

Comments to Real-Time Imbalance Offset – Revised Straw Proposal

Submitted by	Company	Date
Margaret Miller - (916) 673-3082	Brookfield Energy Marketing LP	Wednesday, June 1, 2011

Brookfield Energy Marketing LP (“Brookfield”) appreciates the opportunity to submit comments to the *Revised Straw Proposal for the Real-Time Energy Offset*. As further described in our comments below, Brookfield does not support the proposed settlement rule or the proposed intermediate solutions that will settle all market transactions on the interties at the real-time price using either a Pay as Bid or Pay as Bid or Better methodology. It is Brookfield’s opinion that both of the proposed intermediate solutions will have unintended market consequences and are not consistent with the goals of a LMP market design. We instead request that the CAISO continue to focus their efforts, which are already underway, on measures that will increase price convergence between HASP and Real-Time. We also request that the CAISO accelerate the stakeholder process as part of *Renewable Integration Market & Product Review Phase 2* to arrive at a longer term market design solution to address this problem such as: 1) inception of a full hour-ahead market or 2) 15 minute real-time market rather than expend efforts on intermediary changes that could worsen the existing state. Lastly, we support CAISO’s effort to further analyze Powerex’s suggestion to evaluate liquidating virtual bids located at the internal nodes in the Real-Time process rather than the HASP process to improve price convergence.

Settlement Rule

The revised *Straw Proposal* is an improvement from the *Issue Paper* in that the ISO proposes to only implement the settlement rule in the event that the impact to the Real-Time Imbalance Offset due to offsetting positions taken by virtual bids reaches 20 million dollars. While we appreciate this modification to the proposal, since the settlement rule inappropriately focuses on convergence bidding activity as a driver of the uplift, Brookfield can not support CAISO’s proposed settlement rule whether it is implemented now or later contingent upon a specified threshold being reached.

The CAISO is reacting prematurely in the development of the proposed settlement rule without allowing the time for the convergence bidding market to work. Two months of analysis is not enough time to determine the impact convergence bidding will have on the market as well as the related imbalance offset either positive or negative. In addition, the settlement rule does nothing to address the root cause of the uplift which results from price divergence between HASP and Real-Time.

The CAISO confirmed that the root causes of the uplift are driven by a number of factors including but not limited to: 1) forecasting errors, 2) modeling issues and 3) asymmetry between the price cap and price Brookfield encourages the ISO to continue to focus on the root cause of the price divergence as a means to reduce the uplift rather than implement the proposed settlement rule. Recent data from mid-April through May already shows an improvement in price convergence between HASP and Real-Time due to the CAISO’s modeling and operational improvements and the imbalance offset is on the decline.



Intermediate Term Options to Align HASP-Real-Time Prices

The CAISO outlined three options in the *Straw Proposal* for consideration as intermediate measures to converge the HASP and Real-Time prices until longer term market design changes can be implemented. Those options are 1) Pay as Bid 2) Pay as Bid or Better and 3) Liquidating internal virtual bids in the Real-Time process rather than the HASP process as is done currently.

Both options 1 & 2 above are a departure from the intent of an LMP market design. They do not eliminate the problem of uplifts and could result in adverse consequences that are worse than the existing state.

The Pay as Bid option will change bidding risk profile as incremental embedded cost would be included into bids. This could ultimately result in higher costs to serve load and would still generate uplift as there would continue to be differences in prices settled between the interties and internal generation.

Pay as Bid or Better was in practice for market transactions on the interties under the CAISO's zonal market design prior to the implementation of the LMP market and was previously determined to be flawed (*Amendment 66*¹). Considering the CAISO's prior experience with Pay as Bid or Better it can't possibly be considered a viable option for reconsideration.

The CAISO, in the *Straw Proposal*, requested comments from market participants on Powerex's² suggestion that virtual bids at the internal nodes are inappropriately liquidated in the HASP run rather than in the Real-Time run. Brookfield agrees that this concern has merit and is worth further evaluating as a means to convergence prices. Prematurely liquidating internal virtual bids in the HASP run could be incorrectly depressing the HASP price and not provide the intended impact on Real-Time prices. It makes sense for virtual bids on the interties to be liquidated on the same time line as physical supply bids at the interties are dispatched and for virtual bids at the internal nodes to be liquidated on the same time line as internal generation is dispatched to allow convergence bids the opportunity to provide their intended benefit of converging prices. Brookfield encourages the CAISO to further analyze the potential outcomes of this proposed change and report back to market participants on the results.

In conclusion, Brookfield encourages the ISO to continue their efforts to focus on measures to address the root causes of the price divergence rather than focus on interim or incomplete solutions. We also encourage the ISO to accelerate their efforts towards a longer term market design solution that will eliminate the need for the real-time imbalance uplift. This can be achieved through a full binding Hour-Ahead market or modifications to the Real-Time market and intertie scheduling practices that would settle all resources on a 15 minute price in real-time.

¹ See *111 FERC 61,008* at: <http://www.aiso.com/docs/2005/04/08/200504081044557782.pdf>

² See Powerex Stakeholder comments at: <http://www.aiso.com/2b7c/2b7c82444d660.pdf>