NRG Energy, Inc. Comments on
CAISO Straw Proposals re: Convergence Bidding at the Interties

Submitted By	Company	Date
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In its June 10 Revised Straw Proposal on the Impact of Convergence Bidding at the Interties, the CAISO proposed to:

- Retain the rolling 30-day $20 million threshold for filing to implement the settlement rule that would claw back revenues earned from balanced intertie and internal virtual positions;
- Remove interties as eligible convergence bidding nodes under the current market design; and
- Implement additional rules to deter implicit virtual bidding at the interties.

Eliminating convergence bidding on the interties. NRG does not support the elimination of convergence bidding at the interties. As Joe Bowring observed at the CAISO's first stakeholder meeting on convergence bidding (June 2006), implementing multi-settlement markets without convergence bidding will open the door to a different set of problems, problems that will have to be solved by administrative rules rather than by competition. A two-settlement market in which only a limited number of market participants can participate in one of the two markets (which would be the case if the CAISO eliminates convergence bidding on the interties) would seem to invite other problems. While there is no simple solution to the current problems, which stem from a fundamental mismatch between the timing of internal virtual bids and intertie virtual bids, NRG finds the proposal to eliminate intertie virtual bidding to be a "virtual nuclear" option and does not support it.

NRG opposed the rule to clawback revenues associated with balanced intertie/internal virtual positions, but opposes eliminating intertie virtual bidding even more strongly. NRG would prefer neither outcome in the short term. Instead, NRG would prefer to continue working on permanent solutions, even if those solutions cannot be implemented in the short term. While NRG has concerns about implementing the clawback rule, it supports the CAISO's position to implement the clawback rule only after the Real-Time Imbalance Energy Offset (RTIEO) charge exceeds $20 million over a 30-day rolling window.

All resources are important for reliably serving load. The CAISO rejected Powerex's suggestion to hold internal virtual supply and demand bids through the HASP. The CAISO is concerned that a net internal virtual supply position carried into HASP would preclude the CAISO from procuring physical intertie supply in HASP, which in turn would force the CAISO to rely only on internal generation to serve the liquidated virtual supply in real time. According to the CAISO, this would pose unacceptable reliability risks, given the importance of imports to meeting CAISO load.

NRG is troubled by the perception that intertie supply is somehow more critical to serving CAISO load than other resources. All resources – both imports **and** internal generation – play an important role in reliably serving load within the CAISO Balancing

Authority Area. Imports are afforded special treatment because of the prevailing practice that mandates that interties are scheduled in full-hour blocks a half hour before the delivery hour. Consequently, intertie supply resources are locked into their real-time delivery schedules at a known price in advance of the operating hour and are scheduled for full-hour blocks, while internal supply resources will not know their real-time delivery obligations or prices until real-time, and can be re-dispatched in real-time. This preferential treatment does not result from any inherent technical superiority of intertie supply. In fact, inflexible block-hour interties are an operationally inferior product to dispatchable internal generation or dynamic schedules. While there are signs that full-hour intertie scheduling practices may be changed to make intertie supply more flexible, it is reasonable to expect that such changes are years, not weeks, away. In the meantime, NRG encourages the CAISO to avoid creating commercially superior terms and conditions of service for operationally inferior products.

Allocating Real-Time Imbalance Energy Offset charges. The CAISO has proposed to allocate the Real-Time Imbalance Energy Offset (RTIEO) charge to IFM imports that are reduced in HASP. NRG sees this as the analog of charging internal generation scheduled in the IFM that is not delivered in real-time, and supports this proposed allocation.

NRG notes that the CAISO has apparently been successful in reducing systematic and predictable differences between the HASP and real-time prices. This, in turn, has reduced the amount of balanced virtual positions within individual Scheduling Coordinators' portfolios (Straw Proposal, Figure 3) as well as the amount of RTIEO (Straw Proposal, Figure 2). While the amount of RTIEO has not gone to zero, it seems unlikely that it ever would. NRG posits that these costs, while not zero, have improved to the point that near-term drastic action (like eliminating convergence bidding at the interties) is not warranted. The CAISO should continue to monitor the levels of RTIEO but focus on longer term solutions (e.g., settling interties at real-time prices and providing explicit arbitrage opportunities that align with market settlement timing) instead of interim solutions that would restrict market opportunities.

Market Surveillance Committee (MSC) opinion. Given the lack of consensus regarding solutions to these complex problems, NRG joins other market participants in requesting that the CAISO seek opinions from its MSC regarding these issues. NRG encourages the MSC to provide opinions well in advance of the August Board meeting so market participants have sufficient time to evaluate and respond to them.

Summary

In sum,

- NRG strongly opposes eliminating convergence bidding on the interties.
- NRG has concerns about the proposed clawback rule but would prefer implementing such a rule (again, only as necessary and if the RTIEO exceeds the CAISO's proposed rolling 30-day threshold) to eliminating convergence bidding on the interties.

- NRG urges the CAISO to accelerate the development of market design changes that align the settlement of interties and intertie virtual bids with other markets (e.g., settling interties in real time, or creation of a full hour-ahead market with explicit virtual bidding opportunities) as permanent solutions to this problem.