California
Market Intelligence Report
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MD02 implementations continue to take center stage in California marketplace

MD02 Phase 1B

The CAISO announced at the March Board of Governors meeting that MD02 Phase 1B implementation would be delayed past the expected May 1, 2004 date. During the fourth round of simulations (early March), the CAISO discovered a number of integration issues as well as system stability issues (there are 17 new applications to support P1B).

After an extensive internal review of system readiness they, have determined that they are not willing to fix a new implementation date until all system variances have been identified. They have proposed a new development, integration and testing timeline, which indicates an implementation in fall 2004. A "1st of the month" implementation date is still expected, so this could mean September 1, but more likely October 1. The CAISO expects to resume market simulations in late July.

Later Phases of MD02

It is not yet clear what impact the delay of Phase 1B will have on the development timeline for the later phases.

In the mean time, the CAISO continues to conduct studies to determine and analyze the potential impact of the major market elements of the later phases of MD02. CRRs (congestion revenue rights) have received significant attention in the last quarter. The CAISO has offered background training to stakeholders; this training was designed to equip attendees with a comprehensive understanding of how the proposed CRR mechanism will be implemented in the California market and what benefits CRRs are expected to provide to market participants. Additionally, the training will enable stakeholders to contribute effectively to the discussions regarding the modeling and allocation methodologies that will be used in the upcoming CRR market simulation.

CRR Study 2

The ISO recently initiated a bi-weekly stakeholder call to discuss the underlying assumptions and allocation methodology for the second CRR study. The first CRR study was completed in October 2003. It was a simplified study using four sample months of data (CRR requests) submitted by a significant portion of load serving entities. Study 2 will model the extent to which CRR requests can be fully allocated over an entire 12-month period. Additionally the ISO hopes to demonstrate a least-cost congestion hedge – that is, how a load serving entity can hedge its congestion over the study period on a cost basis rather than on a MW basis.

Preparatory Re-run

On April 15, the ISO held a conference call to update participants on the progress of the Preparatory Re-run (for reference, this is FERC Docket No. ERO3-746, "Amendment No. 51 filing"). The CAISO filed its latest status report to the FERC on 12-April stating that the Re-run process was currently on hold. They have published settlement statements and supporting detail files through January 16, 2001. On January 17, 2001, CERS (California Energy Resource Scheduling) began executing transactions in the market. The CAISO has requested clarification from FERC regarding the handling of these transactions and FERC has not yet responded. Given the delays to date and expected future delays, the ISO informed FERC that it is targeting a November 2004 completion date.

FTR 2004

The FTR (firm transmission right) auction for the period April 1, 2004, through March 31, 2005, was completed in early March.

Recall that FTRs provide a physical scheduling priority in the day-ahead market, a financial hedge against congestion charges in the DA and hour-ahead markets, and that auction proceeds are credited to the transmission owners (TOs) based upon their ownership interests. Also recall that FTRs are a 1 MW portion of a transmission path from an originating Zone to a contiguous receiving Zone for each hour of the FTR year.

There are two exceptions to the annual term of this year's FTRs; the California-Oregon Inter-tie (COI), which will have a nine-month term, and the Nevada-Oregon Border (NOB) branch group, which will have a six-month term. Two long-term contracts for capacity on these lines will expire this year, which will impact the available capacity.

In this year's auction, 32 market participants paid $101.3 million for 11,491 FTRs on 15 paths in 25 directions.

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Must- offer Update

At the March Board of Governors meeting, the CAISO presented its proposals for changes to the Must-offer process. Recall that the FERC initiated the Must-offer Obligation (MOO) as one of the responses to the 2000-2001 energy crisis. The purpose was to prevent physical withholding by requiring that suppliers (generation, not including hydro) doing business in the CAISO control area bid all available capacity into the ISO's real-time market (if not committed to cover a bilateral transaction). This basically means that all generators with long-start times would have to be on all the time.

Of course, the CAISO does not need all the in-state generators running all the time, particularly in off-peak periods. The "Waiver Denial" process was implemented shortly after MOO was initiated to allow the ISO to grant waivers – a waiver would allow a participant to shut down a resource without incurring the consequent penalties. An additional aspect of the MOO guaranteed participants their start-up and minimum load operating costs as well as any emissions costs. While this process seems relatively simple, the FERC has issued 11 Orders pertaining to MOO and the CAISO has had to submit a similar number of tariff amendments and/or compliance filings.

