

Western Power Trading Comments on the RT Energy Offset Charge

Ellen Wolfe, Resero Consulting for WPTF, 916 791-4533

May 11, 2011

WPTF appreciates the opportunity to present these comments on the Real-Time Energy Offset issue.

WPTF finds significant deficiencies with the CAISO's representation of this issue and with the CAISO's proposed remedy. In particular, WPTF offers the following input:

- The markets need to be conformed: The root cause of this issue lies with systematic differences between the HA and RT markets. The CAISO should make it the highest priority to address these systematic differences by continuing to make operational improvements and by also accelerating market design changes that can resolve the problem such as a real-time market that will allow interties and internal generation to settle at the same price.
- RT Energy Offset is driven primarily by CAISO forecast error and operator biasing, and NOT convergence bidding. The RT energy offset charge to load-serving entities has been high even absent convergence bidding. Last summer the offset reached an all time high of approximately 20 million dollars before convergence bidding was implemented. Similarly, the RT energy offset has at times been low even with convergence bidding, most recently in the last two weeks. The charge is in part driven by errors in forecasting that cause the CAISO to export too much energy in the HASP market and replace that energy at a higher real-time price. The potential for the RT energy offset charge will continue to exist so long as the markets are not conformed (settled consistently with equal participation for all). Therefore the ISO's proposal is taking a very narrow approach which does not address the core issue at all but rather only shifts the burden of the cost recover to convergence bidders.
- Convergence bidding tends to reduce the difference between DA prices and HA / RT prices and thereby acts to make markets more efficient (even in the event of "paired" internal and external volumes): The CAISO points to convergence bidders as driving the size of the charge. However, a deep convergence bidding market tends to converge the DA to HA at the interties and the DA to the RT at internal nodes -- true even for "paired" trades (via the non-energy components of LMP). If the ISO allows convergence bids to drive DA prices to the spot (HA/RT) prices at each location, then that brings multiple benefits to the market. Load then pays the fair spot price independent of what market it clears. Generators and suppliers also receive a fair/consistent price in all markets. Finally, reliability is improved due to DA schedules being aligned with spot schedules. Applying CAISO's remedy will cripple the ability of convergence bidders to provide these benefits before the market has had a chance to fully evolve.
- The CAISO's proposal discriminates against convergence bidders: The CAISO's proposal to claw back revenues from balanced convergence bidders is discriminatory because it only considers

convergence bids, imports, and exports whereas internal generation and demand may equally contribute to the offset costs.

- The CAISO's proposal inhibits legitimate hedging needs: A market participant should be afforded the ability to manage and legitimately hedge their portfolio between day-ahead, HASP and real-time, while making necessary operational adjustments to accommodate reliability and portfolio risks. With the current proposal, the CAISO proposes the assessment of a financial penalty on market participants even when they are simply making legitimate operational decisions. These financial penalties will be assessed based on actions within, and outside of, the control of the market participant, including for the following: force majeure, generation outages, transmission outages, parameter tuning, unscheduled flow curtailments, isolated nodes, load deviations, renewable deviations, load deviations, and other general economic needs.

WPTF does not support the CAISO's proposed clawback rule. WPTF encourages the CAISO to refine its characterization of this issue by taking a more comprehensive view, to focus on the root causes, and to otherwise look for alternative remedies or interim mitigation approaches that do not discriminate by sector nor harm market efficiency.