

Comments on Pseudo-Ties of Shared Resources Draft Final Proposal

Department of Market Monitoring

August 14, 2020

Background

The Department of Market Monitoring (DMM) appreciates the opportunity to comment on the ISO's *Pseudo-Ties of Shared Resources Draft Final Proposal*.¹ This initiative proposes to allow the entity or entities controlling a resource to model a single resource as if it is actually two or more separate resources. The proposal would allow each separately modeled "share" of the single physical resource to be modeled as being in a different balancing authority area (BAA) than the other shares of the same resource.

Support for a shared resource design that would increase market participation

The ISO explains that modeling shared resources is necessary to allow "dynamically transferred resources, from new EIM Entity BAAs into the CAISO BAA, to continue participation in CAISO's markets." DMM supports the ISO working with stakeholders to develop a split resource design that could increase participation in the Western EIM and CAISO markets.

Bid cost recovery considerations

DMM continues to have many of the same concerns and recommendations that we expressed in comments on the May 7 Straw Proposal.² Under the proposal, the market schedules and bid cost recovery that each share receives and how the bid cost recovery for the overall resource is divided between the BAAs will be determined by the details of how each share will split the single physical resource's telemetry, metered output, minimum load level, minimum load costs, start-up costs and maximum output level. The ISO proposes to allow the owner or owners of a shared resource to define many of these critical determinants of the resources' ultimate market rates in plans (Logical Metering Settlement Quality Meter Data Plan) and protocols (Shared Resource Allocation Protocol) that may not be vetted by either stakeholders or FERC.

¹ *Pseudo-Ties of Shared Resources Draft Final Proposal*, CAISO, July 17, 2020:

<http://www.caiso.com/InitiativeDocuments/DraftFinalProposal-Pseudo-TiesSharedResources.pdf>

² *Comments on the Pseudo-Ties of Shared Resources Issue Paper and Straw Proposal*, Department of Market Monitoring, June 3, 2020: <http://www.caiso.com/InitiativeDocuments/DMMComments-Pseudo-Ties-SharedResources-IssuePaper-StrawProposal.pdf>

This discretion will surely be valuable for allowing an owner(s) to work with the ISO on modeling complex arrangements to share non-standard resources between BAAs. Allowing limited or no discretion in how resource attributes will be shared could unnecessarily impede participation in Western EIM and CAISO markets.

However, this discretion also makes it almost impossible to think through all potential arrangements that could be used to inflate owner(s)' bid cost recovery payments or to inequitably allocate bid cost recovery to one BAA rather than the other. There are likely to be some strategies that owners could employ in combination with extreme attribute sharing protocols to inflate bid cost recovery or to inequitably allocate bid cost recovery amongst BAAs.

DMM understands that eliminating discretion over sharing protocols at this time in order to prevent unlikely arrangements could inefficiently impede EIM and CAISO market participation. DMM also expects bid cost recovery mitigation measures, such as those designed in 2012,³ to be effectively implemented for each share and to mitigate most potential BCR games. Some extreme sharing protocols may enable a resource owner to circumvent these BCR mitigation measures.

For example, consider an owner of a 200 MW physical resource that can ramp 1 MW/min split between 2 BAAs so that each BAA is modeled as having a 100 MW resource. Assume the owner consistently operates the physical plant at 100 MWs and the meter and telemetry of BAA 1 is calculated as the physical plant's meter and telemetry, minus the meter and telemetry reported for BAA 2. The share in BAA 1 has a 100 MW day-ahead schedule, and the owner bids -\$150/MWh in real-time for the share in BAA 1. The share in BAA 2 has no day-ahead schedule, and the owner bids \$1,000/MWh in real-time for the share in BAA 2.

Under this hypothetical example, the ISO's proposal seems to allow a protocol that would give the owner the discretion to report the meter and telemetry values for the BAA 2 share at the owner's discretion. If the ISO's proposal would allow this discretion, at a certain point in time the owner could report the BAA 2 share to have meter and telemetry equal to 100 MW (resulting in the BAA 1 share having a meter and telemetry equal to 0 MW). The BAA 2 share would receive bid cost recovery guaranteeing it could sell its power at \$1,000/MWh while it ramped down from 100 MW. The BAA 1 share would receive bid cost recovery guaranteeing it would buy back its day-ahead schedule at -\$150/MWh while it ramped up from 0 MW. Once or twice an hour the owner could reset the BAA 2 share's meter and telemetry to 100 MW. This protocol and accompanying strategy may enable the owner to circumvent the persistent deviation metric designed for telemetry that tracks the actual production of a physical resource.

³ *Bid Cost Recovery Mitigation Measures Third Revised Draft Final Proposal*, CAISO, November 26, 2012: http://www.caiso.com/Documents/ThirdRevisedDraftFinalProposal_BidCostRecoveryMitigationMeasuresNov26_2012.pdf

The ISO's proposal may also not adequately protect ratepayers in one BAA from inequitable distribution of BCR from commitment costs. The proposal states that "[s]tart-up and minimum load costs should be equitably allocated among the owners based on their shares' proportion of costs".⁴ However, the footnote on the same page describes an example of a "unique circumstance" that the ISO would deem acceptable in its review of protocols: minimum load is 20% of capacity but the owner could allocate 100% of the commitment costs to one BAA.

Given the lack of clarity over the range of "unique circumstances" that the ISO may deem reasonable in its review of protocols, DMM expects that the internal ISO team tasked with rejecting proposed agreements may have significant difficulty enforcing the subjective criteria described in the ISO's proposal. Therefore, DMM recommends that the ISO consider adding safeguards to help ensure the just and reasonableness of each sharing protocol, besides the proposed ISO internal review that can only be done before the agreement's ratification.

Recommendations

The ISO's design should include measures that assure that sharing arrangements can be modified or nullified if they are found to enable gaming or inequitable allocation of bid cost recovery. In the *Pseudo-Ties of Shared Resources Draft Final Proposal*, the ISO explains that:

...if the pseudo tied resource(s) Scheduling Coordinator(s) do not follow its protocol, either repeatedly or on any occasion that significantly affects market outcomes, the CAISO may revoke the shared pseudo-tie arrangement...⁵

DMM appreciates that the ISO will retain authority to revoke the shared resource agreement if the agreement is violated. However, this provision does not seem to provide adequate protection against the possibility that the protocol and plan would allow for behavior that could inflate bid cost recovery or inequitably allocate it between BAAs.

DMM suggests the following provisions as a way of allowing discretion over sharing protocols while still providing protection to ratepayers from extreme attribute sharing protocols that may inflate, or inequitably distribute, bid cost recovery:

- Require public disclosure, and allow public vetting, of how key resource attributes will be split between the shared resources. These key attributes include telemetry, metered output, minimum output levels, minimum load costs, start-up costs, and maximum output levels.
- Provide the ISO express authority to revoke or modify the agreement if there is evidence of owner(s) using the shared resource protocol and plan to exploit the bid-cost recovery mechanism to benefit the resource owner(s) or to inequitably allocate bid cost recovery between BAAs.

⁴ CAISO Draft Final Proposal, p. 16.

⁵ CAISO Draft Final Proposal, p. 16.

With these provisions in place, the ISO could move forward to implement a flexible split resource design that could increase participation in the Western EIM and CAISO markets, while providing provisions to help prevent or mitigate potentially inequitable or unintended outcomes stemming from the details of different resource sharing approaches that are developed by resource owners.