating a grid reliability problem. *Before implementation of UODC, we encourage the ISO to pursue a stakeholder process to evaluate liquidity of the interties, both hourly and intra-hour.*

The ISO cites grid reliability issues in its justification for this new penalty, yet the ISO should not be relying on RT intertie bids for reliability. The ISO has an extensive RA regimen which has been implemented in California and is very costly to ratepayers. Some RA is supplied through the interties, and the ISO should rightfully rely on energy from RA intertie capacity and assess RA penalties when that energy is not supplied according to RA requirements. Next, the ISO should continue to develop a market based flexible capacity product or other reserve products similar to an ancillary services product, and that during these periods of stress on the grid, as shown as the Oct/Nov 2017 periods, the ISO would see increased demand for the flexible capacity product and be able to utilize a market based solution, in addition to its RA regimen which it already uses.

Next, the ISO should implement intra-hour (T-37.5, T-22.5, T-7.5, T+7.5) 15-minute energy bidding before it assesses a 15-minute penalty. Associated with this, the ISO should only implement a 15-minute penalty on intertie schedules in which all BAs on the tag agree to 15-minute transmission scheduling practices. For example, on the PDCI, currently LDWP/BPA, the path operators, do not allow 15-minute scheduling. As such, FMM penalties should not apply. We encourage the ISO to take a more vigorous role in encouraging neighboring BAs in WECC to adopt 15-minute scheduling practices, which will likely include OATI to ensure an industry-wide solution.

The ISO's proposal has unintended consequences—this proposal will directly reduce the resources available to the ISO and result in higher prices for ratepayers during tight supply conditions, as market participants will be more incentivized to seek other markets outside the ISO for purchases/sales. In fact, the ISO's existing protocols expose the market participant to market-based damages, which is a logical market-based solution. While the penalty imposed when a market participant's monthly cumulative declines/under-deliveries exceeds 10% has not been triggered often, the problem is not the design, but it is the window in which the 10% is calculated. Shell Energy believes the existing framework, evaluated *on a daily basis* would disincentivize the problematic condition arising from no shows and under-deliveries. Unless the ISO wants to pay a capacity payment to market participants for FMM intertie bids, the ISO should realize that it is managing a market *for energy and seek to optimize that market by encouraging liquidity and market-based consequences*. We encourage the ISO to delay the UODC and pursue a change evaluating the 10% threshold for a daily window rather than calculated monthly.

3. The logic for the 15-minute market (FMM) will be based on the submission of an E-Tag transmission profile instead of the assumption that an E-Tag will be submitted.

Response: Entities which have resources in multiple BAAs and are scheduling energy to the ISO may now have increased transmission and tagging requirements which may inadvertently result in more work for the ISO. It should be recognized that this requirement will take extra steps, potentially significant, for market participants, which will affect accuracy as well as the settlement process. To the extent that the ISO forces a difference in tagging from WECC and NAESB standards, there will be seams issues which will increase workload and could potentially affect reliability. The ISO must seek continuity with industry-standard scheduling and tagging timelines.

Furthermore, the ISO has failed to define if all approval/denial entities on a tag (to include, BAAs, Scheduling Entities and TSPs) will be required to fully approve the tag transmission profile or just the CAISO's approval (as a BAA, TSP and SE) will be needed to have a valid transmission reservation at the proposed T-40 deadline and thus avoid the UODC. Also, must the tag only be queued before T-40 or fully approved? Seemingly small details do have an outsized impact upon market participants at times.

If the ISO requires a fully approved tag by T-40, this is unacceptable as different approval entities have varying timelines for approving or reviewing queued tags. *Market participants cannot be held to the ISOs timeline and subsequent UODC penalties while relying on actions of an external BAA, SE, or TSP.*

4. Declined and undelivered energy will be subject to the under/over delivery charge = 0.5 X MAX (FMM LMP, RTD LMP), with a $10/MWh minimum

Shell Energy supports the ISO's use of market-based incentives as opposed to penalty-based structures, which often create inadvertent, distortionary and unanticipated negative consequences, particularly for ratepayers. The ISO continues to structure its policies which use *out of market solutions* as highlighted on Page 7 of the latest presentation. The ISO crafts solutions "to reduce the need for operators to conform" or "to reduce impact to real-time market pricing if intertie energy is not delivered" versus letting the market solve itself. Real-time energy is as available energy and should not be considered for reliability purposes because the ISO already has an extensive RA regimen to ensure grid reliability. If economy energy is no longer available, it will logically change prices; that is the market. The ISO should use this penalty process to apply penalties to underdelivered or no-show schedules where RA has been sold at the interties. This proposed penalty adds another administrative cost and increases workload on front and back office staff for all.

Additional comments

Please offer any other feedback your organization would like to provide on the Intertie Deviation Settlement Draft Final Proposal.

Response:

It is not clear why the ISO would penalize an SC for UODC when it declines or partially accepts the ADS award up to T-45, as the market has sufficient time to run and redispatch for the 1st interval in the FMM market allowing time to procure replacement incremental or decremental energy. The ISO has stated multiple times that accepting an award and tagging a different value is very concerning for the ISO especially on days of high demand and tight supply conditions. However, the ISO has failed to explain the rationale as to why the UODC would apply to declined or partially accepted volumes as the market has sufficient time to re-dispatch. Furthermore, Shell Energy strongly encourages the ISO to allow flexibility as it relates to the T-75 window since HASP has become essentially an advisory award and moving it up to T-57 to align with the EIM BSAP deadline. We believe this will further reduce declines, under-deliveries and tag no-shows.

In addition, including over-delivery in the UODC does not make sense as the ISO has *not* shown a credible problem stemming from tagged volumes exceeding a HASP award. There are circumstances in which an award may be over-tagged erroneously. One case stems from ISO software adjusting/curtailing tags while adjustments/curtailments from other entities are still in a pending state. Shell Energy disagrees with the proposal that penalty charges be included for tagged volumes exceeding a HASP award. The ISO's current process of adjusting/curtailing tags to match market awards at T-20 is prudent.

The ISO must also recognize changing the integrated value on tags from an hourly value to a 15-min interval value will require significant retooling of settlement processes for the ISO and stakeholders. This proposed change places additional burdens on stakeholders and is another added cost which disincentivizes participants from transacting in the ISO.

It appears elements of this proposal will impact the market and could increase prices to serve load in the ISO's footprint. The proposal does not address any actual underlying reliability problems and will likely result in less RT economic energy being available to the ISO. We strongly encourage the ISO to apply this proposal to RA intertie capacity and to continue to implement its other market design improvements, including DAMe and a flexible capacity product as market-based solutions. The ISO has recently conducted a special study examining transfers from the PNW, to increase the capacity of the PDCI and PACI, likely to obtain needed flexible capacity on the interties. It would be unfortunate to undermine the possible benefits expected in another ISO stakeholder process. We do not believe that this situation is urgent and that the current timeline can and should accommodate review of these issues including another review of intertie liquidity.

Shell Energy appreciates the opportunity to comment on this important matter. Thank you for your consideration.