Comments of SESCO CALISO LLC

Draft 2015 Stakeholder Initiatives Catalog

Submitted By	Company	Date Submitted
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SESCO CALISO, LLC ("SESCO CALISO") is a power marketer that engages in the purchase and sale of energy, both physical and financial, in the Day-Ahead and Real-Time Markets, including the California Independent System Operator's (CAISO) convergence bidding market. SESCO CALISO offers the following comments in the stakeholder process for the CAISO Draft 2015 Stakeholder Initiatives Catalog (the "Draft 2015 Catalog").

7.1 Allowing Convergence Bidding at Congestion Revenue Right Sub-Load Aggregation Points

SESCO CALISO urges CAISO to implement Initiative 7.1, which would consider the addition of "congestion revenue right sub-LAPs to the available locations for convergence bidding." (Draft 2015 Catalog at page 30.) This Initiative 7.1, if implemented, would introduce needed granularity within the convergence bidding market, thereby improving market efficiency and price convergence. As recognized by the Draft 2015 Catalog, convergence bidding currently does not allow virtual bids at congestion revenue right sub-load aggregation points. The current policy allows for price differentials between Day-Ahead and Real-Time Markets to exist without convergence within a sub-LAP if there exists convergence between Day-Ahead and Real-Time Markets in the LAP in which the sub-LAP is located. In adding congestion revenue right sub-LAPs to the available locations for convergence bidding, such price differentials between Day-Ahead and Real-Time Markets in sub-LAPs would likely converge, thereby improving market efficiencies within the sub-LAP.

7.2 Implement Point-to-Point Convergence Bids

SESCO CALISO urges CAISO to remove Initiative 7.2, which would remove the "exemption of the VEA and SDG&E LAP . . . from the congestion revenue right revenue adjustment rule outlined in tariff section 11.2.4.6." (Draft 2015 Catalog at page 30.)

Tariff section 11.2.4.6 provides that CAISO will adjust the revenue from the congestion revenue rights of a congestion revenue rights holder that is also a convergence bidding entity (i.e., the "clawback rule") when either creates a significant impact on the value of the congestion revenue rights held by that entity. Tariff section 11.2.4.6 establishes a threshold of 10 percent of the flow limit for each constraint in determining whether congestion on a constraint was significantly impacted by the virtual awards to a scheduling coordinator representing a convergence bidding entity.

The Draft 2015 Catalog expressly states that LAPs and generation trading hubs are excluded from congestion revenue right revenue adjustments "because they [LAPs and

generation trading hubs] are considered too large for a market participant to profitably increase congestion revenue right payments from convergence bids." The Draft 2015 Catalog merely suggests examination of the removal of the VEA and SDG&E LAP from this exclusion "[d]ue to their smaller sizes . . . ." (Draft 2015 Catalog at page 30.)

SESCO CALISO is unaware of any sufficient rationale warranting the removal of the VEA and SDG&E LAP from the exclusion, and the relative size of these LAPs as compared to other LAPs is an insufficient rationale for differing treatment. Indeed excluding some—but not other—LAPs from the congestion revenue right revenue adjustment rule will likely only serve to increase market confusion of whether and when the exemption would apply. Absent a compelling rationale for the exclusion of certain LAPs from the exclusion, CAISO should continue to exclude LAPs and generation trading hubs from the congestion revenue right revenue adjustment rule.

7.3   Implement Point-to-Point Convergence Bids

SESCO CALISO urges CAISO to implement Initiative 7.3, which "would examine market rules to allow market participants to bid point-to-point – a source and a sink combined with specified price." (Draft 2015 Catalog at page 30.) As indicated in the Draft 2015 Catalog, other organized markets, such as PJM and ERCOT, have successfully implemented point-to-point convergence bids (sometimes referred to as "up-to-congestion bids"), and it is time that CAISO do the same.

Currently, CAISO market participants can submit either a virtual supply bid or a virtual demand bid but cannot submit a point-to-point convergence bid, which would involve a source and a sink combined with a specified price. The current practice of allowing only virtual supply and virtual demand bids may have the unintended effect of creating a divergence—rather than convergence—between day-ahead and real-time markets by requiring market participants intending to bid on a constraint to place a pair of virtual supply and virtual demand bids that may cause such divergence.

Point-to-point convergence bids, in contrast, would clear if the specified price is greater than the difference in locational marginal prices between source and sink in the day-ahead markets. Point-to-point convergence bids benefit the market by better aligning constraints, thereby improving convergence between prices in day-ahead and real-time markets for such constraints. Additionally, point-to-point convergence bids provide better risk management opportunities for market participants bidding on constraints than the current practice of pairing virtual supply and virtual demand bids because the source and sink clear together, thereby eliminating the possibility of asymmetric clearing of paired virtual supply and virtual demand bids.

7.4   Review of Convergence Bidding Uplift Allocation

SESCO CALISO urges CAISO to remove Initiative 7.4, which would "explore allocating the uplift to physical and virtual schedules in proportion to the quantity of out-of-market congestion payments received by physical and virtual schedules." (Draft 2015 Catalog at page 31.)

The Draft 2015 Catalog notes that Southern California Edison attempts to support Initiative 7.4 by referring to an order of the Federal Energy Regulatory Commission (the "Commission") that "'encourages CAISO to pursue its evaluation [of proper uplift allocation] vigorously and to propose solutions to the observed difficulties promptly when they become evident.'" (*Id*. (quoting *Cal. Indep. Sys. Operator Corp.*, 143 FERC ¶ 61,110 (2013).

SCE, however, quotes the Commission without context, thereby unfairly and improperly suggesting that the Commission recommended that CAISO address convergence bidding only in addressing factors that increase real-time congestion offset costs. In fact, the Commission identified several factors that could increase real-time congestion offset costs and recommended solely that CAISO evaluate and propose solutions to address *all* drivers of increased real-time congestion offset costs:

> [T]he revised $1,500/MWh transmission constraint relaxation parameter merely assists in ensuring that real-time congestion offset costs do not reach excessive levels, and does not resolve the root causes of congestion that drive up such costs, such as convergence bidding, unanticipated loop flow in real-time, or lack of outage coordination. CAISO has indicated that it is already evaluating means to address the other drivers of increased real-time congestion offset costs and that it will continue to do so.

143 FERC ¶ 61,110, at P 28. The Commission order simply does not suggest that convergence bidding is the cause of increases real-time congestion offset costs or that the allocation of uplift to physical and virtual schedules is desirable or even appropriate.

The causes of real-time congestion offset cost increases are complex and may depend on many factors and interactions among such factors. If CAISO wishes to identify and address the root causes of real-time congestion offset cost increases, it should do so as part of a comprehensive review of CAISO cost allocation methods to consider whether all cost allocation methods comport with the cost causation principle. CAISO should not attempt to address such complex questions through implementation of ad hoc and ill-advised proposals to address such questions that are not even fully understood.