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Comments to Real-Time Imbalance Offset – Draft Final Proposal

Submitted by	Company	Date
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Brookfield Energy Marketing LP ("Brookfield") appreciates the opportunity to submit the following comments to the Draft Final Proposal for the Real-Time Imbalance Offset.

For the same reasons stated in our prior written comments as well as comments provided at the July 17th stakeholder meeting, Brookfield does not support the CAISO's proposal to terminate virtual bidding at the intertie points.

<u>Eliminating virtual bidding on the interties does not resolve root causes of the real-time imbalance offset.</u> The operational and modeling issues that drive the uplift are well understood and the CAISO should continue to address those root causes. The dollar impact of the uplift reached its all time high prior to the implementation of virtual bidding and could return to those levels even in the absence of virtual bidding. Data shown by the CAISO at the July 17th stakeholder meeting demonstrated that virtual bidding on the interties contributes to 25% or less of the uplift volume. Alternatives to resolve the remaining 75-85% of the uplift have not been addressed through this stakeholder process. Slides shown at the August 3 Market Performance & Planning Meeting demonstrated the minimal impact virtual bidding on the interties has on the uplift especially if netted against dollar volumes where virtual bidding provided a reduction to the uplift. The slides further emphasized that other factors, such as operator biasing of the HASP forecast, are a major contributing factor to the uplift costs.

<u>More moderate steps can be taken by the CAISO to attempt to address this problem before moving to such an extreme position as eliminating virtual bidding on the interties completely.</u> The CAISO could attempt to request market participants to stop taking offsetting positions between the internal nodes and the intertie points or put in explicit tariff language forbidding this behavior. In addition, the CAISO has the flexibility to leave existing positions limits set at 5% to mitigate virtual bidding volumes on the interties while operational improvements and market changes to reduce or eliminate the offset are ongoing. None of these solutions are ideal but are preferred as compared to the current proposal.

<u>Most of the dollar volume of uplift is driven by price spikes in real-time that occur in a small number of hours.</u> This issue will be addressed by the flexi-ramp constraint that will be implemented in the next several months. The CAISO should observe how the uplift is improved by this constraint in combination with the moderate steps suggested above before eliminating virtual bidding on the interties.

Virtual bidding on the interties provides valuable benefits to the market and a legitimate hedging tool for market participants. As discussed in the WPTF presentation on July 17th, net virtual supply on the interties has resulted in lower Day-Ahead prices, reducing the cost to serve load. The CAISO did not respond to the analysis provided by WPTF that shows that virtual bidding on the interties has provided benefits that exceed the impact of the real-time imbalance uplift. If the CAISO disagrees with the benefits and data provided it would have been helpful to include that discussion in the stakeholder process prior to producing the final proposal. Virtual bidding on the interties also provides a valuable hedging tool for market participants importing intermittent energy into California. This is an important tool in light of the 33% RPS that the CAISO has cited themselves in regards to the internal nodes and eliminating PIRP.

In conclusion, eliminating virtual bidding on the interties is unnecessary, unwarranted and does not address the known market deficiencies that drive the real-time imbalance uplift. A more comprehensive and transparent stakeholder process that attempted to address the entire problem, rather than just 25% of the problem, would have been more beneficial to the overall market. We request the CAISO leave virtual bidding on the intertie points active to be utilized for legitimate arbitrage and hedging purposes rather than eliminating this valuable tool for all market participants in order to attempt to address a small percentage of a much larger problem.