California Department of Water Resources State Water Project Comments to CAISO on the Straw Proposal for Convergence Bidding and Cost Allocation

February 15, 2008

The California Department of Water Resources State Water Project (SWP) appreciates the California Independent System Operator’s (CAISO) openness in accepting comments from stakeholders on its straw proposal for convergence bidding cost allocation. SWP respectfully submits the following comments to the CAISO on its document dated January 29, 2008 and titled “Straw Proposal for Convergence Bidding Cost Allocation”:

1. SWP understands that when running the Integrated Forward Market (IFM), the MRTU software performs two runs: Schedule Run and Price Run. During the Price Run, the Convergence Bids are used in setting Locational Marginal Prices (LMP) for the Day-Ahead Market (DAM). However, because the Schedule Run addresses physical feasibility including congestion management and energy balancing, the Convergence Bids should not be included in the Schedule Run. Otherwise, committing physical supply for Convergence Demand could over-commit resources and incur unnecessary cost to market participants; it also could create over-generation problems in the real-time.

Therefore, SWP proposes to not include Convergence Bids in the Schedule Run, and that CAISO uses only the Schedule Run to commit physical resources. In this way, CAISO will not over or under commit any resources in the IFM due to the introduction of the Convergence Bidding. At the same time, the Price Run that cleared the Convergence Bids will ensure that LMPs in the DAM are convergent with LMPs in real time.

2. Regarding the Residual Unit Commitment (RUC) process, CAISO should continue to consider only the physical demand and physical supply so that the current RUC mechanism will not need any modification as a result of the introduction of Convergence Bidding.

3. If the above unit commitment proposal can be adopted, there will be no unit commitment cost associated with Convergence Bids. Based on cost causation, Convergence Bids should not be charged any unit commitment cost such as Bid Cost Recovery. However, if CAISO incurs some administrative cost in managing the Convergence Bidding, CAISO can include such cost in the Grid Management Charges.