SCE Comments on the Initial Proposal on Intertie Deviation Settlement

Submitted by	Company	Date of Submission
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Southern California Edison appreciates the opportunity to refine our earlier comments submitted on the Intertie Deviation Initiative. The initiative seeks to strengthen the economic incentives for energy delivery on interties. Through efficient bidding and delivery behavior, price formation in the real-time market will improve, barring any degradation of network constraints. This efficient outcome depends on the incentives available to market participants for transacting over the interties and an understanding of the reasons why intertie deviations occur thereby threatening market efficiency.

The initial issue paper presented by the CAISO proposes that an analysis of the existing Decline Charge be conducted with the ultimate objective of proposing a new settlement methodology. It contains insufficient evidence to support the need for change to the current settlement methodology.

Specifically, monthly statistics for a series of years should be provided on:

- Undelivered and under-delivered energy categorized by the reason for non-delivery or under-delivery;
- The cost of real-time market energy purchases associated with the non-delivery and under-delivery of the commodity; and
- An evaluation of these occurrence in relation to their impact on the market, day-ahead and real-time.

Another remedy to the paper's deficiency is an examination of the scheduling process within the day-ahead and real-time markets, by the CAISO, to expose whether there are operating procedures within the scheduling process that require redress or adjustment. In addition, the behavioral response of Scheduling Coordinators towards awards issued by the CAISO should be understood prior to any decision to change or adjust the Decline Charge methodology. An additional area of focus should be whether or not the entities that fail to submit E-tags for their accepted awards in the real-time market are EIM entities. These investigations can contribute to better solution outcomes that may or may not result in a methodology change for the Decline Charge.

First, Scheduling Coordinators have expressed concerns with the challenges to satisfy the deadline for E-tag submissions, T-40, in the real-time energy market. This deadline is at odds with the neighboring balancing authority areas whose deadline is T-20. Scheduling Coordinators have indicated that often very few or no energy suppliers in support of intertie transactions are available within the T-40 window for transacting in the energy exchange market.

As a result, differences in the E-tag submission deadline threaten liquidity in the real-time energy market where these intertie transactions are sourced. This difficulty is a likely contributory factor to the behavior observed among Scheduling Coordinators by the CAISO under the current methodology for the Decline Charge. Therefore, changing the Decline Charge methodology without adjusting the E-tag submission deadline is unlikely to improve the behavioral response of Scheduling Coordinators who transact over the interties.

Second, the way in which the penalty is applied to intertie deviations weakens the incentive to deliver. SCE notes that the Decline Charge is applied differently to intertie deviations associated with hourly blocked resources. It is possible that adjustment to the application of the Decline Charge from the third to the first 15-minute pricing interval in the Trading Hour for which energy delivery is expected will strengthen the incentive provided to market participants. This action maintains the strong incentive for delivery barring no scheduling challenges within the day-ahead and real-time energy markets. Further, when the adjustment is combined with the adoption of a similar E-tag submission deadline as the neighboring balancing authority areas, the desired behavioral adjustment may be achieved in response to the partial acceptance and non-delivery of energy awards over interties.

Third, inappropriate application of the Decline Charge is of concern to SCE in relation to curtailment. When the energy supply from resources is curtailed due to no fault of the market participants, the CAISO should not apply the charge.

Application of the Decline Charge in this manner induces inefficient behavior by providing the incentive to withhold the economic quantity available for import or export when curtailment is often an expected outcome. Herein lies another reason why liquidity in the real-time market can be threatened on account of the undue risks Scheduling Coordinators are expected to bear while being punished for behaviors outside of their control.

Fourth, communication between the CAISO and Scheduling Coordinators on intertie deviations seems a likely problem that should be addressed as well. Often Scheduling Coordinators are uninformed of the consequences of their behaviors in terms of the quantity of energy not delivered and the cost of those deviations in relation to system costs and the Decline Charge. If such information remains private to the CAISO until the dispatch of bills to market participants, the behavioral response observed from Scheduling Coordinators should be expected in relation to the untimely partial acceptance of energy awards and the acceptance of awards with the subsequent failure to deliver the energy when no E-tag is submitted.

There may be need for improvement in communication between the CAISO and the Scheduling Coordinators. The CAISO may wish to consider adjustments to its communications with Scheduling Coordinators either through the use of flags or other means of communication to heighten the situational awareness of Scheduling Coordinator behaviors. Little or no communication of the information results in inefficient decision-making by Scheduling Coordinators. Seeking any adjustment to the 10 % threshold for the Decline Charge, change in the curtailment methodology or the need for 15-minute rather than hourly integrated E-tag information is unlikely to resolve the communication problem or any of the operational difficulties highlighted within the issue paper. Illumination and corrections to the processes and procedures that affect scheduling in the day-ahead and real-time markets seem necessary for eliciting the desired response from Scheduling Coordinators rather than seeking to change the Decline Charge methodology.

The CAISO is currently conducting another initiative that focuses on enhancements to the day-ahead market. That initiative can likely inform the process for the intertie deviation settlement initiative. Resolution of changes to the day-ahead market within the day-ahead market process may open the possibility for no change to the charging methodology for intertie deviations and should be a consideration within the intertie deviation initiative.

Also, the issue of declined export transactions that result in pro-rating import transactions to satisfy the transmission limits on interties is of concern to SCE. Pro-rating import transactions and applying the Decline Charge to the undelivered quantity provides Scheduling Coordinators with disincentives for scheduling the available economic quantity for import. A similar approach to the treatment of exports provides similar disincentives due to the untenable risks Scheduling Coordinators are expected to bear in the market. This issue also contributes to the weakened incentives provided to Scheduling Coordinators for transacting over the interties which will undermine liquidity in the market for intertie transactions as fewer sellers and purchasers remain attracted to participate in the market.

In conclusion, adjustment of the charging methodology is unlikely to deliver the desired market outcomes that the CAISO seeks while eliciting efficient bidding and delivery behavior from market participants. Also, alignment of the E-tag submission deadline with each of the 15-minute time intervals for pricing and performance measurement is unlikely to deliver the desired behavior from hourly block resources since the market for intertie transactions does not transact within such intervals. Therefore, the market outcomes should not be anticipated when the issue paper fails to provide convincing evidence that the identified contributory factors are the root causes of the observed behaviors of Scheduling Coordinators.

As a consequence, expectation for the efficient functioning of markets, day-ahead and real-time, requires efficient incentives that are structured and appropriately applied for the desired outcomes to support reliability and efficient price formation. Absent that objective, the cure proposed may be worse than the disease diagnosed.