

California Department of Water Resources State Water Project Comments On Impact of Convergence Bidding on Real-Time Imbalance Energy Offset

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On May 18, 2011, CAISO published a revised Straw Proposal regarding Redesign of the Real-Time Imbalance Energy Offset (RTIEO). On May 25, 2011, CAISO hosted a conference call that included RTIEO and several proposals to address HASP-RTD price arbitrage. The California Department of Water Resources State Water Project (SWP) appreciates the opportunity to submit comments on RTIEO proposals and cost allocation.

1. Redesign of the Real-Time Imbalance Energy Offset

The Real-Time Imbalance Energy Offset is a neutrality account which, in a perfect market, the balance should trend to zero. CAISO's redesign of the RTIEO should focus on this as their main goal, thus SWP generally supports CAISO's proposed redesign for reducing the RTIEO cost.

CAISO proposes that all virtual bids for Supply/Demand at the intertie would be liquidated at the RTD price. Therefore, the difference between HASP price and RTD price for all virtual bids settlement would equal zero and the negative impact of Convergence Bidding on RTIEO would be eliminated. The accepted physical transaction would pay or receive the better of the bid price or RTD price. The accepted physical bid price at the intertie would be lower than the indicative HASP price that HASP determined. The difference between the physical bid price and the RTD price would be a cost to the RTIEO. This calculation methodology in the settlement process would reduce charges to the RTIEO compared to the straw proposal.

However, as indicated in Section 4.2, SWP suggests CAISO use the difference between the physical bid price in HASP and RTD price as a credit to reduce the RTIEO in the settlement process. Additionally, the virtual bid for Supply/Demand at the intertie should be liquidated at RTD price in Real-Time Market as indicated above and the physical bid at the intertie for Import/Export should be settled at the bid price. Such a settlement process will substantially separate virtual and physical intertie bids while reducing RTIEO.

2. Allocation of Real-Time Imbalance Energy Offset

Since CAISO implemented MRTU, CAISO has been allocating the charge/credit of RTIEO to Measured Demand. According to cost causation principles, the RTIEO cost or credit should be allocated to all market participants. During the May 25, 2011 stakeholder conference call, CAISO listed additional options for allocation of RTIEO costs. SWP supports CAISO allocating the RTIEO cost to all market participants based on their Generation/Demand, Import/Export, and Convergence Bidding.