

Real-Time Imbalance Energy Offset

Stakeholder Comments Template

Subject: Real-Time Imbalance Energy Offset

Submitted by	Company	Date Submitted
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DC Energy appreciates the opportunity to provide comments on the CAISO's Final Proposal on Real-Time Imbalance Energy Offset (RTIEO) and its relationship to Convergence Bidding (CB) at the interties. DC Energy has been an active participant in the stakeholder discussions and has expressed the views below with staff.

DC Energy strongly opposes CAISO's proposal to suspend convergence bidding at the interties. As noted in earlier comments, DC Energy believes that intertie convergence bidding is an essential part of CAISO's markets – providing a number of benefits to participants (ability to bid out-of-state renewable energy in the IFM, hedging of physical and CRR positions, etc.) as well as the market as a whole (liquidity, market power mitigation, price formation, etc.).

In addition to providing these benefits, as WPTF noted in its presentation, intertie convergence bidding is currently providing over \$300MM in annual savings to load. This is several times greater than the total increase to the real time imbalance energy offset charge from convergence bidding estimated by CAISO. DC Energy's own analysis suggests that if anything, \$300MM is an under-estimation of the amount of savings being provided to load via convergence bidding at the interties – as the \$300MM assumes that upon suspension, any internal DEC's associated with "HA-RT balanced" volume will completely disappear (an unlikely occurrence), and hence not place any additional upward pressure on Day-Ahead prices.

DC Energy understands that some market participants and perhaps even CAISO may believe that the net virtual supply volume currently placed at the interties will simply migrate internally upon suspension – however there is a very simple explanation why that will not occur: There is no price incentive to do so. The virtual supply that's placed at the interties is placed there because on average, over any meaningful length of time, Day-Ahead (DA) prices are greater than Hour-Ahead (HA). Internally, the relevant settlement is Real-Time (RT) -- and since it is not generally the case that DA prices are greater than RT prices over any meaningful length of time, the virtual supply currently placed at the interties will simply not migrate there -- thus taking away the Day-Ahead price benefit load has experienced since the inception of CB.

DC Energy observes that CAISO appears to have made its assessment regarding the cost/benefit

Real-Time Imbalance Energy Offset

of inertia convergence bidding without ever actually assessing the *benefits* of inertia convergence bidding. All that has been assessed are the potential costs – estimated at somewhere between 20% and 40% of the approximately \$150M/year RTIEO cost. No acknowledgement has been made of the \$300MM+ per year price *benefits* that inertia convergence bidding provides (which far exceed the RTIEO uplift costs).

CAISO also appears to have made its assessment without considering the relative economic benefits of *alternative* solutions. DC Energy is particularly disappointed that CAISO threw out its own original proposal (as delineated in section 4.2.5 – “Settlement Rule”) of charging/crediting any HA-RT energy differences that participants might hold. From DC Energy’s perspective, it seems this proposal would have (a) addressed nearly all CAISO concerns re: the link between CB at the interties and RTIEO uplift, while (b) preserving the ability of participants to continue to provide price convergence benefits in cases where the interties are congested, and in addition (c) maintaining the current \$300+MM in annual savings to load.

In its final proposal, the CAISO only offered two reasons for not pursuing this alternative: (1) that participants could still coordinate with each other to exploit the HA-RT differentials, and (2) that some HA-RT positions would be naturally taken collectively and unknowingly across market participants. Regarding the first concern, it seems far-fetched to expect that participants would circumvent the settlement rule in this fashion (and in any case DMM would have recourse). Regarding the second concern, CAISO has already shown (Figure 2 of its Final Proposal: Impact of Bidding Strategy on Real-Time Energy Offset) that the balanced virtual volume across SCs contributes a miniscule portion of the total “convergence bidding” RTIEO. One can easily see this by how little the purple bars contribute to the total bar height (and in fact over the recent past those purple bars have actually provided a RTIEO *credit* to load). Given how little convergence-bidding-driven RTIEO uplift cost would likely remain under CAISO’s proposed settlement rule, one would literally have to believe that inertia convergence bidding provides no benefits at all in order to discard this option.

Also of concern to DC Energy is that CAISO gave no serious consideration to solutions that would eradicate the root cause of the RTIEO charge. As CAISO has acknowledged numerous times, convergence bidding is not the root cause of RTIEO uplift – yet there is currently no plan in place to address this root cause – and so (despite the use of the term “suspension” rather than “elimination”) it appears CAISO has no specificity on the return of inertia convergence bidding at any specific point in the future.

Finally, from a process perspective, DC Energy is disappointed that no meaningful discussion of any alternatives to CB inertia suspension has been entertained for the past two months, nor has CAISO responded to concerns and counterpoints re: suspension raised by participants (e.g., WPTF’s presentation). It seems to DC Energy that these “inconvenient truths” and alternative avenues were merely ignored.

DC Energy suggests that before the CAISO Board takes any final action (i.e., eliminating CB at the interties) and before CAISO sends this conclusion to FERC in the form of Tariff changes, it should (a) complete a comprehensive cost/benefit analysis of the various identified alternatives

Real-Time Imbalance Energy Offset

on the CAISO market (including maintaining the status quo as well as implementing the settlement rule detailed in 4.2.5), and (b) outline a root cause analysis of the sources of RTIEO and potential solutions that would eliminate it entirely). It is DC Energy's belief that CAISO will be viewed more favorably at FERC if it has completed all analysis and debate before a FERC filing where these infirmities will certainly be aired.