Beginning in September 2003, the CAISO has conducted a number of stakeholder meetings to arrive at some consensus regarding the proposed modifications to the MOO process.

Some of those modifications include improving transparency, compensation changes, automating waiver denial decision process, incenting participation in ancillary service markets and changes to cost allocation methods.

Transparency

The ISO will be publishing additional information regarding daily procurement targets or on-line capacity requirements. This will be published on OASIS. With a 30-day lag, the ISO will publish aggregate information such as the number of units denied waivers, the capacity of the units and the amounts paid to compensate those units. Additionally, the ISO will begin posting a new operating procedure, which includes details about how the ISO makes MOO waiver decisions.

Compensation

The ISO will support the inclusion of intra-state gas transportation costs in the cost compensation formula and will include auxiliary power costs in the start-up compensation formula.

Automated Decision Process

The ISO proposes to use a Security (or transmission) Constrained Unit Commitment application to help make decisions regarding waivers. This should minimize overall costs of start-ups and minimum load and provide for more equitable decisions.

Ancillary Service Markets Participation

Currently, participant's Minimum Load Cost Compensation (MLCC) is rescinded each hour that the resource is awarded (or self-provides) ancillary services. To incent participation (and increase the depth of the competitive markets), the ISO proposes to pay MLCC even when resources self-provide or participate in the ancillary service markets.

Allocation of Costs

Currently, start-up and minimum load costs are allocated to metered demand + exports regardless of where or why the unit is committed or denied a waiver. However, it is fairly common that units committed under the Must-offer Obligation are committed for local requirements or zone-specific requirements. The ISO proposes to allocate the costs more equitably:

- If a unit is committed for local reliability reasons, the ISO will allocate minimum load costs to the local Participating Transmission Owner (this is the same way RMR costs are allocated).
- If a unit is committed to manage Inter-Zonal congestion or for other Zonal purposes, the ISO will allocate costs to demand + exports from the affected Zone.
- If a unit is committed for Control Area or System requirements, the ISO will allocate costs in two tiers: first to Net Negative Uninstructed Deviation and second to Control Area Demand + in-state exports. The first tier is capped to avoid burdening small deviators.

There was one issue for which the stakeholders and the CAISO were unable to reach consensus; capacity payments. Suppliers (generators) contend that the CAISO should pay them a reservation payment because, while they are not producing energy (beyond minimum load), they are making their capacity available to produce additional energy.

Load serving entities counter that MOO was initiated to prevent withholding; paying generators a capacity availability payment may re-introduce perverse withholding incentives. The ISO will submit its FERC filing without a capacity payment recommendation, but it will inform the FERC that this remains an unsolved issue.

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Dynamic Scheduling

The CAISO recently completed a stakeholder process to develop a policy for Dynamic Scheduling. The CAISO intends to submit a tariff amendment filling to FERC May 1, 2004.

The tariff amendment sets standards and protocols for Schedule Coordinators to schedule or bid imports of energy (Supplemental Energy) or Ancillary Services (Spinning and Non-spinning Reserves) from System Resources outside of the ISO Control Area. The parties involved (Schedule Coordinator and External Control Area) must meet certain technical and operational standards as well as execute several agreements.

Recall that several years ago, the CAISO implemented Standards for the Imports of Regulation. Many of the technical standards established for this protocol are similar.

Intra-Zonal Congestion Management

The CAISO recently held a meeting to update stakeholders regarding the status of the interim solutions for the significant Intra-Zonal Congestion Management issues prevalent in the Southeast. The CAISO continues to encourage voluntary schedule changes. It has increased staff on its transmission desk. It has made enhancements to its software system (known as the IZ tool). Additionally the ISO is working with the CPUC and the PTOs to ensure that the planned transmission upgrades remain on-schedule. Potomac has made revisions to the methodology used to determine the decremental reference price. The CAISO plans to re-evaluate other solutions if the frequency and costs of Intra-Zonal CM do not decline.

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