

California Public Utilities Commission

Phase 2 - Convergence Bidding Information Release Comments on Issue Paper December 31, 2009

Submitted By	Company or Entity	Date Submitted
Bishu Chatterjee 415 703 1247 Energy Division Chris Clay 415 703 1123 Legal Division	CPUC	January 11, 2010

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.

Phase 2 Stakeholder comments should be submitted to: Phase2CB@caiso.com

As a follow-up to the discussions of the January 7, 2010 stakeholder teleconference and CAISO's December 31, 2009 Straw Proposal¹ on Phase 2 Convergence or Virtual Bidding (VB) Data Release, the CPUC staff appreciates the opportunity to submit the following comments.

The CPUC staff values the effort taken by the CAISO staff in the Phase 2 VB Data Release initiative. The CAISO is implementing a financial electricity market with the start of the VB market scheduled for early 2011. The CPUC staff understands that California's wholesale electricity market may experience efficiency gains with the implementation of the VB market and the addition of market participants who do not need to have physical load or generation. Economic theory says that VB markets contribute to price convergence between day-ahead and real-time markets resulting in more efficient market outcomes. The CPUC staff understands that market transparency with the release of daily virtual bidding information will be necessary to create a more transparent, efficient, and competitive market.

¹ CAISO's December 31, 2009 Draft Straw Proposal on Phase 2 Convergence or Virtual Bidding <http://www.caiso.com/2495/2495d6d264d10.pdf>.

CPUC Staff supports Pacific Gas & Electric's (PG&E) Recommendations² on Daily Data Release

The CPUC staff supports PG&E's proposal of daily release of two cleared aggregated quantities of virtual supply and demand by node. This option will provide more information to market participants and ultimately may provide the greatest benefit to ratepayers. For example, if there is an excessive amount of virtual supply associated with Residual Unit Commitment dispatch at a particular node, PG&E's proposal of releasing both aggregate supply and demand data could help to reveal such an issue at a particular location most quickly. Absent some compelling evidence that the result will be decreased liquidity (or other market inefficiencies), PG&E's proposal has the potential to provide the greatest market efficiency gains.

At a Minimum CAISO should adopt the Market Surveillance Committee's (MSC) VB Data Release Recommendations³

As discussed above, the maximum data release under PG&E's proposal is preferable. However, at a minimum the CAISO should consider the MSC recommendations (at least one of two) particularly if it is shown that greater release of VB data will result in inefficient outcomes. The MSC recommends: "[D]ay-ahead release of all virtual bids and offers and sales with or without explicitly identifying the market participant . . . Any market participant that wanted to bid in a manner that degrades system reliability and market efficiency would face the risk of having to explain this behavior to the press and general public..." The MSC has also provided an alternative proposal: "If it is not possible to release virtual bid information in a timely manner, then immediate release at the close of the day-ahead market of the net virtual position (total virtual supply bids accept[ed] minus the total virtual demand bids accepted at each location of the ISO control area and intertie point" The CPUC staff believes that at a minimum the MSC recommendations will enhance market transparency and will deter market manipulation.

Conclusion

The CPUC staff fully supports the CAISO's effort to adopt a VB data release proposal. However, the two data release options the CAISO has presented in its December 31 straw proposal may bias in favor of a market participant who can enter both virtual and physical bids against market participants who may only enter virtual or physical bids. This is because both the Options 1 and 2 in the latest CAISO straw proposal suggest releasing both physical and virtual data to provide market

² Pacific Gas and Electric Comments on Convergence Bidding Information Release December 22, 2009, p.1, <http://www.caiso.com/248d/248dbca252bd0.pdf>.

³ The Market Surveillance Committee Opinion on Convergence Bidding, October 19, 2009, p. 8, <http://www.caiso.com/244f/244f94572c920.pdf>.

transparency. With the start of VB it will be essential to release the VB market data to protect ratepayers. Regardless of which of the proposals the CAISO adopts, data release at the nodal level will help to protect all market participants, providing greater transparency and improving competition. The CPUC staff also recommends that the CAISO remain open to implementing a broader data release requirement in the future if for some reason the CAISO's adopted data-release proposal in the current round proves inadequate. In any event, the CAISO's data release effort should not be rejected for fear of losing market liquidity. Daily release of VB data is a crucial part of creating a more transparent, efficient and competitive market.