

California Department of Water Resources State Water Project

California Department of Water Resources State Water Project Comments On Price Inconsistency Caused by Intertie Constraints

June 01, 2011

On May 18, 2011, CAISO published the Draft Final Proposal regarding Price Inconsistency Caused by Intertie Constraints. On May 25, 2011, CAISO hosted a related conference call to discuss this proposal. The California Department of Water Resources State Water Project (SWP) appreciates the opportunity to submit comments on the proposal to address the pricing inconsistency.

SWP is hesitant to support CAISO's proposed Option A- Different Settlement LMPs for Physical Awards & Virtual Awards. One of the purported benefits of Convergence Bidding was to allow market participants to hedge between the DAM and RTM prices, but Option A may detract from this. Additionally, Option A can create an opportunity to game the market with two separate LMPs at the same location, especially if the physical constraint is binding. SWP would prefer the CAISO complete a full impact assessment, as mentioned in Section 4.1 on Page 7 of the proposal, and discuss the results with market participants with an additional conference call prior to proceeding.