

California Department of Water Resources State Water Project

California Department of Water Resources State Water Project Comments to CAISO on Real-Time Imbalance Energy Offset (CC6477)

October 1, 2009

After a discussion with CAISO staff, California Department of Water Resources State Water Project (CDWR-SWP) would like to comment on the cost allocation of the Real-Time Imbalance Energy Offset (CC6477) as following:

CDWR-SWP believes that a two-tier approach can better reflect cost causation and should be adopted. Simply allocating the CC6477 to Measured Demand is not reasonable. For example, if a Market Participant Exact is awarded a schedule of 100 MWh of Demand in the Day Ahead Market and consumed exactly 100 MWh in the real time; CAISO should charge the Market Participant Exact the 100 MWh based on the Day Ahead Market price. CAISO should not assess the Market Participant Exact any additional charges. Due to other Market Participants deviating from their schedules, CAISO did something in the Hour Ahead Scheduling Process (HASP) and result in significant settlement amount of the CC6477. The Market Participant Exact that consumes exactly according to its scheduled energy should not bear the cost for CAISO solving problems created by other Market Participants. The one-tier approach that assesses the Market Participant Exact based on its Measured Demand does not make sense and does not encourage Market Participants to consume according their awarded schedules.

CDWR-SWP understands that the reason for the significant settlement amount of the Charge Code 6477 is due to the fact that Market Participants have Uninstructed Imbalance Energy (UIE) in the real time. In order to be prepared to solve any negative UIE of load or positive UIE of generation, CAISO operators intervened in the HASP by bias load to a lower level and sell "extra" energy to neighboring Balancing Authority Areas in the form of Export. This leads to depressed HASP prices at the interties. However, during the Real Time Dispatch (RTD), when there are positive UIE for load and negative UIE for generation, the RTD price will be increased at internal nodes and Load Aggregation Points. In conclusion, all the UIEs, no matter it is positive or negative, no matter it is from generation or from load caused the significant positive price difference between RTD and HASP. Based on cost causation principle, the Real-Time Imbalance Energy Offset (CC6477) should be allocated to all UIEs, including positive and negative UIEs from both generation and load.

Under pre-MRTU, many costs are allocated to Measured Demand. The logic was that each Scheduling Coordinator is required to submit balanced schedules, it is not necessary to allocate the cost to Supply because the Demand will be balanced with the Supply. However under MRTU, since Scheduling Coordinators are not required to submit balanced schedules any more, Supply and Demand should be treated comparably. Both the Supply schedule and Demand schedule are using the same CAISO service including transmission access, market service, and reliability services. So CAISO should allocate cost to both Supply and Demand.

In conclusion, CDWR-SWP proposes that the Real-Time Imbalance Energy Offset (CC6477) should be allocated in two tiers: Tier 1 will be allocated to positive and negative UIEs from both Supply and Demand. To the extent Tier 1 rate cannot recover the needed revenue, the remaining cost will be called Tier 2 and will be allocated to both Measured Generation and Measured Demand.