Stakeholder Comments Template

Subject: Convergence Bidding

1. Would convergence bidding enhance your organization’s business needs. If so, how? What does your entity view as the primary benefits of convergence bidding to the CAISO’s energy markets?

Yes. Convergence bidding (CB) would enhance the operations of the Electric Service Providers (ESPs). Here are some of the benefits we see:

- Draws in more market participants, which adds to market liquidity.
- Allows us to protect ourselves from high real-time prices if our load varies.
- Eliminates the need for load scheduling requirements.
- Increases market efficiency.
- Increases price transparency.
- Drives convergence between DA and RT prices.
- Provides more efficient dispatch and load forecasting (because it eliminates the need for load scheduling requirements) -- consumers will benefit from increased products from ESPs (e.g., portfolio products) due to optimized participation in the market (i.e., no forced overscheduling)
- Reduces potential generator market power

2. What are your entity’s views on the level of granularity at which the CAISO should introduce convergence bidding (LAP-level virtual bidding or nodal-level virtual bidding)?

It is important to have convergence bidding at any point for which we might be subject to financial settlement. We also believe that the level of granularity should provide maximum flexibility and mirror the MRTU market structure.

We need convergence bidding at the LAP because loads are settled there, but we also may have transactions at the Gen Hubs or at import points. In addition, some CRRs will settle at the SubLAP, so granularity to at least this point would be helpful. When we transact with suppliers,
we may take delivery at gen nodes or be subject to the costs of congestion between gen nodes and the LAP (either rolled into their pricing or explicitly). So the ability of the market to do convergence bidding at those points is important, so long as we can still also have convergence bidding at the aggregated points (hubs, LAPs and SubLAPs). Lastly, no matter what the CAISO decides on the limitations on convergence bids at this time, the CAISO should implement one system flexible enough to avoid the need to implement any new software for convergence bidding going forward.

3. What are your entity’s views on position limits (limiting virtual bidding to a percentage of the MW volume at each node)?

Position limits should not be employed. However, the CAISO should allocate reasonable costs to virtual bids and establish reasonable credit policies that protect the market from the burdens of undisciplined participation. See below.

4. What are your entity’s views on allocating costs to virtual bids?

The CAISO should apply cost-causation when allocating costs to virtual bids. If the virtual bids increase costs to the market, then they should pay for those increased costs. If the virtual bids lower costs to the market, then they should receive a credit for those lower costs. The method for allocating these costs must be determined upfront and transparent to all market participants.

In addition, GMC costs for CB should be designed such that those submitting virtual bids pay an equitable transaction cost, which is known upfront for all market participants. For example, the CAISO may use a portion of its IT and other personnel to administer the market, so those costs should be discerned and charged to virtual bids in a reasonable upfront transaction cost. The CAISO should never back-charge “transaction costs” related to CB to market participants.

Further, credit limits should be established at a level sufficient to protect the market from default of an entity engaged in CB. The limit should not be punitive, but instead should protect from thinly capitalized arbitrageurs from gambling in the market by placing thousands of bids at a time (this type of behavior has been observed in eastern markets).

5. What are your entity’s views about the optimal number of LAPs in California?

We have no position at this time on the optimal number of LAPs for California and, in fact, support the current 3 LAPs. We understand that increasing the number of LAPs will be controversial and complex and will likely take a long time to resolve. The CAISO should implement a fully functional and well-designed convergence bidding process irrespective of the policy decisions on LAPs.