

Western Power Trading Forum Comments on Intertie Pricing Issues

June 27, 2011

WPTF appreciates the opportunity to again submit comments on the intertie issues most recently addressed in the CAISO's June 10, 2011 paper. WPTF understands that there is an interest on the part of load serving entities to reduce the real-time imbalance energy offset charge (RTIEO) and that there are pricing and dispatch inconsistencies currently occurring due to the way in which the CAISO has implemented the dual constraint on the interties. Below we provide several points in response to these issues and the CAISO's position papers.

1. Both issues are driven by fundamental market design choices and not caused by virtual bidding.
 - o The RTIEO is created because of the CAISO HASP design. WPTF has historically and continues to oppose the HASP design. The CAISO must move to a full hour-ahead market where all resources can participate and be priced, or move to full real-time settlements for interties and eliminate HASP, in order to resolve the RTIEO issue. The CAISO should make resolution of this flaw a top priority.
 - o The CAISO is fundamentally conflicted by on one hand implementing essentially financial markets (e.g., the day-ahead market and virtually bidding) yet wanting to maintain control of the physical nature of those markets. This desire on the part of the CAISO drives the dual-constraint issue. Ideally the day-ahead market and the virtual bidding markets would be financial only. If the CAISO needs specific assurance of physical capacity or promised energy deliveries in the forward time frames then it must acknowledge this and find specific mechanisms to insure such. It has been the unspecific intervention of the CAISO via the dual constraint and through the manner in which the CAISO clears out the virtual bids – supposedly in order to ensure sufficient physical import deliveries in the forward timeframes – that is driving the intertie pricing discrepancy. Rather than creating ongoing disruptions to the clearing and pricing at the interties and the ways in which the virtual bids are cleared out which affects the RTIEO, the CAISO should be explicit about what specific reliability needs are and develop specific mechanisms aimed at ensuring those reliability needs at the ties are satisfied. Creating distinct and clear mechanisms to ensure sufficient reliable imports would be a significant enhancement to the market, and certainly without such distinct mechanisms – at a minimum – all parties must recognize that we will have ongoing challenges to integrate the market and forward reliability needs of the CAISO.
2. Convergence bidding is working as designed and it is not driving the outcomes the CAISO is trying to remedy. Convergence bidding is a simple, elegant and important mechanism to provide price convergence, hedging optionality, and market efficiency. Convergence bidding is working well, and but for the flaws identified in #1 above, there would be no issues associated with the implementation of convergence bidding.

3. Eliminating convergence bidding at the ties is entirely the wrong answer to the issues.
Eliminating convergence bidding does nothing to solve the root cause issues described in #1 above. The CAISO's June 10 paper identifies additional "fixes" even if the CAISO eliminates convergence bidding at the ties. This is because the root cause of the problem will persist and it will continue to have adverse outcomes until resolved. Removing convergence bidding would be throwing out a good market design element and leaving in a bad market design element (HASP). It makes no sense, is a useless expenditure of policy effort, and delays resolution of the fundamental HASP and physical/financial issues.
4. The CAISO has made significant advances toward reducing the RTIEO. Over the past several months the CAISO's operational efforts to manage the HASP procurement has significantly reduced the RTIEO, reduced well beyond any additional reductions that could be achieved by eliminating convergence bidding.
5. The CAISO and Stakeholders should continue to work to manage intertie issues until the root cause issues can be addressed. WPTF encourages further discussion of ways in which the adverse impacts of HASP and the physical vs. financial market issues can be mitigated. WPTF is not opposed to further consideration of RTIEO cost allocation proposals so long as consideration of reallocation is comprehensive. Similarly WPTF continues to urge the CAISO for further in-depth consideration of ways to manage the dual constraint issue including those that have already been identified such as Option B and the use of RUC to enforce the physical constraint. WPTF does not feel satisfied by the feedback that has been provided to stakeholders thus far on these options, and we ask for a lengthy discussion at the July 19th face-to-face meeting about these options.