Template for Submission of Comments on Convergence Bidding and Bid Cost Recovery

The CAISO is requesting written comments to presentations and documents discussed at the October 16th Convergence Bidding stakeholder meeting. This template is offered as an optional guide for entities to submit comments; however participants are encouraged to submit comments in any form.

Comments requested in this template are requested by close of business Friday, October 31, 2008 to MMiller@caiso.com. Please feel free to contact Margaret Miller at mmiller@caiso.com or 916 608-7028 with any questions. Comments received on the Bid Cost Recovery section of the template will be considered in the further development of a Straw Proposal for cost allocation of virtual bids and the overall policy for Bid Cost Recovery.

Additional comments on the MAP Program may be submitted at anytime to MAPImplementation@caiso.com. Additional comments on the policy development for Convergence Bidding may be submitted at anytime to ConvergenceBidding@caiso.com.

All documents and presentations discussed at the meeting are posted on the CAISO Website at the following link:

http://www.caiso.com/1807/1807996f7020.html

Please provide responses to the following questions:

Section 1 – MAP Program Update
Presented by Janet Morris

1. Are you interested in Joint Application Development (JAD) sessions for test scenario development for element of MAP, like Convergence Bidding?
SCE believes that JAD sessions would be a useful mechanism for addressing and resolving the several of the MAP initiatives, especially virtual bidding.

2. If you are interested, what is your availability to participate?

Given appropriate notice, SCE can participate on any schedule that suits the CAISO.

3. What high level test scenarios would you propose for Convergence Bidding?

SCE would like the CAISO to test market participant’s ability to create and submit virtual bids and also retrieve virtual bid awards. SCE would also like the CAISO to create test scenarios for the market settlement changes associated with virtual bidding. In particular, if new charge codes are created for virtual bidding the CAISO will need to provide stakeholders with sample settlement statements so stakeholders can determine the impacts to internal systems. In addition, the CAISO should perform tests to try and estimate the impacts of virtual bidding on IFM, RUC, and Real-Time uplifts. At a minimum this would include a number of baseline tests without any Convergence Bids and then a comparison to the same market conditions with the addition of Convergence Bids.

4. Additional comments?

SCE remains concerned that the RUC, as currently designed, will have serious difficulties accommodating virtual bids. As we note, the ISO will typically have to replace virtual supply in the RUC prices. Not only could this have a significant impact on the total quantity of RUC, but after the CAISO “removes” the virtual supply from the day-ahead results, RUC may begin the process with an infeasible solution. RUC was not designed to make an infeasible commitment/dispatch feasible. Rather, it was designed to start out with a feasible IFM result and then add additional supply to this solution. The CAISO should start testing the interaction of Virtual Supply and RUC as soon as possible. Adding VB may require a complete redesign of RUC and that process could delay the implementation of VB if the issue is not investigated as soon as possible.

Section 2 – Resource IDs for Convergence Bidding
Presented by Byron Woertz

1. Of the options presented in the white paper, are there any that are completely unworkable for you?
SCE recommends the CAISO further investigate option 4 (Revised modeling approach) and option 5 (Additional master file fields for certified SC’s) and provide stakeholders with more detailed information on the system impacts. SCE would also like further explanation of the difference between Option 2 and 3. SCE encourages the CAISO to develop a solution that allows stakeholders the ability to utilize the full functionality of virtual bidding, does not adversely impact CAISO system stability and performance, and also minimizes impacts to stakeholders’ internal software systems.

2. Do you have a preference among the options presented?

SCE’s MRTU systems are resource-centric much like the CAISO and therefore SCE prefers solutions which also revolve around resources. The current options presented are placed in SCE preference from 1-5. SCE does not see how our system (nor the CAISO system) could manage option 5 without major changes. Option 4 is only slightly better since there is at least a resource – however the use of one resource for up to 600 different bids could get cumbersome quickly. SCE does not fully understand the difference between option 2 and 3 but feel that these options have the best chance of balancing both the needs of the CAISO system limitations and SCE system design. Option 1 is the best solution for SCE but we understand the limitations of the CAISO system and why this option may not work.

3. Other comments?

The CAISO has committed to solving the system resource limitation shortly after go-live. Depending on that solution, options 1-3 should become more attractive to the CAISO as they follow current convention.

Section 3 – Cost Allocation for IFM, RUC and RTM Bid Cost Recovery Uplift Charges

1. Do you have any comments generally about cost allocation for virtual bids, or specifically about the discussion on IFM and RUC uplift charges for virtual bids? (The presentations that were discussed by SCE and WPTF are posted at: http://www.caiso.com/1807/1807996f7020.html.)

