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Gila River Power continues to appreciate the opportunity to make comments regarding the real-time imbalance energy offset. Gila continues to oppose a new settlement rule associated with convergence bids whether it is through an emergency filing or at the next board meeting. We continue to favor the implementation of a full hour-ahead market where all resources, including load, may participate. Our most preferred intermediate option that was listed in the straw-proposal for mitigating the charge is Powerex's suggestion that would preserve the HASP settlement process. If the CISO does not elect this approach and instead elects to discontinue settling any resources at HASP then we prefer the 'pay as bid or better' approach. We are opposed to the 'pay as bid' approach. We are opposed to expanding the allocation of the charge to different types of resources. We are, however, in favor of the proposal that would keep the imbalance account rolling through a month or a quarter instead of making it whole with hourly granularity.

Gila continues to advocate for the implementation of a full hour-ahead market. The ISO is independently evaluating the implementation of this market design change as part of its renewable integration initiative. It seems as though, for the purposes of this stakeholder process, it is being deferred back to the renewables initiative. Instead of evaluating the strengths of implementing a full hour-ahead market in separate isolated initiatives it should be evaluated with a more holistic approach. We continue to believe that a full hour-ahead market is the most efficient market structure that would address all of the issues that have been raised in this process.

As a short or medium term solution we favor Powerex's restructuring of virtual supply/demand clearing. Our understanding is that in the status quo the HASP liquidates all virtual positions whether they are internal or intertie. Under the new structure, when the HASP runs it would continue to recognize virtuals as either supply or demand if they were at internal positions. Those positions wouldn't actually be liquidated until the RTD runs. We believe that the ideal overall solution would be for this step to transition into a full hour-ahead market. It would be an awkward transition if the ISO discontinued settling all resources at HASP for some period of time only to implement the HASP (or hour-ahead market) at some future date for settlement purposes.

If the ISO should decide to eliminate settling anyone at HASP we favor the 'pay as bid or better' approach instead of the 'pay as bid' approach. The problem with 'pay as bid' is

that it eliminates the incentive for intertie resources to bid import and exports at their actual incremental cost. Instead participants will only choose to offer in prices well in excess of their cost or bids well below their cost. Social cited 5 DMM reports that come to the conclusion that the ISO will not see a decrease in volume available at the ties as a result of a shift to 'pay as bid'. There are two problems with this in the current framework of MRTU. Before MRTU, when the ISO went to 'pay as bid' there was still the ability for market participants to schedule imports/exports in the 3 hour ahead scheduling timeframe without participating in the hour ahead 'inc' and 'dec' process. The conclusion that was made in those reports, that volume at the interties would not decrease, can not be applied to the MRTU market. In those reports two things can be seen. One, that most of the import volume at the ties is from scheduled imports rather than pre-dispatches; and two, whenever CISO bought pre-dispatch energy it always paid more than the RT price. It also received less than the RT price when it sold pre-dispatch energy. This outcome should be expected under a 'pay as bid' strategy. To the extent that there are gaming/manipulation opportunities under a 'pay as bid or better' strategy; they should be dealt with by DMM on a case by case basis. In addition a 'pay as bid' approach doesn't address how self-schedules would be handled at the interties. Since there is no longer a mechanism for importing or exporting power besides the HASP this will also eliminate self-scheduling.

We are opposed to expanding the allocation of the realtime imbalance energy offset to different types of resources. This will only create inefficiencies in the market without actually lowering costs. It would certainly lower the per MWh charge since it would be spread out more. The problem with this is that generators and importers would add that cost to their offer prices in order to offset the charge; it is unreasonable to assume that they would absorb it without changing their behavior. As a result prices would go up; load would continue to pay for the entire offset except it would appear smaller since much of the offset costs would be shifted to the energy prices. The ISO should consider excluding exporters from the charge. The ISO already charges exporters over \$6 for access to the high-voltage transmission lines, about \$2 between CC 4503 and 4505 for a total of \$8, before their allocation of RT-imbalance energy offset. Potential exporters take these costs into account when they're bidding and as a result when the ISO needs to sell pre-dispatch energy it will face mostly very low bids. The non-energy charge asymmetry between imports and exports is especially pronounced with the low energy prices that have been prevailing. These non-energy export charges artificially hold HASP prices down which contributes to the offset charge.

Notwithstanding who the charge is ultimately allocated to we believe that it should roll over time instead of being kept whole with hourly granularity. We agree with the idea that was mentioned on the call where the \$/MWh cost would be set for a term (monthly or quarterly) and adjusted as the shortfall got bigger or smaller. In the status quo it can be the case that exports are made uneconomic if they exported during an hour with a low HASP price that ultimately had a high RT price. The exporter, with hindsight, would simply have chosen not to export if the cost was known so it can't be asserted that the exporter contributed to the cost although they are stuck paying it anyway. If the charges were spread out over time then spikes in the charge could be smoothed out and exporters

could bid higher which would help drive HASP prices up. Although spreading out the charges over time doesn't help load directly since they always pay, it would provide greater incentive to export which would raise HASP prices.