Dynegy comments on CAISO 12/31/09 Straw Proposal for Convergence Bidding Data Release
January 11, 2010

Dynegy appreciates the opportunity to submit these comments. Dynegy also appreciates the stakeholder process the CAISO is undertaking to consider the issue.

Dynegy understands that some market participants have asked for the accelerated release of nodal convergence bidding data. Dynegy does not know whether the parties asking for such data support the CAISO's proposal to release both physical and financial data or still propose that only financial data be released on an accelerated and granular basis. Posting nodal convergence bidding information on an accelerated and granular basis will reveal commercially sensitive information, such as physical suppliers' use of convergence bidding to hedge their generation positions against real-time price risk. Dynegy remains puzzled as to why the CAISO believes it necessary or advantageous to post nodal cleared virtual bidding data shortly after the close of the Day-Ahead market when no other ISO that has implemented nodal convergence bidding has done so. As it develops its information release policy, the CAISO must consider the fact that other ISOs, all of which have considerable experience with virtual markets, have not found it necessary or advantageous to publish the accelerated nodal virtual bidding information requested by some market participants.

While Dynegy objects to the CAISO's proposal to post nodal information on a near-term basis, Dynegy supports what it perceives is the CAISO's underlying intent to release physical and financial information on a symmetrical basis. However, as noted below, Dynegy does not believe that the CAISO's proposal to post near-term nodal virtual and physical information amounts to "symmetry". Publishing virtual supply and virtual demand cleared quantities will provide insight as to how market participants collectively value the day-ahead market relative to the real-time market and vice versa. Publishing net cleared demand in the day-ahead market, however, does not provide the same kind of information regarding how physical market participants value the day-ahead market relative to the real-time market unless the CAISO also publishes its demand forecast (by node) and the amount of demand that is ultimately metered in real-time (by node) on the same accelerated time frame. Yet the CAISO has not proposed to publish that information. If the CAISO is going to release information on a symmetrical basis, it must achieve symmetry all on levels, including time, granularity, and relevance.

Dynegy strongly disagrees with the assertion that physical and financial bids are so completely different that they should be treated differently. In a market in which physical and virtual demand and supply bids will be cleared simultaneously, the amount of physical bids that clear will depend on the amount of virtual bids that clear, and vice versa. Consequently, the ultimate result of the CAISO's markets will be an interaction of virtual and physical bids. If the CAISO is to provide an accurate and meaningful picture of the overall functioning of its markets, it must publish symmetrical virtual and physical information. However, such near-term information should be published in aggregate, consistent with the practices of the ISOs currently operating virtual markets. Dynegy supports publishing aggregated information in the format proposed in Table 3 of the straw proposal.

The CAISO's white paper cites six reasons advanced by "the utilities" as to why near-term nodal convergence bidding data is needed or would be helpful:

(1) to formulate financial and physical positions in the market.

Response: The nodal information requested could be helpful in helping market participants develop physical and financial positions. Any and all information provided by the CAISO accomplishes this. However, such information should not be provided – especially on a near-term basis – if it is commercially sensitive.

(2) to accelerate the rate at which virtual bids bring convergence and overall market efficiency to the market.

Response: It is possible that providing additional near-term data might accelerate convergence. It is also possible that additional near-term data could be used to frustrate convergence (i.e., seek to retain or exacerbate price differences between the day-ahead and real-time markets).

(3) to provide market participants with a complete picture of the supply and demand position going into the operating day.

Response: market participants can get a picture of the overall supply and demand position without publishing nodal data. Moreover, simply publishing nodal net cleared virtual demand will not provide a "complete picture" of the supply and demand position. To do so, at a nodal level, the CAISO would have to publish the amount of physical demand that clears in the day-ahead market at each node. Moreover, the "supply and demand" picture is not truly complete – at least for informing real-time market decisions, if indeed that is the purpose of providing this nodal data - without also publishing the CAISO's demand forecast for each node. Finally, if the intent of this nodal data is to get an accurate "picture" of supply and demand positions, the CAISO should also post separately the amount of supply and demand that was metered at each node in real-time the previous day. This information would be needed to allow market participants to fully assess other market participants' participation in the day-ahead, real-time and virtual markets.

(4) to identify nodes with high levels of virtual activity that will encourage participation.

Response: If this is desired, the CAISO could instead publish a list of the ten – or twenty, or fifty – nodes with the highest virtual activity. However, it is unclear as to by what metric "activity" is to be measured? Is it to be the volume of virtual MWh bid, or the volume of virtual MWh cleared?

(5) to enable monitoring of the virtual markets and spot malicious bidding behavior or detect possible market flaws.

(6) to facilitate better validation of market results at individual nodes in a timely fashion (i.e., within the price correction window).

Response: The CAISO's Department of Market Monitoring and its internal market quality control processes already have access to all market data needed to monitor the markets and correct prices. It is not necessary to publish this information to facilitate either (5) or (6).

Dynegy still believes that releasing nodal virtual bidding information, as set forth in the CAISO's proposal to release the amount of virtual supply and virtual demand cleared at each node, will disclose commercially sensitive information, namely, physical suppliers' use of virtual bidding to hedge their units against real-time price risk. While releasing aggregate nodal information may not disclose individual market participants' bidding strategies *per se*, Dynegy believes that the level of participation at specific physical generator nodes must and will be inferred to be largely, or solely, the result of the bidding of the market participant owning generation at that node.

Dynegy supports publishing LAP-aggregated information in the market summary report format proposed in Table 3 of the straw proposal.

Dynegy urges the CAISO to reconsider its proposal to publish nodal near-term data. If the CAISO still determines that publishing nodal virtual supply and demand data on an accelerated basis is necessary, and does not compromise commercially sensitive information, the CAISO must revise its proposal to include relevant and symmetrical physical data, such as the CAISO's demand forecast by node and the amount of demand ultimately metered at each node in real-time.

Dynegy supports the CAISO's original proposal to post virtual and physical bid data on a 90-day lag.