California Department of Water Resources State Water Project Comments On Impact of Convergence Bidding on Real-Time Imbalance Energy Offset

May 11, 2011

On April 27, 2011, CAISO published Issue Paper and Straw Proposal regarding Impact of Convergence Bidding on Real-Time Imbalance Energy Offset (RTIEO). On May 05, 2011, CAISO hosted a conference call for the Impact of Convergence Bidding on Real-Time Imbalance Energy Offset and Pricing Inconsistency Caused by Intertie Constraints. California Department of Water Resources State Water Project (SWP) appreciates the opportunity to submit comments on RTIEO.

Since CAISO implemented MRTU, RTIEO has been prevalent, resulting in large charges to measured demand (See August/September 2009 CAISO Stakeholder Process Re: Analysis of Real-Time Energy Imbalance Energy Offset). SWP encourages the CAISO to implement a solution quickly and to use a lower threshold in determining the need for an Emergency Filing.

1. Separately Calculate the Real-Time Imbalance Energy Offset

The Real-Time Imbalance Energy Offset (RTIEO) is a neutrality account through which CAISO allocates surpluses or shortfalls in proportion to measured demand. The RTIEO amount equals sum of Real-Time Instructed Imbalance Energy (IIE), Real-Time Uninstructed Imbalance Energy (UIE), and Real-Time Unaccounted of Energy (UFE), plus the Hour Ahead Scheduling Process (HASP) Energy, Congestion and Losses pre-dispatch, less Real-Time Congestion Offset, *plus Virtual Award HASP and Congestion HASP Offset, plus Real-Time Virtual Award Energy and Real-Time Virtual Award Congestion Offset.*

RTIEO = IIE + UIE + UFE + HASP Energy, Congestion, and Losses - RT Congestion Offset + *Virtual Award HASP and Congestion HASP Offset + RT Virtual Award Energy and RT Virtual Award Congestion Offset*

SWP suggests CAISO to separately calculate the RTIEO amount for physical bids and virtual bids in the settlement process. Then allocate the physical RTIEO charges or credits to the physical bids side, and allocate the virtual RTIEO charges or credits to the virtual bids side. This methodology may eliminate the impact of Convergence Bidding (CB) on the physical RTIEO.

2. Use Settlement Amount of HASP and RTD to Deduct the Real-Time Imbalance Energy Offset

CAISO indicates the price difference between HASP and RTD is the primary factor that contributes to the RTIEO cost. CAISO proposes new settlement rule that counters the HASP/RTD price differential impact. CAISO designed new formulas to calculate a credit

or charge driven by the difference in the HASP and RTD price (see section 4 of the straw proposal). SWP suggests expanding the methodology proposed in section 4 to be applied toward the physical and virtual settlement proposed in Item 1 above.

3. Apply Two-Tier Methodology to Allocate the Real-Time Imbalance Energy Offset

SWP encourages CAISO to further consider applying the two-tier methodology to allocate the RTIEO charges based on cost causation.

4. Prevent Impact of the Positive UIE and the Negative UIE

SWP is concerned that allocating RTIEO charges to positive UIE might be in conflict with other cost causation methodologies that allocate costs to negative UIE. CAISO should ensure uniformity of all cost and credit allocation methodologies.