The CAISO’s Stakeholder Comments Template for Cost Allocation to Convergence Bids asked the following question:

Is a flat fee a workable alternative for cost allocation to convergence bids as an initial starting point until the CAISO has market data available to analyze the impact convergence bids have on uplift costs?

**Comments on the Flat Fee Concept as a Workable Alternative**

EPIC Merchant Energy appreciates the opportunity to provide comments on the concept of an uplift flat fee for convergence bidding. EPIC refers the reader to its comments on ‘The CAISO Straw Proposal for Convergence Bidding Cost Allocation,’ which addresses the cost causation analysis that must be performed before market participants, physical or virtual, are charged a rate, a fee or assessed any uplift allocation. Once the cost causation analysis is complete CAISO would be in a position to allocate costs in a fair and reasonable manner. Without the cost causation analysis, the substitution of an arbitrarily arrived flat fee, may or may not, be a fair allocation of uplift costs.

EPIC proposed a flat fee for Operating Reserve charges (OR) to the PJM’s Market Implementation Committee in March of 2007. PJM had been involved in a prolonged process to determine the allocation of uplift costs to virtuals and to other market participants. To move the discussion forward, EPIC proposed a flat fee as part of the total package of changes that PJM’s MIC was contemplating.

The benefits of a flat fee as presented by EPIC to the MIC were:

- The calculation for determining OR charges assigned to virtuals becomes simple multiplication.
- Allows virtual traders certainty of OR charges when determining bids and offers.
- Virtuals would no longer pay for inefficient operation or other actions outside of the virtual market’s control.
- Provides incentives for efficient operation, as other market participants would be even more responsible for their actions, which should ensure the adoption of procedures for optimal operations.
- Utilizes the KISS principle, allowing everyone to understand the charges and how it affects virtuals and other markets.
- Knowing what charges apply to virtuals could allow for more virtual bids, bringing further convergence of PJM prices and provide PJM with the other benefits of a robust virtual market.

*Note that many of these may not apply to the CAISO market.*
Remember that PJM was already charging virtuals Operating Reserve charges. From the start, the allocation of OR to virtuals had been a point of contention and extensive debate with PJM’s stakeholders.

To help determine an equitable flat fee, EPIC provided the following historical analysis:

- The monthly average day-ahead OR charges $0.186 per MWh
- The monthly average real-time OR charges $1.344 per MWh
- Proposed flat fee for cleared virtuals $0.50 MWh

Note that these figures were derived after many long and detailed discussions and would only apply to PJM. Also, the figures have a number of asterisks next to them. For instance, the proposed flat fee also reflects the benefits that virtual bidding provides to markets. I simply include these figures in this reply for reference.

The Market Implementation Committee voted down the flat fee concept. The flat fee concept was not necessarily rejected because of the proposed fee’s dollar amount but because many stakeholders did not agree with the concept in general.

**Conclusion**

EPIC does not support the flat fee concept for convergence bidding in the CAISO. The flat fee is not a viable alternative for determining what costs the virtuals may cause and what costs virtuals would be allocated. CAISO must provide a cost causation analysis and from that analysis allocate costs accordingly.

EPIC Merchant Energy
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