



# Comments of Pacific Gas and Electric Company

## RTIEO Draft Final Proposal

Submitted by		Company	Date Submitted
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Pacific Gas & Electric (PG&E) appreciates the opportunity to participate in the stakeholder process for the California Independent System Operator’s (CAISO) Real-Time Imbalance Energy Offset (RTIEO) initiative and to submit comments regarding the July 29, 2011 Draft Final Proposal.

PG&E fully supports the CAISO's proposal to seek Board approval in August to remove convergence bidding from the interties. We agree with the CAISO's assessment that the benefits of continuing to allow convergence bidding at the interties do not outweigh the ongoing market risks.

However, PG&E also believes further efforts to address non-convergence bidding RTIEO issues should continue through a stand-alone initiative, rather than being tabled until implementation of the Renewable Integration Phase 2 roadmap in 2014. The RTIEO remains unacceptably high, and to the extent that action can be taken to reduce the magnitude of this uplift, it should be pursued on an expedited basis.

### 1. Summary of CAISO Proposal

#### **Removal of Convergence Bidding on Interties from Current Market Design**

The CAISO proposes to stop allowing interties to be eligible nodes for convergence bidding under the current market design. In evaluating all options to address both the Real-Time Imbalance Energy Offset issue and the Price Inconsistency issue, the ISO believes that removing convergence bidding at the interties is the most effective way to resolve both problems.

#### **Other Measures to Address Potential Implicit Virtual Bidding**

The previous version of this proposal included two other measures to deter implicit virtual bidding as well as the recommendation to stop convergence bidding at the interties. However, both of those additional measures have been dropped from the current proposal. The CAISO has suggested it will address any additional changes to the real-time markets via the Renewable Integration Phase 2 initiative.

## **2. Comments on Removal of Convergence Bidding at the Interties**

### **Fully Support Immediate Removal of Convergence Bidding at the Interties**

Through this stakeholder process, PG&E has come to the same conclusion as the CAISO. Namely, that the benefits of allowing convergence bidding at the interties do not justify the excessive uplift costs currently being imposed on load. Moreover, all of the proposed mid-term solutions to mitigate the detrimental effects of intertie convergence bidding carry with them major downsides and potentially detrimental effects to market efficiency<sup>1</sup>. Finally, this stakeholder process has brought to light the fact that enforcing two separate intertie constraints for physical and virtual bids results in inconsistent price awards<sup>2</sup>.

For these reasons, PG&E believes the best course of action is to suspend convergence bidding on the interties until a significant redesign of HASP can be completed. This item should be taken to the August Board meeting for approval, and tariff language to implement the change should be filed immediately thereafter.

## **3. Comments on Further Measures to Reduce the RTIEO**

### **Additional Measures to Reduce the RTIEO Should Continue to Be Pursued in a Stand-Alone Initiative after the August Board Meeting**

Eliminating convergence bidding on the interties is a necessary first step in reducing the magnitude of the RTIEO, but as pointed out by the CAISO in the August 3 Market Performance and Planning Meeting, it is not the only element driving this uplift<sup>3</sup>. Page 10 of the CAISO presentation shows that as of late July, only about one third of the 30-day cumulative RTIEO was a direct result of balanced and offsetting virtual awards. For this reason, PG&E believes it is warranted to continue investigating ways to reduce the size of this offset or to allocate the costs more directly to those who cause them.

PG&E supported two additional elements dealing with the RTIEO that were contained in the CAISO's previous proposal. The first extended cost allocation to day-ahead schedules that were reduced in HASP. The second was a settlement rule for schedules cleared in HASP which fail to deliver in real-time. In the Draft Final Proposal, the CAISO has removed both elements and proposes to defer these issues until the Renewable Integration Phase 2 initiative.

PG&E does not support the CAISO's deferral. Additional work on these RTIEO issues should not be deferred to Phase 2. The RTIEO currently remains unacceptably high and immediate action is warranted. Renewable Integration Phase 2 will likely not be implemented until 2014, and PG&E is not willing to wait that long if the RTIEO remains close to current levels. Moreover, the Renewable Integration Phase 2 initiative is already a very ambitious effort which

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<sup>1</sup> Pay as Bid, Bid or Better, and changes to how convergence bids are liquidated in HASP have all been suggested as ways to reduce the RTIEO. However, the CAISO and stakeholders have found potential problems with each proposed solution.

<sup>2</sup> Price Inconsistency Caused by Intertie Constraints. CAISO Draft Final Proposal. May 18, 2011: <http://www.caiso.com/2b82/2b82a04d5b660.pdf>

<sup>3</sup> Agenda and presentation. Market Performance and Planning Meeting. August 3, 2011. [http://www.caiso.com/Documents/Agenda-MarketPerformance-PlanningForum\\_Aug\\_3\\_2011.pdf](http://www.caiso.com/Documents/Agenda-MarketPerformance-PlanningForum_Aug_3_2011.pdf)

will have implications on many parts of the existing CAISO markets. Adding additional design elements will detract from the major goals of the initiative and slow down the stakeholder process.

Once the CAISO receives Board approval to eliminate convergence bidding on interties, a separate stakeholder initiative to continue work on the RTIEO should be initiated before the end of 2011. This initiative should continue the dialogue around adjusted cost allocation for the RTIEO uplift and additional measures to deter implicit virtual bidding if needed.