

Phase 2 - Convergence Bidding Information Release Comments on Issue Paper

Submitted By	Company or Entity	Date Submitted
Michael Kramek (626)-302-7455	Southern California Edison	December 17, 2009

This template is offered as an easy guide for entities to submit comments; however, any participant should feel free to submit comments in any format. Submitted comments will remain posted and part of the record for this stakeholder process, unless participants expressly ask that their comments not be posted.

Phase 2 Stakeholder comments should be submitted to: Phase2CB@caiso.com

Phase 2 - Convergence Bidding Information Release

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

The Market Surveillance Committee (MSC) and the Department of Market Monitoring (DMM) have made specific recommendations on information release for virtual bidding. While the two independent market monitors make slightly different recommendations, they both support increased nodal transparency for virtual bids. Given such specific and fairly consistent recommendations, SCE is unclear why the CAISO is questioning the validity of both its market monitors requirements.

Both the MSC and DMM see virtual bid transparency as a reasonable and effective way of increasing market efficiency benefits and alleviating concerns about virtual bidding at a nodal level. In fact the MSC views information release as one of the three key success factors for virtual bidding increasing market efficiency and reliability. SCE agrees with the MSC and the DMM on the need for information release regarding nodal virtual bids.

The market needs information on financial transactions in order to formulate financial and physical reactions. Moreover, information release will accelerate the rate at which virtual bids bring convergence and overall market efficiency to the market. Finally, SCE agrees philosophically with the MSC that

additional transparency allows for "sunshine regulation" which both deters manipulation, and allows manipulation to be quickly discovered.

Thus the end result of information release is transparency that leads to more informed market participants, more appropriate market reaction and behavior based on facts - not conjecture, more rapid and appropriate response to changing market conditions, and finally greater market efficiency. In the context of virtual bidding, we expect it will bring about one of the stated goals of convergence bidding – that is convergence of day-ahead and real-time prices – more rapidly and more efficiently.

We note that virtual bids are purely financial transactions. We simply note the recent sub-prime and banking market crisis as an example of why transparency is so crucial to ensure financial markets function properly. Information release is the norm for all financial markets. Stock exchanges release detailed information on the quantity and price of every unique stock that trades, and even make available information on bids and offers that have not cleared the market. Commodity markets like NYMEX provide details on transaction prices and quantities, as well as open contract positions.

As an example of current CAISO financial product transparency, SCE points to the market for Congestion Revenue Rights (CRR's). The CAISO makes public the allocation and auction awards for each contract, including ownership rights. CAISO provides the market with auction clearing prices, which provide transparency into the purchase price and performance for each contract held by a CRR holder. The CAISO also provides frequent updates on revenue sufficiency between CRR payments made to CRR holder and CRR rents collected from the day-ahead energy market. As we see it, the CAISO already recognizes the benefit of information release for the financial products it administers. That being the case, information release of virtual bids should build off of this transparency, and incorporate as many of the CRR information release principles as practical.

To that end, SCE supports the minimum information release recommended by the MSC. That is, the release of the net cleared quantity of virtual bids by node, by hour coincident with the publishing of the IFM market results. CAISO should also consider, at a minimum, the recommendation made by DMM (aggregate virtual supply and demand curves by node) as part of the 90 day bid data release process.

2. The MSC supports the "release at the close of the day-ahead market of the net virtual position (total virtual supply bids accepted 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?

Consistent with the recommendations of both the MSC and DMM, the release of information regarding nodal virtual bids will increase market transparency, improve market liquidity, and provide a reasonable and effective way to dramatically improve market efficiency and overall market benefits. The CAISO's market is currently a pure physical market, but the introduction of virtual bids will co-mingle physical and financial bids. This information release will help the market "deconstruct" market results back to physical and financial impacts, to better understand the cause for resulting market prices. In addition, this information release will help diagnose fundamental market deficiencies and support market participants in formulating reactions to market indicators in a more efficient and effective manner.

Again, both the MSC and DMM agree such transparency will increase market efficiency. If the CAISO staff disagrees, SCE asks them to present their evidence to the DMM and MSC for consideration.

- 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?

SCE does not see how increasing transparency of financial products administered by the CAISO will harm the market. The CRR market is good example of how transparency can benefit markets, not harm them. The CRR market has experienced robust and diverse participation in year 1 of the market -participation ranging from small municipalities to large investment banks.

Again, both the MSC and DMM agree information release will increase efficiency. If the CAISO staff disagrees, SCE asks them to present their evidence to the DMM and MSC for consideration.

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?

SCE supports the minimum information release recommended by the MSC (the net virtual quantity that cleared at each node, by hour), and the recommendation of the DMM to release the aggregate virtual supply and demand bid curves by node. In addition, SCE recommends the CAISO incorporate information provided by both the MISO and NYISO into a single market report. Specifically, SCE would like to see a virtual bidding report that includes:

- Energy cleared (MWh) of virtual supply bids
- Energy offered (MWh) of virtual supply bids
- Energy cleared (MWh) of virtual demand bids

- Energy offered (MWh) of virtual demand bids
- Dollars cleared of virtual supply bids
- Dollars cleared of virtual demand bids

Rather than publishing the above data on a system-wide basis, the CAISO should consider publishing the information at the LAP level.

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.

Consistent with the recommendation made in question 3, SCE provides the following sample table for CAISO and stakeholder review:

Day-Ahead Virtual Bidding Report

Virtual Demand Offered (MWh)	XXX
Virtual Demand Cleared (MWh)	XXX
Virtual Demand Dollars Cleared	\$ XXX
Virtual Supply Offered (MWh)	XXX
Virtual Supply Cleared (MWh)	XXX
Virtual Supply Dollars Cleared	\$ XXX

5. Additional Comments?

SCE encourages the CAISO to reach out to the MSC and DMM and include any additional comments those entities may have on this issue in the straw proposal.