Comments on the Real-Time Market Neutrality Settlement

- Technical Workshop -

Submitted by	Organization	Date Submitted
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SCE appreciates the opportunity to comment on the presentation for the technical workshop on real-time market neutrality settlement (RTMNS) on May 21, 2019. The proposed settlement correction was demonstrated within an Excel workbook [1] supplied by the CAISO on May 14, 2019 for discussion on May 21, 2019. SCE offers the following comments in relation to the demonstration of the proposal:

The Decisional Classification is incorrectly determined

SCE reiterates its opposition to the decisional classification for this initiative. The initiative is neither EIM-specific, nor does it originate from the EIM's interactions with the CAISO in the RT markets. This matter has arisen on account of the CAISO's failure to implement an appropriate settlement mechanism consistent with the regulatory principle of cost causation.

Though the discourse thus far within the stakeholder process focuses primarily on billing accuracy for transactions among EIM balancing authority areas, this initiative affects export transactions from the CAISO balancing authority area to EIM BAAs also and the California greenhouse gas compliance costs.

Specifically, the greenhouse gas compliance costs may be inaccurate for the California BAA since those costs within the real-time imbalance offset account are commingled with other imbalance costs in determining the neutrality value for each BAA, particularly for transactions between the California BAA and EIM BAAs that are not subject to greenhouse gas compliance obligations. In addition, the incorrect transfer adjustment factor is applied when a BAA has a negative net transfer unless pairwise processing of transactions between BAAs is deployed within the settlement process. This incorrect calculation occurs for the current settlement approach when a BAA engages in transactions with multiple BAAs and no separation of the transactions occurs with the likely result in cost shifts among BAAs during transaction settlement. Examples of the current settlement approach the CAISO uses were demonstrated within their Excel workbook (worksheet 1- EIM Transfer Adjustment) provided on May 14, 2019 and p.13 of the CAISO's presentation on May 1, 2019. Those examples reveal how the cost shift occurs in the derivation of the neutrality value for each BAA.

Further, during intervals when California is a net exporter of energy, use of the system marginal energy cost net of the marginal greenhouse gas compliance cost at the point of delivery (as the settlement price) for valuing those export transactions is likely only a proxy for the value of the energy supplied to other BAAs. A similar argument applies for import and export transactions among EIM BAAs. There are

[1] http://www.caiso.com/informed/Pages/StakeholderProcesses/Real-TimeMarketNeutralitySettlement.aspx
Proposed Settlement Changes- Real-Time Market Neutrality Settlement (Excel Worksheet, dated May 14, 2019)

interactions between congestion and greenhouse gas compliance costs at the margin particularly during intervals when exceptional events occur in the market. Therefore, use of the system marginal energy cost net of marginal greenhouse gas compliance costs in those situations can likely result in inaccurate valuations of the transactions.

Ultimately, load within the EIM BAAs and California BAA is responsible for the costs incurred in support of the transactions among BAAs.

As a result, the CAISO Board of Governors should be designated primary decision-making authority for resolving issues within this initiative.

Use of a Counterparty BAA's Imbalance Information in the Denominator of The Transfer Adjustment Factor Calculation is Incorrect for the Current Settlement Approach when the Counterparty BAA transacts with Multiple BAAs

During the technical workshop SCE inquired of the rationale for the current transfer adjustment and why it was necessary to use another BAA's information to calculate the allocation factor for the transfer adjustment. SCE remains dissatisfied with the response provided by the CAISO and wishes to draw attention to the following:

- All elements used in the calculation of the current transfer adjustment are not synonymous elements of a zero-sum game. That is, the elements do not offset each other. Only the pairwise net transfers between pairs of BAAs sum to zero for matched transactions.
- Specifically, there is no unique pair of BAAs whose uninstructed imbalance energy, instructed imbalance energy and difference between the BAA's load forecast and metered demand exactly offsets the values of those elements for the other BAA when calculating the transfer adjustment factor. Each BAA may transact with more than one BAA and in particular that BAA's unaccounted for energy is usually not a similar value as another BAA. Also, neither does the counterparty BAA's uninstructed imbalance energy value offset the BAA with which it is paired.
- Therefore use of a counterparty BAA's net transfer and the absolute values of other imbalance elements in the denominator of the transfer adjustment allocation factor or ratio can produce incorrect results when a BAA transacts with multiple BAAs. This settlement processing strategy only works when transactions can be paired between BAAs such that the sum of the absolute values is similar.
- Use of another BAA's information to calculate the transfer adjustment factor only works with pairwise treatment of transactions within the settlement process such that the sum of the absolute values in the denominator for each BAA is equivalent. Otherwise, a subsidy results and hence the clawback claimed by Powerex within its submission dated May 13, 2019.

The CAISO's current proposal amends the incorrect calculation of the transfer adjustment and neutrality values for BAAs

SCE supports the CAISO's proposed approach to the determination of the neutrality value for each BAA. The proposal uses the natural logical summation of the accounting values within the imbalance offset account for the individual BAA to determine the BAA's neutrality value while eliminating use of a transfer adjustment for settlement. The proposed solution avoids cost shifts among BAAs within the

billing process though cost shifts may occur within the price formation process when the marginal greenhouse gas compliance cost is netted from the system marginal energy cost.

Use of the system marginal energy cost net of the marginal greenhouse gas cost seems to be a proxy transfer value for export transactions between the CAISO BAA and EIM BAAs and, export and import transactions among EIM BAAs

When the interfaces between the CAISO BAA and neighboring EIM BAAs are constrained during exceptional events in the market, there is likely some reflection of greenhouse gas compliance costs within energy bids from EIM entities in addition to the separate greenhouse gas bid adder submitted with their energy schedules in the CAISO's real-time market. Although some scheduling coordinators may claim the costs reflect valid opportunity costs during those intervals, it is unlikely that the CAISO's market mitigation process is capable of teasing those costs out in calculating the default energy bids for resources made available for dispatch during such events.