Citigroup appreciates the opportunity to comment on the Imbalance Energy Offset revised straw proposal.

Background:

The current straw proposal is one of many iterations that have included the following (either written or verbal):

1) **Proposal #1- Physical & financial spread calculation** – This would result in a penalty assessed to market participants that inadvertently or knowingly a HASP to RTD spread. This calculation did not account for products traded outside of the CAISO, therefore allowing the CAISO to assume a market participant's. Lastly, this proposal had many unintended consequences including (but not limited to); providing counter intuitive signals to market participants when reacting to reliability situations (for example: providing relief under the WECC USF standard). This proposal would be inconsistent with the purpose of an LMP market and would potentially discourage or prevent a market participant from managing a portfolio taking into account reliability and economic scenarios, and therefore should not be considered as a resolution.
2) **Stakeholder Meeting - "Do nothing" proposal** -This was discussed on one of the stakeholder calls. The CAISO mentioned that they would file to allow for an emergency filing if the IEO charge exceeded $20 million in a rolling 30 days. The CAISO has moved away from this resolution.
3) **Proposal #2 - Discontinuing Convergence Bidding** - The latest straw proposal included an unpopular and last resort solution of discontinuing convergence bidding at the interties. Beyond the obvious major market changeresulting from this proposal, it included;
    a. The assessment of a prorated portion of the IEO charge to physical schedules that were purchased "back" in HASP based on a day-ahead IFM schedule. The CAISO views these HASP transactions as measured demand and therefore should be considered for a prorated amount of the IEO charge. Citigroup disagrees with this opinion, in that we do not consider power that was committed in the IFM (a financial market), that is purchased back in HASP, and follows the tagging timeline protocols, as anything other than an adjusted system resource. Again, the CAISO has constructed a resolution that contradicts the purpose of an LMP market and inappropriately addresses one aspect of "system resources" by discriminating against intertie system resources verses internal system resources.
    b. The CAISO is proposing that importers and exporters of energy that DO NOT show up in real-time be assessed both:
        1) The real-time clearing price, and
        2) The non-performance penalty charge.

       Imports and exports are being unfairly singled out in this situation and will receive an incremental penalty greater than an internal asset. If imports are to be treated as system resources and exports are to be treated as measured demand then the CAISO should align the settlement of those products similar.

The CAISO has mentioned "implicit virtual bidding" as the reason to have the above incremental measure. The CAISO has yet to recognize that "implicit virtual bidding" is a problem within the current market design. Prior to the implementation of convergence bidding and the tagging timeline protocol (an implemented tagging solution to deter "implicit virtual bidding"), the CAISO never considered that "implicit virtual bidding" was an issue of any magnitude. We find it disingenuous that the CASIO would consider incremental measures to stop "implicit virtual bidding" when "implicit virtual bidding" has not been considered an issue and there are currently significant market rules to deter "implicit virtual bidding."

4) **Stakeholder Meeting - Settle CB Intertie Transactions at RTD** - On the last stakeholder conference call the CAISO mentioned that they would evaluate the settlement of convergence bids at the real-time clearing price. We are currently unaware of the CAISO position on this option.

Over the last month the CASIO has considered a vast number of options that have not gained a majority support among the stakeholders, other than the unofficial "do nothing" option that was discussed on an initial stakeholder call. Citigroup is not in favor of the "doing nothing" option because we understand and sympathize with the cost of uplift currently being charged to measured demand. However, in our evaluation of the suggested solutions, Citigroup is not convinced that any of these solutions outlined above will contribute to significantly lowering the IEO uplift charge without severe unintended consequences that have not been thoroughly discussed and/or vetted.

Suggested Solution:

With the limited amount of information that the CAISO has provided on the IEO charge and the significant monthly cost allocated to measured demand, pre and post convergence bidding, we are unable to conclude that making a significant market design change, at this time, has a greater benefit than detriment. It is our opinion that the CAISO should consider the following option:

- No change to the existing market structure, with a commitment from the CAISO to immediately commence a working group to begin addressing the longer-term market design changes.

It is our understanding that both the IEO charge and the dual constraint item will be addressed in the longer-term solution. Currently the CAISO is focusing on trying to solve one contingency at the expense of causing another. This vicious cycle will never end, and at this rate we will never be able to address the needs of the entire market, while focusing on comprehensive solutions to promote a balanced, competitive, functioning and robust LMP market.