

# Real Time Congestion Hedging Product

NextEra Energy Resources

# **SPP does not provide a product that directly allows all MPs to hedge real-time congestion**

## **Product Summary**

- **ERCOT's point-to-point product is a useful precedent**
- **Market Participants (MPs) would bid in the Day Ahead Market**
  - Next day hourly offers
  - Pay Day-Ahead MCC + MLC (source & sink)
- **Receive Real Time MCC + MLC**
  - May result in payment or charge
- **No impact to/from MEC**
- **Product will allow MPs to bid in a price sensitive manner**

**All MPs can benefit from a real-time congestion hedging product**

# TCR product alone is insufficient without the ability to bring TCR position to Real-Time

## Issue Description

- Real-Time LMPs are more volatile than Day-Ahead
- Intermittent generation incentivizes conservative scheduling in Day-Ahead leaving LSEs and generators exposed to real-time congestion
- Can currently attempt to recreate with Virtual Transactions although that creates additional risks
  - Separate transactions at both nodes (source and sink)
    - Risk having an open position
  - Will be subject to Make Whole payments that are unknown
    - Results in inefficiencies when bidding
  - Leaves a risky open position

**Pairing a Real-Time Product with TCRs provides a complete hedging product for both Day-Ahead and Real-time congestion**

# All types of Market Participants can benefit from a Real-Time hedge product

## Benefits

- **LSEs, Generators, Financial Parties are exposed to real-time congestion**
  - Real-Time hedge products will allow LSEs that purchase energy from intermittent resources to hedge basis
  - ERCOT data suggests LSEs are significant purchasers of point-to-point real-time congestion hedging product
  - Recent trend of IPPs holding certain aspects of basis risk in new contracts (pricing risk in contract rate)
- **Extending TCR Auction calendar, combined with Real-Time hedge product, will provide even greater hedging benefits**

**ERCOT and other ISOs/RTOs have successfully implemented Real-Time hedge products**

# Benefits of Real-Time Hedge product should outweigh associated costs

## Additional Considerations

- **Product would be incorporated into Day Ahead Market model runs**
- **Improved market efficiencies should offset associated costs**
  - Data suggests real-time hedge product supports price convergence between Day-Ahead and Real-Time market
- **Product can provide significant returns to MPs**
- **Precedent and lessons learned from ERCOT and other ISO/RTOs when designing new product**
- **Clear that intermittent generating resources will continue to expand in SPP footprint**
  - Real-time product can help manage economic exposure

## Potential Impacts – SPP Assessment

- **Potential System Impacts:**
  - CMT, Congestion Hedging, DA, MCE, MDB, MMU Process, MCE, Settlements, RTBM
- **Potential MCE Performance Impact:**
  - Medium - High
- **Potential Complexity:**
  - Design: Medium
  - Implementation: Medium
- **Market Philosophy Impacts: Price Formation, Price Convergence, Market Efficiency, Market Transparency, Market Reliability**
  - Price Formation

## SPP Comments

- **Southern Power Company (SPC) is highly supportive of the implementation of a market-based congestion hedging product in the SPP marketplace. A Point – to – point (PTP) product would provide an additional, flexible opportunity for Market Participants to hedge their congestion exposure on a daily basis, filling in whatever gaps there may be from the monthly and annual TCR auctions. It is also much more efficient than the current process needed to replicate a PTP product in SPP, which requires pairing virtuals along a certain path and exposes the Market Participant to clearing only one side of the virtual path. One item to be mindful of if a PTP product is implemented is to avoid underfunding existing TCRs held by Market Participants earned through the traditional mechanisms.**

# Southern Power Company Comments

- SPP would be concerned with implementing a Real-Time Hedging Product. In the expected benefits section, SPP's Marketplace structure is already set up to deliver these benefits. The Hedge for real time exposure is participating and clearing in the Day-Ahead Market. All generators that participate and clear in the Day-Ahead receive protection from real time exposure up to the amount that was cleared. Virtuals and Generators can set price in the Day-Ahead Market today.
- In researching this product the similarities between this product and the UTC product at PJM were something that stood out to SPP. In 2018, PJM requested that FERC allow a reduction in the locations eligible for UTC bidding in its Market. The reasons for this are listed below and also in FERC docket ER18-88-000.
- *PJM reasoned that (1) UTCs create a divergence in either the source or sink location in 90 percent of occurrences, (2) UTCs cannot consistently and accurately drive commitment, dispatch, and pricing consistence between the day-ahead and real-time markets because UTCs have no real-time equivalent, and (3) UTCs' computational complexity can increase the day-ahead solution time.*
- Primary concerns with this product are:
- The parties that might use this product are IPPs without obligations to load and Financial Only.
- Increasing value extraction by non-physical entities has been a concern of stakeholders.
- This would increase the processing time of the Day-ahead market