

Intertie Pricing – Designing an Efficient Market

WPTF Presentation to MSC

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Managing HA to RT Price Changes: Make-whole payments

- Presumption: A make-whole mechanism is productive given distortions such as those expected between the HASP and RT
 - Evidence 1: NY ISO markets have used make-whole payments for intertie inc's (imports) for some time
 - Evidence 2: CAISO has used make whole for internal incs and decs for some time

(Note: WPTF believes make-whole payments would not be needed if the HASP and RT markets operated consistently and without distortions.)

Make-Whole Benefits

- Benefits from make-whole generally
- Benefits from make-whole in presence of convergence bids

Managing HA to RT Price Changes: Make-whole payments

- ISO implies that most of the time the ISO is importing and that make-whole payments to exports are only important during overgen
- In fact the ISO exports nearly all the time
 - Over recent 503 days, ISO exported all but 2 of the days
- The CAISO also often decs in HASP import schedules established in the DA, and these appear as exports in the HASP

Managing HA to RT Price Changes: Make-whole payments

- Implication 1: since both incs and decs at the ties are important to the CAISO at different times make-whole payments to both are desirable
- Implication 2: similarly, not providing make-whole payments to decs (or exports) or only providing them to incs or decs at any one time may impede market

Managing HA to RT Price Changes: Make-whole payments

- Challenge: Need to avoid Amendment 66-type distortion from an SC's simultaneous collection of inc and dec make-whole payment
- Solution proposal: Activate make-whole payments for both incs and decs all the time; use a claw-back if an SC's schedules would result in collecting make-whole payments in both the import and export directions during one interval

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- Solution proposal - more:
 - Clawback: for any time interval (t), $\text{clawback}(t) = \text{export make-whole payment}(t)$,
if $\text{import make-whole payment} > 0$

Managing HA to RT Price Changes: Make-whole payments

- Additional consideration 1:
 - An hourly intertie make-whole provides consistent incentives across hours
 - Avoids situation where supplier, for example, would stop offering after a profitable hour
 - Hourly make-whole at ties creates disparity with 24-hour make-whole for generators
- Solution set:
 - Hourly make-whole for internal gens
 - 24-hour make-whole for interties with potentially distorted incentives across the hours
 - Disparity in treatment

Managing HA to RT Price Changes: Make-whole payments

- Additional consideration 2:
 - Load and exports currently pay for RT uplift
 - Should export make-whole be allocated differently?
 - Some reliability benefit when in overgen
 - Benefit to exporter?
 - Real benefit to those “selling” in HASP, yet ISO is the one often “buying” or “selling” in HASP through its biasing
 - ???
 - WPTF is open to different cost allocation but it’s not clear which party(ies) should pay

Make-whole payments with virtuals

- If make-whole payments are productive given current HASP/RT design, a market inefficiency is created when make-whole payments are removed without good cause
- Market design should take good care to burden of make-whole payments with virtuals exceed benefits of make-whole payments
- Rules should not remove make-whole simply because of accompanying virtual bids without a complete representation of potential risks and rewards of strategic bidding

Make-whole payments with virtuals

- CAISO presented some examples at work group whereby a party could gain with virtuals and HA schedules that resulted in make-whole payments
- A complete set of examples would show significant risks under alternate market outcomes
- Examples offered depend on significant price spreads that may not be supported by market evidence
- Bottom line: don't throw the make-whole baby out with the virtual bath water without more complete assessment of risks/benefits or some historical market operations

Make-whole Recap

- Presuming make-whole is productive with anticipated HASP/RT design:
 - Offer symmetrical make-whole to incs and decs to the greatest extent possible
 - Do not eliminate make-whole when SC provides virtual bids without much more analysis/consideration
 - Consider remedying inconsistent design with internal/external resources
 - Consider proper cost allocation