

## **Comments on Real-Time Market Neutrality Settlement Issue Paper/Straw Proposal**

**Department of Market Monitoring**

May 13, 2019

The Department of Market Monitoring (DMM) appreciates the opportunity to comment on the Real-Time Market Neutrality Settlement Issue Paper / Straw Proposal (Straw Proposal).<sup>1</sup> In this initiative, the ISO proposes changes to the Real-Time Imbalance Energy Offset (RTIEO) settlements.

### ***Ensure that RTIEO settlements do not unwind the correct settlement of EIM transfers***

The ISO calculates RTIEO by summing revenues within a Balancing Authority Area (BAA), and then removing congestion and loss rents. An RTIEO imbalance occurs when the sum of revenues collected for energy sales and purchases, after removing the congestion and loss rents, is not zero. As the ISO shows in the Straw Proposal, summing revenues by BAA would create a problem if EIM transfers were not correctly accounted for in the RTIEO calculation.

To illustrate the potential problem, consider when BAA 1 transfers out \$100 worth of energy to BAA 2. By only summing revenues within each BAA it will appear that BAA 1 has a \$100 shortfall because buyers within BAA 1 pay \$100 less than sellers within BAA 1 are paid. Similarly, BAA 2 would appear to have a \$100 surplus because buyers within BAA 2 pay \$100 more than sellers within BAA 2 are paid. There would appear to be a revenue imbalance when in fact the market revenue is balanced. Without correction the RTIEO account would charge BAA 1 \$100 for a “shortfall” that does not exist, reversing the payments made for BAA 1 generation that supports the transfer to BAA 2. Further, the RTIEO account would also pay BAA 2 \$100 for a “surplus” that does not exist, reversing the charges collected from BAA 2 to pay for the transfer from BAA 1. Without correction the RTIEO accounts would unwind the correct settlements for EIM transfers.

The ISO should ensure the RTIEO formulation is not unwinding the correct market settlements for EIM transfers, including rents from the green-house-gas constraint. In the above example the ISO would need to adjust the RTIEO accounts by increasing BAA 1’s account by \$100 and decreasing BAA 2’s account by \$100 so that both RTIEO accounts sum to zero. The ETSR Financial Value Adjustment is the mechanism that is intended to stop RTIEO settlements from unwinding the correct EIM transfer settlements. Therefore, correctly calculating the ETSR

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<sup>1</sup> *Real-Time Market Neutrality Settlement Issue Paper / Straw Proposal*, California ISO, April 24, 2019:  
<http://www.caiso.com/Documents/IssuePaper-StrawProposal-Real-TimeMarketNeutralitySettlement.pdf>

Financial Value Adjustment and ensuring that EIM transfers have been, and will be, settled correctly is the most important aspect of this initiative.<sup>2</sup>

***The Transfer Adjustment should be eliminated if the ISO finds it creates problems***

After initial RTIEO values are calculated, the Transfer Adjustment redistributes the initial RTIEO values among BAAs. As long as the Transfer Adjustment has not been unwinding the correct settlement of EIM transfers described above, the Transfer Adjustment appears arbitrary. This is because the Transfer Adjustment does not appear to use any consistent theory of what may be causing a BAA's RTIEO surplus or shortfall to reallocate each BAA-specific surplus or shortfall amongst EIM BAAs. As DMM explained in comments in the initial EIM stakeholder process in 2013, because the Transfer Adjustment does not necessarily derive from a clear cost causation, if the ISO finds problems with the Transfer Adjustment it should be eliminated.<sup>3</sup>

***Additional data and analysis of BAA level RTIEO amounts and causes would be useful***

Given the concern with the amount of RTIEO being redistributed by the Transfer Adjustment, it would be helpful if the ISO provided data and analysis about the amount and causes of the BAA level RTIEO imbalances.

***Formulas and more detailed examples could increase the proposal's clarity***

The revenue neutrality accounts are a complex but important aspect of ISO settlements. It is important for stakeholders to understand what the ISO is proposing to change. Formulas that show the current versus proposed RTIEO calculations would increase the clarity of the proposal.

The ISO provided helpful examples. However, these examples were high level. More in-depth examples for each proposed change might provide even more clarity. Examples starting with market prices, market schedules, meter values etc. that then show individual settlements and how they lead to the neutrality offset accounts could help stakeholders understand the proposal.

Increased clarity of the proposed changes will help stakeholders understand how this initiative changes the RTIEO calculations while ensuring that the ISO is correctly settling EIM transfers between BAAs.

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<sup>2</sup> This point echoes DMM's earlier comments on the original design of RTIEO allocation in EIM. See *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](http://www.caiso.com/Documents/DMMComments_EnergyImbalanceMarket-DraftFinalProposal.pdf)

<sup>3</sup> DMM 2013 Comments, p. 9.