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NCPA Comments on Redesign of the Real-Time Imbalance Energy Offset

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Northern California Power Agency (“NCPA”) is pleased to have the opportunity to submit these comments on CAISO’s whitepaper regarding Redesign of the Real-Time Imbalance Energy Offset, dated May 18, 2011.

As described in CAISO’s whitepaper the Real-Time Imbalance Energy Offset is a neutrality account through which the CAISO allocates surpluses and deficits through payments or charges to metered load and exports. Over the past year such neutrality amounts have been significant, and CAISO has recently identified certain Convergence Bidding strategies that have increased the neutrality amounts charged to the market. While CAISO continues to work to develop operational improvements to address the HASP and RTD price differential issue, CAISO has proposed some intermediate term solutions which NCPA comments on below.

Threshold for Emergency Filing

NCPA supports CAISO’s commitment to submit an emergency filing to FERC if the 30-day rolling cumulative quantity of Real-Time Imbalance Energy Offset charges attributable to balancing and offsetting virtual inertia positions and virtual internal positions exceed a predefined dollar threshold, to mitigate excessive impacts to the market. While NCPA supports this concept, NCPA believes that the trigger threshold of \$20 million should be reduced. NCPA agrees with comments submitted by Six Cities, the California Public Utilities Commission, and Southern California Edison Company, that the emergency filing threshold should be lowered to \$15 million for any 30-day rolling period. Reducing the threshold under which an emergency filing would be made to mitigate further impacts to the market, as a result of Convergence Bidding, is prudent in order to protect the interests of ratepayers.

Intermediate Term Options to Align HASP-RTD Pricing

NCPA believes it is appropriate for CAISO to further explore and consider any intermediate solutions that may mitigate the impact of Real-Time Imbalance Energy Offset charges. NCPA encourages CAISO to fully explore what options are available as intermediate term solutions, and of the options proposed by CAISO, NCPA supports further consideration of the Pay as Bid option. NCPA does not support the Pay as Bid or Better option due to numerous market gaming consequences experienced in the past under such approach, which resulting in Amendment 66 to the CAISO Tariff. NCPA strongly believes that any options that are considered by CAISO must be fully reviewed with stakeholders and the Market Surveillance Committee. The current CAISO market design is very complex and NCPA is concerned that immediate, short term solutions that are implemented without thorough review may do more harm than good.

Changes to the Allocation of Offset

Real-Time Imbalance Energy Offsets are currently allocated to metered demand and exports, excluding the demand quantity for the valid and balanced portion of self-schedules related to transmission ownership rights in real-time. Also, Load Following Metered Subsystems are exempt from the allocation of Real-Time Imbalance Energy Offset neutrality. In its whitepaper, CAISO raises the question of cost allocation, and whether or not the current method should be modified to capture the impact of deviations from IFM schedules. CAISO also introduces the concept of further distributing the allocation of offset costs to all market participants using a similar allocation method as adopted for the future GMC charge structure.

NCPA does not support a complete redesign of the Real-Time Imbalance Energy Offsets allocation methodology. Redesigning the allocation methodology without a legitimate cost causative allocation basis would be arbitrary, and would likely not provide a direct or measurable incentive for market participants to adjust their market behavior to reduce the underlying issue of offset neutrality. CAISO suggests an allocation basis similar to the new GMC structure, under which costs are allocated to internal generation, load, imports, exports and convergence bidding. The GMC charge codes were intentionally structured not to impact or incent market behavior, so adopting such structure with the hope of changing market behavior to reduce the level of offset is not supported.

NCPA strongly believes that any proposed changes to the Real-Time Imbalance Energy Offset allocation methodology should not impact or detract from a Load Following Metered Subsystems exemption from the allocation of Real-Time Imbalance Energy Offset neutrality. This rule has been approved by FERC, and recognizes the unique structure of a Load Following Metered Subsystem which is required to balance its demand and supply portfolio in real-time, and if it fails to do so will be assessed significant deviation penalties. CAISO suggests that deviations from IFM schedules could be used as a basis for allocating offset costs. Load Following Metered Subsystems are contractually required to balance any deviations within its portfolio; therefore consistent with CAISO's findings from the 2009 stakeholder process, due to the unique requirements of a Load Following Metered Subsystem, Load Following Metered Subsystems do not contribute to the deviations which may cause Real-Time Imbalance Energy Offset neutrality costs, and therefore should be exempt.

NCPA does not object to incremental modifications to the current allocation methodology, such as inclusion of Convergence Bidding quantities or deviations of non Load Following Metered Subsystem entities, but NCPA does not support a complete redesign of the current allocation methodology.

Enable Convergence Bidding to Converge HASP-RTD Prices

As stated in CAISO's Quarterly Report on Market Issues and Performance, posted on May 24, 2011, "DMM's assessment is that over this initial three month period convergence bidding has had little or no benefit in terms of helping to improve price convergence or the efficiency of day-ahead unit commitment decisions." DMM also stated that price convergence did appear to improve in the month of March 2011, but "DMM does not attribute this improvement in price

convergence to convergence bidding, but rather to operational improvements by the ISO as well as some minor software enhancements.” Based on this experience with Convergence Bidding under MRTU, NCPA is not convinced at this time that changes to the market structure, driven by the hope that Convergence Bidding will result in price convergence, are warranted. NCPA believes that any modifications to the market structure based on the hope that Convergence Bidding will actually force prices to converge, as supported by theory, should be carefully reviewed and considered.