Stakeholder Comments Template

Subject: Convergence Bidding

As a follow-up to the discussion at the November 14 stakeholder meeting, the CAISO is requesting additional written comments on convergence bidding.

This template is offered as an easy guide for entities to submit comments; however, any participant should feel free to submit comments in any format. Submitted comments will remain posted and part of the record for this stakeholder process, unless participants expressly ask that their comments not be posted.

All documents related to this convergence bidding stakeholder process are posted at: http://www.caiso.com/1807/1807996f7020.html

Stakeholder comments should be submitted by close of business on Friday, November 30, 2007 to: convergencebidding@caiso.com.

The CPUC staff appreciates the opportunity to provide continual comments on CAISO’s design and implementation of convergence bidding. The latest round of comments is in response to the questions provided in this template based on the November 14 stakeholder meeting at the CAISO. CPUC staff understands that the CAISO intends to continue engaging stakeholders on virtual bidding discussion through August 2008 so CPUC staff will have further opportunity to file comments within this time frame.

1. Does your entity have suggestions or comments on the process by which the CAISO will resolve the nodal versus zonal granularity issue?

Within a year from the start of MRTU, CAISO is required by FERC to implement virtual or convergence bidding. At the start up of this market feature CAISO should introduce a simpler zonal structure before a more granular structure is introduced. This “phased in”
approach will allow the CAISO and market participants to measure the financial impact of the program on the CAISO market and make any needed adjustments before a more elaborate model is introduced.

CPUC staff recognizes that implementing zonal virtual bidding may not offer the maximum opportunities and benefits to market participants that can be realized by initially implementing nodal virtual bidding. However, the benefits of a zonal model at the start outweigh the risks of a nodal model (for detailed discussion please refer to DMM white paper of October 24, 2006) especially when nodal convergence bidding will be settled at the Locational Marginal Prices (LMPs) of 3000+ nodes. Any market distortion can have a significant impact on California ratepayers. Moreover, whether zonal or nodal bidding is implemented, virtual bidding will not add any new physical generation to the CAISO system that could alleviate California’s more pressing reliability problem.

2. What are your entity’s views on the proposed characteristics of virtual bids (that were reviewed at the November 14th meeting)?

- Virtual bids should be explicit. CAISO operation staff must be able to differentiate between physical and virtual resources for CAISO reliability purposes.

- In order to ensure a level playing field for all market participants, virtual bids in the Day Ahead market must, like physical bids, have a price and quantity.

- Only virtual energy bids should be allowed since virtual ancillary services bids cannot be deployed to respond to emergency conditions.

- In order to deter intertie gaming opportunities, there can be no virtual bids at the intertie.

- Because virtual bidders can exercise market power, CPUC staff cautions that the local market power mitigation rules for virtual bids should not be different from those governing physical bids.

- In order to discourage price volatility, virtual bids must be subject to same bid caps as physical bids.

3. What are your entity’s views on proposed changes to the Day Ahead market which are needed to facilitate convergence bidding?

Information Release: The CAISO proposes posting the aggregated clearing quantities of virtual bids by each location (not by Scheduling Coordinator) as part of the Integrated Forward Market results. CPUC staff suggests that to promote transparency the CAISO
should also publish information on the number of virtual bidders at any hour in a given location. This information will provide additional market transparency by revealing market liquidity.

4. What are your entity’s views on the proposed credit policy and processes for virtual bids?

CPUC staff supports several of the CAISO’s revised proposals on Credit Policy including: credit checking based on dollar value of virtual bids; dynamic (daily) update of credit information; rejecting virtual bids that fail credit checks; and basing the estimated virtual bid calculation on initial market clearing prices. CPUC staff believes a well thought out credit and collateral policy will result in a robust virtual bidding participation since such policy will protect all virtual demanders and suppliers.

5. What are your entity’s views on the CAISO’s proposal (explained at the November 14th meeting) for allocating costs for virtual transactions?

CPUC staff supports the CAISO proposal that Scheduling Coordinators (SC) with net virtual supply will pay Residual Unit Commitment (RUC) Tier 1 uplift costs and SCs with net virtual demand will pay Integrated Forward Market (IFM) Tier 1 Uplift costs. From the CAISO stakeholder discussion of November 14, 2007 CPUC staff understands that the RUC and IFM Tier 1 costs will be different based on whether the CAISO’s Day Ahead market will have virtual bids or not. It seems reasonable that with virtual bids the Day Ahead RUC and IFM costs will go up and virtual market participants should pay for the uplift costs, as all other SCs do with physical bids.

6. What are your entity’s views on the potential interaction of nodal convergence bidding and Inter-SC Trades?

CPUC staff will address issues related to nodal convergence bidding later in the stakeholder process, ideally after MRTU has been launched and a clearer picture of the market has emerged.