EPIC Merchant Energy Comments on Key Elements for Convergence Bidding

EPIC Merchant Energy offers the following comments on the CAISO’s May 31, 2007 Key Elements for the Conceptual Proposal for Convergence Bidding in the MRTU Markets.

Convergence Bidding Timeline

In its September 21st 2006 MRTU Order, FERC directed the CAISO to implement convergence bidding within twelve months after MRTU startup. Prior to the September 2006 Order, FERC ordered CAISO to implement convergence bidding numerous times—all of which were ignored. Those orders point to convergence bidding as the solution to the MRTU’s mitigation problem. It can be assumed from FERC’s discussion in those orders that FERC viewed convergence bidding at a nodal level, as nodal bidding would bring the benefits of convergence bidding (mitigation, convergence of day ahead and real time prices) to the MRTU market.

EPIC is concerned that the CAISO’s interpretation of the September 2006 Order is to implement convergence bidding sometime within the twelve months after MRTU startup, instead of implementing convergence bidding as soon as possible, and to implement a watered-down form of convergence bidding (LAP bidding) that will not realize the proven benefits of convergence bidding. The MRTU will not be adequately mitigated until convergence bidding, at a nodal level, is realized. The CAISO should dedicate more time and resources to quickly implement convergence bidding at a nodal level.

Interim Measures

The long and unproductive discussions at the CAISO’s June 6, 2007 joint MSC/Stakeholder meeting reinforced the fact that none of the proposed market mitigation interim measures has received wide support from the stakeholders. This was expected, as the proposed measures are far from ideal, and none of them will provide the desired market mitigation. The interim measures should be viewed as a way to collect and analyze data to determine if the MRTU has been manipulated but it should not be viewed a providing a mechanism for mitigating the market.

Convergence bidding has existed for over seven years in some Eastern markets. PJM implemented convergence bidding on June 1, 2000. All those convergence bidding markets are thriving and expanding. Some Eastern markets did not implement convergence bidding at the start of their market because, at the time, it was a new concept. NYISO, ISONE, and MISO have all implemented convergence bidding. It is important to note that MISO implemented convergence bidding at the very beginning of their nodal market. ERCOT plans to implement convergence bidding at the start of their nodal market. The CAISO market should learn from other markets and implement convergence bidding as soon as possible and stop wasting time on interim measures that will not mitigate the market, take time and effort away from convergence bidding, and cannot provide convergence of day ahead and real time prices.
Spatial Granularity

At the June 6th 2007 MSC/Stakeholder meeting the Department of Market Monitoring stated that its only concern regarding a nodal implementation of convergence bidding was to ensure it has the ability to rerun the day ahead market while excluding convergence bids. At the same meeting, the MSC clearly stated that regardless of what is decided on the interim measures, the CAISO systems will have full nodal capabilities at the start of MRTU. In addition, all virtual bids will be flagged and identifiable by the DMM. EPIC agrees that the ability to rerun the market is an important feature; however, rerunning the market should not be used as an argument to delay a nodal implementation of convergence bidding, as the ability to rerun the market will exist at the start of the new MRTU release.

EPIC does not understand the California Public Utilities Commission’s et al desire to take a conservative approach and implement convergence bidding at the LAP level. EPIC argues the ‘real’ conservative approach that should be taken by the CPUC and DMM would be to ensure California is provided the highest possible level of market mitigation, which is convergence bidding at the nodal level. Virtual trading will not mitigate market power under an uneven configuration where generators place offers at the nodal level and convergence bidding is limited to a zonal level. In order to ensure an adequate level of market power mitigation, convergence bids must be allowed to compete with other bids at the nodal level. Going slow will expose the MRTU and CAISO end users to unnecessary risk.

The decision to not implement convergence bidding at the start of MRTU was a mistake, as evidenced at the June 6th 2007 MSC/Stakeholder meeting’s discussion on interim measures. Convergence bidding was designed to provide benefits to the market. If convergence bidding is restricted to the LAP or zonal level, convergence bidding will be unable to provide those benefits.

Implementing an Unmitigated Market

FERC and others have argued that convergence bidding is needed in the MRTU. Convergence bidding provides benefits that none of the proposed interim measures can match. While convergence bidding at a less than nodal level will bring some benefits, those benefits are far below those of nodal bidding. Who will take responsibility if the CAISO implements an unmitigated market and that market is manipulated; especially when the solution to the mitigation is so apparent. Convergence bidding is not a market manipulator, but the absence of convergence bidding, especially at a nodal level, would position the MRTU to be manipulated.

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