

PG&E Comments

Phase 2 - Convergence Bidding Information Release Comments on Issue Paper

Submitted by	Company	Date Submitted
Ian Quirk (415) 973-9798	PG&E	December 22, 2009
Derick Stowe (415) 973-5662		

1. What information should the ISO post on convergence bids and why?

PG&E supports the reporting of aggregated cleared quantities of both virtual supply and virtual demand at each node. This recommendation is a slightly expanded version of the MSC's suggested release of the net virtual position at each location:

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[s] minus the total virtual demand bids accepted¹) at each location in the ISO control area and intertie point would help market participants become more informed participants in this financial market.²

We are requesting the two aggregated cleared volumes instead of the single netted cleared quantity to provide greater transparency into the virtual market. No price data would be revealed, and the aggregated nature of the data should protect the specific detail of the individual bids and bidders.

The MSC recommended this information be released at the close of the Day-Ahead (DA) market. PG&E instead recommends that the information be released after the completion of all markets for a particular trade date. Releasing this information after the Real-Time (RT) market would prevent physical bidders from taking advantage of this information in the formulation of their RT bids.

In general, PG&E agrees with the DMM's observation that releasing aggregated virtual bid data by node on a relatively frequent basis, "may provide a reasonable and effective way of increasing the potential efficiency benefits of convergence bidding and alleviating concerns about convergence bidding at a nodal level."³ One way the

¹ The MSC Opinion refers to "accepted" bids. PG&E interprets this to mean "cleared" bids.

² MSC Opinion on Convergence Bidding, October 19, 2009, p. 8, <http://www.caiso.com/244f/244f94572c920.pdf>

³ *Memo to the ISO Board of Governors*, Convergence Bidding, October 21, 2009, p. 8, <http://www.caiso.com/244f/244f99f1605d0.pdf>. The DMM noted the release of "aggregate virtual bid curves by node". PG&E is not recommending the release of bid curves but aggregated cleared quantities of both virtual supply and virtual demand.

efficiency benefits may arise is that the aggregated nodal data will identify nodes with high levels of virtual activity. Alerted to this activity, other virtual bidders may enter the market with virtual bids at the high interest nodes and spur additional convergence. The additional market efficiency may help to lower costs for California customers.

Moreover, release of such information would act as a “sunshine regulation” and allow all market participants to monitor the virtual markets and spot malicious bidding behavior or detect possible market flaws. Allowing all market participants timely access to this information would strengthen the overall monitoring of the market. This is especially important since virtual bids will not be subject Local Market Power Mitigation (LMPM) at the start of convergence bidding like physical bids.

Finally, releasing this information will allow market participants to better validate the market results at individual nodes in a timely fashion (i.e., within the price correction window). Without the aggregated nodal data it may be difficult for participants to determine if an unusual market price at a node is being influenced by virtual bids, an LDF issue or some other market modeling problem.

2. The MSC supports the “release at the close of the day-ahead market of the net virtual position (total virtual supply bids accepts minus the total virtual demand bids accepted) at each location,” also referred to in these questions as ‘net cleared quantities (NCQs).

a) Specifically, how will the release of this information benefit the market? How will market participants use this information and how will this information in addition to DA and RT historical prices at the node help bidders?

See our answer to item one.

b) Could this information be harmful to the market? Could it encourage poor bidding strategies? Might the posting of NCQs discourage some MPs from submitting bids or offers to the market resulting in a loss of liquidity?

Releasing this information will not have a negative effect on the market. Virtual bidding strategies will be formulated and executed based on the fundamental price differences between the DA and RT prices. Releasing cleared aggregated quantities after the markets close in no way changes the underlying economic incentives to participating in the virtual market for that trade day.

Some stakeholders have raised the argument that too much information release could drive legitimate participants away from the CAISO Markets resulting in a less liquid market. We find this logic questionable and refuted by other financial markets. Stock and commodity exchanges with robust real-time volume and price transparency do not seem to suffer a lack of liquidity. We are confident that if there is money to be made in convergence bidding, a market will develop to capitalize regardless of the aggregated information released.

In fact, providing this information may attract additional virtual market participants through increased transparency. Participants may be more inclined to participate in a market with more timely market data and information that helps participants identify nodes of high interest. This could lead to a more liquid and efficient market and facilitate a higher level of market convergence at a lower cost to California customers.

3. Should the California ISO adopt the MISO approach? Explain. Of the other approaches described in Section 4 of the issue paper, what are advantages and disadvantages of each ISO's approach?

PG&E is not supportive of only releasing the virtual trading activity summaries provided by the other ISOs, but would not be opposed to having such summary information released in addition to the aggregated nodal data requested above. If the CAISO were to report activity summaries, we request that the in-state transactions be separated from virtual bids over the interties. We request this separation because the two markets are settled on different prices (i.e., internal nodes on RT and interties on the HASP).

4. In the event stakeholders recommend an alternative summary of virtual trading activity, stakeholders should provide a sample table or illustration of their recommended approach.

PG&E's request is straight-forward and does not warrant the provision of a sample table.

5. Additional Comments?

PG&E would like to take this opportunity to remind the CAISO there are significant differences between physical and virtual bids, and the CAISO has recognized this fact throughout the development of the convergence bidding market design. The notion that the release of data for virtual bids needs to be comparable to that of physical bids is spurious. The CAISO has seen fit to treat virtual bids differently than physical bids in many ways because of market manipulation concerns (e.g., position limits, LMPM, CRR provisions, etc.). The treatment of the release of bid information is just another market element that may warrant different treatment given the unique nature of virtual bids and the impact they can have on the market.

One of the primary differences between the bid types is virtual bids do not have default energy bids and are not subject to LMPM. Because virtual bids are treated differently than physical bids in this regard, the daily release of the aggregated virtual bid data is warranted to provide additional transparency as explained above.

Another significant difference between physical and virtual bids is that there is only a single physical bidder at each generation node. In comparison there can be an unlimited number of virtual bidders at a node. The nodal virtual data that PG&E is requesting is aggregated for all bidders. As a result, individual virtual bids and

bidders are not revealed. This same aggregated treatment is not possible for physical bids since for all generation nodes there is only a single bidder.