DC Energy Comments on the
CAISO's Real Time Imbalance Energy Offset Proposal
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First and foremost, DC Energy believes that tie convergence bidding is an essential part of the CAISO's markets. It provides a number of benefits to participants (hedging of CRR and physical positions, ability to bid out-of-state renewable energy in the IFM, etc.,) and the market as a whole (liquidity, market power mitigation, etc.). We think it's important that the CAISO keep these benefits top of mind in fashioning any sort of remedy. DC Energy strongly prefers *any of CAISO's earlier-proposed alternatives* to its latest proposal to eliminate convergence bidding at the ties.

Imbalance offset charge:

It has become clear in the stakeholder process that the primary issue at hand is the real-time imbalance energy offset charge (and that the intertie pricing issue is secondary), and as such we will discuss this first.

As a long-term solution, we feel that a full hour-ahead market (internal and external) is the "right" answer -- providing an opportunity for all types of participants to participate equally in the market, and eliminating any potential disparity in the timing of how tie vs. internal bids are systematically liquidated. In such a market design, one could envision convergence bids between DA and HA, as well as between HA and RT. We encourage CAISO to more fully explore this potential solution going forward.

In the short term, the CAISO should rigorously evaluate whether an immediate remedy is truly necessary. As CAISO noted on its May 4 call, it has taken explicit actions to address the HA-RT divergence that is the root cause of RTIEO uplift -- including changing the way they model the shut-down of resources, improving / altering load forecasts for both HA and RT, and identifying and fixing software variances related to ramp-up requirements. It appears from the sharp fall-off in both "balanced" convergence bidding volumes and the RTIEO charge that these measures have largely worked. Further, there are more measures in the pipeline, such as the flexible ramping product, that may help to address any remaining issues.

If despite these trends, the CAISO believes there is a CB-specific problem that needs to be addressed, then there are many remedies at hand here. In particular, we believe that the CAISO's original proposal of charging / crediting participants for any gains / losses incurred due to balanced HA/RT positions is the cleanest solution. While certain participants have raised concerns that this rule aims to divine "intent" and may discriminate against them, DC Energy views it as an appropriately formulaic and generic rule -- much in the same vein as the

CRR claw-back rule is designed (i.e., with a focus on CAISO-market-specific interactions). We believe that this rule also entirely addresses all of the IOU and CPUC concerns, which are centered on the potential for convergence bidders to create uplift through balanced HA/RT trades.

Other solutions that have been proposed would be less preferable to DC Energy, but still vastly preferable to elimination. For example, while settling tie bids in RT does have the disadvantage of not allowing convergence bids to hedge DA CRR or supply positions cleanly, it does allow for participants to provide for some degree of convergence between the DA and spot markets, and provides at least a dirty hedge. Any concern regarding the potential for physical participants to create uplift via HA-RT differential settlements (e.g., by submitting offsetting physical and virtual bids) could be addressed through a HA-RT charge/credit reversal rule as mentioned above.

Powerex's proposed solution of liquidating internal convergence bids *after* HASP also seems viable. The one concern raised has been a reliability one stemming from the potential inability to replace liquidated convergence bids between HA and RT -- though there are two factors counter-acting such a concern: (1) Any financial participant creating a potential reliability issue by withdrawing supply would pay dearly in RT (as it would have to buy back the power at an extremely high RT price) -- which would act as a strong deterrent. (2) The RUC process is designed to ensure reliability via physically available capacity, irrespective of financial participation, and so would act to address any potential issues ahead of time.

One final proposal raised by the ISO has been the possibility of assigning convergence bidders a portion of the imbalance offset costs. While we would encourage more discussion regarding what that fair share of costs may be, the idea seems like it could be a reasonable alternative for preserving the "status quo" of allowing convergence bids to settle in HA at the ties – *if* the ISO decides against the HA-RT charge/credit reversal rule and against Powerex's proposal.

Intertie pricing issue:

DC Energy believes the status quo (where the dual constraint rules cause slight clearing discrepancies) is not a significant enough issue to merit consideration of convergence bidding elimination. The magnitude of the issue has been de minimis (< $250k per month), and there are a number of alternatives for resolving it if the ISO deems it must be resolved. These solutions include (in order of DCE preference from most preferred to least preferred):

(1) Make the DA market purely financial (i.e., remove the physical-only constraint

from the DA solution and curtail afterwards in RUC as needed). ISO-NE pursues this exact same solution, and has not incurred any reliability issues as a result. WECC requires CAISO to maintain schedules within limits, but it does not appear to require that a financial market outcome must respect these limits -- just that any actual physical schedules must.

(2) Handle any out-of-merit clearing issues through a BCR (bid cost recovery) mechanism. Cost recovery via allocation to importers, exporters, and/or tie convergence bidders is something that could be explored.

(3) Implement CAISO-proposed "Option B" (whereby the same pricing is utilized for both physical and virtual bids). The main concern raised for this option has been a market gaming concern. We believe the issue raised is unlikely to occur – but in any event could easily be addressed via a claw-back rule.

(4) Implement CAISO-proposed "Option A". While DC Energy views this as inferior to "option B" -- both philosophically because it results in separate virtual and physical prices, and practically because it makes hedging dirty -- it is certainly a better solution than removing convergence bids from the ties altogether.

To reiterate, DC Energy believes that convergence bidding brings significant benefits to the market, and believes CAISO has many options at its disposal for remedying the imbalance energy offset and intertie pricing issues if in fact CAISO determines that they need remedying. There is no need to resort to the drastic act of "throwing the baby out with the bath water" by eliminating CB at the ties.