

NRG Energy, Inc. Comments on
Real-Time Imbalance Energy Offset

Submitted By	Company	Date
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NRG Energy, Inc. (“NRG”) submits the following comments on the CAISO proposal regarding the increase in real-time energy offset attributable to the submission of balanced intertie and internal virtual positions.

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According to the CAISO, the implementation of convergence bidding has allowed market participants to arbitrage the HASP/real-time price differentials by taking balanced intertie virtual supply and internal virtual demand positions in the day-ahead market, coupled with a physical import/export position in the HASP, that does not bring about additional physical commitment or contribute to converging the HASP/real-time prices, but allows the market participant to arbitrage the HASP/real-time price difference. Because of structural differences between the HASP and real-time markets¹, the HASP price has tended to be systematically lower than the real-time price. The increased volume of virtual demand positions liquidating at the real-time price (as market participants use this strategy to arbitrage the HASP/real-time differential) increases the amount of real-time imbalance energy offset uplift that the CAISO must collect.

The CAISO has proposed to claw back revenues (or pay, if the HASP price is higher than the real-time price) associated with any HASP-real-time difference in the system marginal energy cost component of the LMP for the portion of balanced intertie and internal virtual positions. This proposal would only affect the system marginal energy component of the HASP and real-time prices and would not affect the congestion and loss components. The CAISO has also pledged to continue to try to address structural differences between the HASP and RT market that contribute to a systematic bias between the two markets prices.

This problem exists because, unlike with day-ahead and real-time prices, there are no explicit mechanisms to converge HASP and real-time prices. Further, virtual intertie bids settle against HASP prices, while virtual internal bids settle against real-time prices. Where different markets exist, market participants will try to arbitrage the differences between those markets. Such arbitrage, in and of itself, is not improper. Convergence bidding provides a legitimate means for arbitraging day-ahead and real-time prices in a way that should converge day-ahead and real-time prices. However, as the CAISO notes, taking balanced internal and intertie virtual positions does not help converge HASP prices and real-time prices, but only enables arbitrage between those markets.

As a general matter, NRG views “clawback” rules with skepticism. All other things equal, market trading and liquidity should be encouraged, not discouraged. Clawback rules may stigmatize complex but legitimate market transactions. However, given the

¹ For example, as the CAISO noted, because the CAISO’s bid floor is -\$30/MWh, and the bid cap +\$1,000, real-time price spikes attributed to a lack of ramping capability will tend to raise the average real-time price, even if the number of upward ramping and downward ramping shortages are the same.

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present case, all other things are not equal. While NRG views clawback rules with disdain, and would prefer to see this problem resolved through other means, given that these balanced virtual intertie/internal trades seek to arbitrage HASP and real-time price differences without acting to converge the prices, NRG sees the proposed clawback rule as less objectionable than other proposed solutions to this problem, such as suspending all virtual bidding at the interties. Suspending virtual bidding at the interties would likely encourage market participants to try to arbitrage HASP prices by scheduling physical intertie transactions in the day-ahead market and then reversing the transaction in HASP. While the CAISO has put in place a rule that would discourage such implicit virtual bidding, suspending all intertie virtual bidding would be a more drastic remedy than the clawback rule the CAISO proposes. Further, the CAISO's proposal to limit the clawback to the system marginal energy component of the HASP and real-time prices seems a reasonable refinement that would still allow market participant to use virtual bidding to hedge congestion.

The CAISO's proposed clawback rule should be a temporary solution. One possible more permanent solution would be to have internal and intertie virtual bids liquidate against the same price. Currently, intertie virtual transactions liquidate against the HASP price, while internal virtual transactions liquidate against the real-time price. This would require settling virtual intertie transactions at real-time prices. Another possible solution is to provide an explicit opportunity to arbitrage HASP and RT prices, which would seem to involve extending virtual bidding to allow for DA-HASP, HASP-RT and DA-RT virtual bidding, which would be a substantial complication of the existing virtual bidding system.

In sum, while NRG does not favor "clawback" rules which discourage market liquidity, given the current circumstances, which include a less-than-fully-available-to-all-market-participants hour-ahead "market", NRG finds the proposed clawback rule to be preferable to more drastic proposed remedies, such as suspending all intertie convergence bidding, to the RT IE offset problem.