SCE sees no justification for the netting of virtual supply and virtual demand when allocating RUC uplift costs as is the case in the current CAISO allocation proposal. Everyone participating in the day-ahead market causes uplift and therefore should share proportionally in the ISO’s uplift costs.

- Both physical and virtual demand should be charged IFM Tier 1 uplift.
• RUC caused by total demand (irrespective of whether it is physical, virtual or some combination of both) clearing below forecast should be charged to physical load.
• RUC caused by the replacement of virtual supply with physical supply should be charged to virtual supply bidders.

Absent a full re-optimization, price impacts and cost savings justifying the netting of virtual supply bids and virtual demand bids are assumption driven. What is not assumption driven, but is a fact acknowledged even by the CAISO, is that with the addition of virtual bidding the CAISO will RUC additional generation for two and only two reasons. The first is to schedule additional generation to meet the CAISO’s forecast demand, if the total demand clearing the IFM is below the CAISO’s forecast. The second is to replace virtual supply with physical generation. The CAISO should follow the principle of cost causation and not defer any individual participant’s financial obligations based on an unjustified assumption that there exist unmeasured system benefits.

2. Issue Paper on Two-Tier Real-Time Bid Cost Recovery Uplift
   (This paper considers separating the allocation of costs associated with the Real Time Market into two tiers, which could involve both virtual and “physical” bids. This paper is located at: http://www.caiso.com/205b/205bf1653cf60.pdf.)

A) Do you have a preference among the options reviewed in the issue paper?

Unless the CAISO follows the Mid West ISO approach for Real-Time uplift allocation – that is fully determining the locational impacts of incremental and decremental energy on such uplift - any proposal will be imperfect. Given the CAISO does not plan on implementing the MISO approach, at least not within the timeline proposed for the start of virtual bidding, the CAISO needs to develop an uplift allocation methodology that is reasonable based on the primary causes of Real-Time uplift costs. As such, SCE supports option 2 of the CAISO’s proposal which allocates Tier 1 Real-Time uplift costs to each SC who has net negative uninstructed deviation (including virtual supply) for a given hour.

SCE believes that the requirement for incremental energy is the primary cost driver for real-time uplift costs. Incremental energy requirements can drive the need to start-up and run generators at minimum load in real-time, which many times will result in Bid Cost Recovery costs. Decremental energy requirements are much less likely to result in the incurrence of Bid Cost Recovery costs in real-time, as there would not be any associated start-up or minimum load costs. SCE agrees with CAISO’s definition of net negative uninstructed deviations as (1) under-scheduled load in the Day-Ahead market, (2) generation which negatively deviates from Real-Time dispatch instructions, and (3) virtual suppliers. We do not support
netting Virtual Supply and Virtual Demand in that the Virtual Supply causes commitment actions and should be charged for it and that a “netting proposal” can be used strategically simply to avoid uplifts.

SCE does not support the CAISO’s option 1 in large part because of its underlying assumption that both incremental and decremental energy contribute equally to Real-Time uplift costs. As previously stated above it is much more likely that the need for incremental energy is the main driver for Real-Time bid cost recovery payments. Much of the Real-Time uplift costs are likely related to the costs of committing units, in the form of start-up and minimum load costs recovery. These costs are caused by the need for incremental energy, not decremental energy.

B) Do you have other thoughts on how costs should be allocated in Tier 1 for Real-Time uplift?

In the February 29th comments on virtual bidding, SCE offered an alternative proposal for allocation of Real-Time uplift costs to virtual bids. While we favor the CAISO’s proposed Option 2, if for some reason it becomes unworkable to create two tiers for uplift, the CAISO should consider the SCE proposal as a fall-back option.

C) Do you have a preference on what the denominator should be for the calculation of the Real-Time Tier 1 purchase rate?

- Absolute Value of Real-Time instructed incs and decs
- Instructed incs only

SCE’s preference is that the calculation of the Real-time Tier 1 purchase rate be based on the instructed incs only. This is aligned with the premise of Option 2 above which is that inc energy requirements drive Bid Cost Recovery costs.

- Net of instructed incs and decs

SCE opposes this option. It could be that there are very high uplift costs, but the net of incs and decs is very small. This could result in an extremely high and unreasonable rate for Tier 1 cost allocation. Netting should not be used.

4. Additional comments?

Not at this time.