As a follow-up to the discussion at the August 10 meeting of the Market Surveillance Committee (MSC), the CAISO is requesting additional written comments on convergence bidding, especially the level of granularity at which virtual bidding should be introduced within the CAISO markets.

A number of parties have already submitted comments on this granularity issue, and those comments will remain posted and part of the record for stakeholder process. This template is offered as a guide for any additional comments that participants may have based on the MSC discussion. Documents related to this meeting are posted at: [http://www.caiso.com/1807/1807996f7020.html](http://www.caiso.com/1807/1807996f7020.html).

Comments should be submitted in any format by close of business on Friday, August 24, 2007 to: convergencebidding@caiso.com.

The CAISO offers the following questions as a guide for formulating stakeholder comments:

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?

The California Electricity Oversight Board (CEOB) staff views convergence bidding as potentially offering liquidity and transparency to the IFM and real-time markets under MRTU. Further, CEOB staff agrees that convergence bidding should eliminate under-scheduling by load or implicit virtual bidding. To date CEOB staff is unaware of quantitative evidence that demonstrates a frequent occurrence of under-scheduling by load. However, to the extent that providing clear market signals
through proper market design is an important part of MRTU, staff recommends inclusion of convergence bidding to provide assurance that the CAISO’s day ahead IFM will reflect day ahead load expectations and commensurate wholesale electricity prices.

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)?

CEOB staff supports LAP-level virtual bidding since the benefits inherent in nodal-level bidding (i.e. leveraged local market power in energy markets) do not seem to outweigh the potential risks at this time. It is conceivable that many elements of MRTU will need fine tuning after the “go live” date of April 1, 2008. Including additional complexity or risk from attempting to establish nodal-level convergence bidding seems inappropriate at this time.

CEOB staff recognizes the MSC concern that convergence bidding once established at the LAP-level may provide little impetus to transition to nodal-level bidding in the future. However, the CEOB staff submits that it may be reasonable to discuss nodal-level virtual bidding once there is a historical reference of LAP-level bidding with which to compare the two.

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

CEOB staff recommends a position limit of 10 percent of the MW volume at each node/LAP. A main justification for implementing convergence bidding is to prevent underscheduling by load. The CEOB staff recommends that this market mechanism be limited to a realistic assumption of the potential problem of underscheduled load.

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

CEOB considers the current allocation methodology proposed by the CAISO to be reasonable.

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

CEOB staff is currently evaluating this question and will provide an opinion at the upcoming stakeholder meeting on September 12th.