Addendum to Draft Final Proposal for Design of Convergence Bidding

Margaret Miller
Senior Market Design and Policy Specialist

Convergence Bidding Stakeholder Meeting

October 9, 2009
Meeting Objectives

- Review proposal for open policy issues discussed at last stakeholder meeting

  - Addendum to Draft Final Proposal posted on October 2 at:
    http://www.caiso.com/1807/1807996f7020.html

  - Written comments are requested by close of business October 14 to:
    mmiller@caiso.com
Feedback from MSC and some market participants that proposal for lifting position limits was too aggressive

- Proposal was updated to add another year of position limits at 100%

- Revised schedule for internal nodes:
  - 10% limit in place for first 8 months
  - 50% limit months 9 through 12
  - 100% limit months 13 – 24
  - No limits after 24 months
Unique issues related to interties

- Need to distinguish accurately between physical and virtual bids
- Potential crowding out of physical imports by virtual imports
- Need to resolve discrepancies between HASP and RTD prices
Propose to start position limits on the ties smaller

- Proposal revised to start with 5% initial position limits
- Revised schedule for ties:
  - 5% limit in place for first 8 months
  - 25% limit months 9 through 12
  - 50% limit months 13 – 24
  - 100% months 25 – 36
  - No limits after 36 months
Position limits on the ties will be based on OTC

- OTC can change per hour and market participants submitting virtual bids will need to check values on OASIS regularly
- OTC is different in export versus import direction
- Bids over the position limits may be resubmitted up to the market close time of 10:00 a.m.
- Bids still over position limit will be rejected after market close
Alleviating Bid Volume Limitations

- In previous discussions, CAISO has discussed the need for a “bid volume” limit
  - The system-wide count of bids / Resource IDs that IFM can process is limited
  - A multi-stage process was proposed to allocate the available bid volume capability across SCs

- CAISO has identified a new approach that would eliminate the need for a bid-volume limit
Alleviating Bid Volume Limitations – Approach

- **Step 1** – At 10am, the CAISO will aggregate all supply and demand CBs at a location to create a composite CB supply and composite CB demand curve prior to MPM.
- **Step 2** – Run MPM/IFM with physical bids and the composite CB supply and demand curves; run RUC with physical bids only.
- **Step 3** – Following RUC, disaggregate the cleared CB quantities and map them to the submitted bids.
- **Step 4** – Around 1pm, publish Day-Ahead market results, including individual CB results.
Alleviating Bid Volume Limitations – Notes

- This approach guarantees no more than about 7,000 CBs can be submitted (~3,500 nodes * 2 CB types)
- A initial $0.005 per-segment fee will be imposed on submitted CBs
  - Economically limits submitted CBs to “reasonable” levels
  - Revenues from the fee will be credited against the GMC imposed on cleared CB gross MWh
  - Design limits incentives to submit significantly out of the money bid segments without imposing additional net cost on CB
  - CAISO will evaluate magnitude on an on-going basis
Previous proposal for LMPM included both virtual bids and physical bids in the Pre-IFM runs

- DMM and some stakeholders identified issues with this approach
  - Virtual supply could be used to undermine LMPM
  - Deep and liquid virtual market would resolve this problem
Revised proposal retains existing LMPM process

- Pre-IFM runs will be based on load forecast and physical supply only
  - Recommended by MSC
  - Input from DMM that this is a solid approach
  - Eliminates key issue that result from including virtual supply in Pre-IFM runs

- LMPM process will need to be further evaluated to meet FERC Order of using bid in demand in the Pre-IFM runs within three years of MRTU start-up
Next Steps

- Stakeholder comments due by close of business October 14
- Implementation working group conference calls scheduled bi-monthly September to December
- Board of Governors meeting October 29, 30