

Comments on Real-Time Market Neutrality Settlement Issue Draft Final Proposal

Department of Market Monitoring

June 13, 2019

The Department of Market Monitoring (DMM) appreciates the opportunity to comment on the ISO's *Real-Time Market Neutrality Settlement Draft Final Proposal* (Proposal).¹ DMM supports the proposed changes to the Real-Time Imbalance Energy Offset (RTIEO) settlements.

Elimination of RTIEO Transfer Adjustment

DMM supports the ISO's proposal to eliminate the RTIEO Transfer Adjustment. In DMM's 2013 comments on the final EIM market design, DMM questioned whether the approach for allocating real-time energy revenue imbalances was consistent with cost-causation principles, and recommended that "the ISO should eliminate reallocating revenue imbalances according to this proportional transfer ratio if problems are detected."² As explained in the ISO's current proposal, the ISO has determined that real-time market energy settlement imbalances are not primarily caused by EIM transfers between balancing authority areas, so any neutrality offsets (charges or credits) caused by the balancing authority should remain in that balancing authority area.³ Thus, DMM supports the proposal to no longer transfer a portion of the real-time imbalance energy offset allocations between balancing authority areas in the EIM.

ETSR Financial Value Transfer Adjustment

DMM supports the ISO's proposed changes to the ETSR Financial Value Transfer Adjustment calculation. The net effect of these changes will be to adjust the BAA specific RTIEO accounts by their transfers multiplied by the sum of the system marginal energy price (SMEC) and the BAA's GHG price component; where the GHG price component will be zero for BAA's in California's GHG cap and trade program and less than or equal to zero for BAA's not in the GHG program. This change will make the calculation consistent with the originally intended market design.

The formulation of the ETSR Financial Value Adjustment calculations proposed by the ISO are a bit more complicated than other simpler and more direct alternative calculations suggested in

¹ *Real-Time Market Neutrality Settlement Draft Final Proposal*, California ISO, May 30, 2019: <http://www.caiso.com/Documents/FinalDraftProposalReal-TimeMarketNeutralitySettlement.pdf>

² *Comments on Energy Imbalance Market Draft Final Proposal*, Department of Market Monitoring, October 25, 2013, p. 9: http://www.caiso.com/Documents/DMMComments_EnergyImbalanceMarket-DraftFinalProposal.pdf

Comments on Real-Time Market Neutrality Settlement Issue Paper/Straw Proposal, Department of Market Monitoring May 13, 2019, p.2. <http://www.caiso.com/Documents/DMMComments-Real-TimeMarketNeutralitySettlement-IssuePaper-StrawProposal.pdf>

³ Draft Final Proposal, p.4.

the stakeholder process.⁴ However, DMM’s review indicates that the final result of the ISO’s proposed formulation is the same as the simpler alternatives. None of the steps in the proposed calculation of RTIEO transfer payments between participants other than the final values. Because the final values will be correct, preferring another calculation to the ISO’s proposed calculation is more of an issue of aesthetics.

Stakeholder Process and Concerns

In DMM’s May 13 comments on the ISO’s initial issue paper and straw proposal, DMM suggested that the ISO take several steps to confirm and clarify how the EIM transfers and the RTIEO is currently being calculated. DMM also suggested that it would be helpful for the ISO to provide more detailed formulas and examples of the changes being proposed. The ISO has effectively addressed these issues over the last month through an additional stakeholder workshop and by providing additional details, examples and spreadsheets.

In this initiative, the stakeholder process was conducted in a very expeditious manner in order to allow the proposed settlement changes to go into effect by August 2019. Like all settlement changes, the implementation of these changes should be carefully reviewed for accuracy before and after implementation. However, DMM believes that the very limited changes being proposed are straightforward and should not create any gaming opportunities or significant unintended consequences.

⁴ *Comments of Powerex Corp. on Real-Time Market Neutrality Issue Paper and Straw Proposal*, May 13, 2019, pp.5-9. <http://www.caiso.com/Documents/PowerexComments-Real-TimeMarketNeutralitySettlement-IssuePaper-StrawProposal.pdf>