

NRG Energy, Inc. Comments on  
Real-Time Imbalance Energy Offset

<b>Submitted By</b>	<b>Company</b>	<b>Date</b>
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NRG Energy, Inc. (“NRG”) submits the following comments on the May 18, 2011 revised CAISO proposal regarding the redesign of the Real-Time Imbalance Energy Offset.

First, NRG supports the CAISO’s proposal to take additional time to develop a more comprehensive intermediate response rather than implementing a “clawback” rule for balanced intertie and internal virtual positions.

Second, NRG supports the proposal to charge the real-time price to market participants who fail to perform according to their Hour-Ahead Scheduling Process (“HASP”) awards. Such an approach would be consistent with charging the real-time price to market participants who fail to perform on their day-ahead schedules.

The HASP process exists, at least in part, because (1) traditional WECC scheduling practices warrant that inter-balancing authority transactions span a full hour and are pre-scheduled in advance of the operating hour, and (2) the CAISO did not want to take on the expense and complexity of a full hour-ahead market in its MRTU re-design. Consequently, the CAISO implemented the HASP. However, the HASP is a sub-optimal market solution because it restricts participation to a single sub-group of market participants, whose bids clear not against other market participants’ expectations of demand but against the CAISO’s demand forecast. This inevitably means that HASP prices do not reflect the full set of market participants’ expectations.

While the pressures for moving to part-hour intertie scheduling – such as FERC’s direction on 15-minute scheduling – will almost certainly continue to mount, it will be difficult to change long-standing WECC practice regarding full-hour interchange scheduling in the same time frame in which the CAISO’s market design could be changed. This means there will remain a need for hour-ahead scheduling to deal with intertie transactions.

The choice will be difficult, but the options seem clear: (1) Move to a full hour-ahead market, in which all market participants can fully participate, and simultaneously redesign convergence bidding to allow market participants to converge both day-ahead price to hour-ahead price and hour-ahead prices to real-time prices, or (2) eliminate HASP settlement for interties and settle intertie transactions against real-time prices. Option 1 has competitive benefits, but will come with increased cost and complexity. Option 2 has the downside of giving market awards to intertie supplies without knowing what the ultimate prices will be. Guaranteeing intertie bidders their bid prices will lead to uplifts, even if bid cost recovery continues to be performed on a 24-hour basis. The issue of what to pay intertie suppliers if such suppliers are locked into awards prior to real-time but settled using real-time prices should be part of the necessary larger conversation about bid cost recovery.

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While NRG does not agree with all of Powerex's proposed actions, Powerex should be commended for its thoughtful comments on this issue. Powerex has proposed that the CAISO treat internal convergence bids as self-schedules in the HASP instead of ignoring them in the HASP run. Convergence bids effectively convey market participants' expectation of real-time conditions into the day-ahead market; a market participant that believes DA prices will clear below RT prices will bid virtual demand, while a market participant that believes DA prices will clear above RT prices will bid virtual supply. Powerex's suggestion to carry convergence bids as self-schedules in the HASP effectively carries market participants' collective perception regarding real-time outcomes at the time of the day-ahead market into the HASP process. The downside is that those expectations may have changed between the time the day-ahead market is run and the time the HASP process is run, and while one set of market participants – inertia bidders - can reflect their updated expectations in their HASP bids, day-ahead convergence bidders will be locked into their expectations if convergence bids are carried into HASP. Powerex's suggestion to hold the convergence bids through the HASP would seem to improve convergence as long as real-time results did not vary from day-ahead expectations. Fundamentally, if conditions and expectations change substantially as real-time approaches, it's not clear what mechanisms could or will cause market prices to converge.

Assuming that inerties will remain scheduled in advance of the delivery hour for a full hour for the foreseeable future, NRG would primarily support implementation of a full hour-ahead market in which all market participants could participate on equal footing. Additionally, convergence bidding must be redesigned to allow DA-HA and HA-RT trading, and perhaps even DA-HA, HA-RT and DA-RT trading. Alternatively, inertia awards should be settled against real-time prices, and bid cost recovery for inerties should be considered in a comprehensive stakeholder process regarding bid cost recovery.

**Suspending convergence bidding at the inerties.** NRG does not support suspending convergence bidding at the inerties. While doing so would address the issue of market participants using balanced inertia-internal convergence bids to arbitrage HASP prices, it would not affect any real-time imbalance energy offset due to differences between HASP and RT prices not due to market participant behavior, though such differences have been reduced in recent weeks.

**Cost allocation.** NRG is amenable to a discussion about modifying the allocation of offset charges. However, as noted in the CAISO's revised proposal, prior discussions about modifying the offset allocation were unable to develop a solution because of the difficulty of discerning cost causation. Philosophically, it makes sense to allocate offset costs attributable to certain actions (e.g., failure to deliver on HASP awards) to those responsible market participants; however, the CAISO must also leave in place an equitable way to allocate offsets due to differences between HASP and RT caused by CAISO forecasting differences or for other non-behavior-related reasons.