WPTF offers the following comments in response to the options described in the ISO’s revised white paper.

**Spatial Granularity**

WPTF supports option 2.

One of the primary benefits of convergence bidding is to allow market participants the ability to hedge market transactions. This opportunity to hedge differences between Day-Ahead and Real-Time prices eliminates the need for a generator to stay out of the DA market in order to receive RT prices if they believed the RT prices would be higher. Instead with nodal convergence bidding that generator could leverage price risks with virtual bids (VBs). Without the ability to submit VBs at generating nodes, generators cannot hedge the prices they would be receiving at their nodes.

In other words, in order for a supplier to be able to hedge DA to RT congestion prices they need to be able to have virtual demand and virtual supply at every node. It would not make sense to say limit virtual load to load zones, because the purpose of a virtual load bid may be to hedge a supply bid. Marketers have similar interests in being able to hedge price differences between nodes in the DA. The ISO Appendix 1 bilateral example provides a perfect case of where this may be true. Limiting the spatial granularity for any party would be counter to the fundamental objectives of Convergence Bidding.

WPTF does not agree with SCE’s characterization that “limiting VB to the LAPs allows virtual load and physical load to participate on an even footing.” If VB is allowed at all nodes, LSEs can also hedge DA to RT price risk by bidding virtual demand at gen nodes – offering “even footing” in the case of nodal VB. Furthermore, SCE advocates for virtual negative load at the LAP. This would be equivalent to offering virtual supply at the LAP. While WPTF supports virtual load or supply bids at any pricing node, allowing Virtual supply (a.k.a. “negative demand) at the LAP and at the same time not allowing virtual demand bid at gen nodes would be entirely discriminatory against suppliers.

WPTF opposes the ISO recommendation for option 1a, as it significant limits the hedging ability that VBs should afford as described above and as, for example, stated in the ISO’s Appendix 1 examples. WPTF offers the following additional considerations toward this end based on the ISO’s rationale:

- LAP-level bidding simply avoids a significant level of functionality rather than cautiously pursuing that functionality (counter to the ISO rationale 1). It would be as though offering a car with one wheel was a cautious way to test market the new car.
- LAP-level VB does not limit the market power of generators as suggested by rational #2. Certainly if you offer a car with only one wheel the driver will not abuse the other three wheels. Limiting market power would be achieved by offering full functionality while applying robust gaming mitigation procedures.
The ISO has not articulated or demonstrated how an entity could benefit under the Seller’s Choice contracts. More importantly, the ISO itself indicates that most of the Seller’s Choice contracts will no longer be in effect at approximately the same time that Virtual Bidding is implemented (14 months after start up vs. convergence bidding implementation 12 months after start up). To the extent there is a demonstrated gaming opportunity the ISO simply need delay the implementation of full nodal VB for two additional months, but not the very lengthy delay that will likely be caused by waiting until Release 2.

WPTF reviewed the Market Monitoring white paper, and finds little support for the statement that “Option 1 cannot be implemented without complicated market monitoring measures”. Based on the ISO’s own Department of Market Monitoring review, the markets with nodal VB (PJM and NE) have very straightforward monitoring algorithms based on the nodal VBs, prices and CRR ownership; and in the case of PJM where VBs are tagged, the rule is applied automatically in the settlements system. There seems no indication that “complicated measures” would be required.

Lastly, WPTF request further information about the ISO’s statement that: “At the nodes common to the LAP and the hub, the net sum of the nodal allocation from the LAP and the hub bids would have to be considered along with physical LAP level load bids in the congestion management and market-clearing process.” WPTF understood the Hubs to be a weighted average of generating nodes and the LAP to be weighted average of load nodes. WPTF requests clarification of the extent to which (number of nodes and MW quantities) there is overlap between Hub and LAP nodes.

Use of LDFs between DA and RT

WPTF does not oppose using the LDFs that are used for settling physical transactions.

Market Monitoring

WPTF supports monitoring to protect against the abuse of market power. We do advocate for careful consideration of collateral requirements and transactions fees, as evidence in other markets suggests that high collateral requirements have impeded virtual bidding and potentially led to a decrease in price convergence. WPTF wishes to note particularly that any market monitoring mechanism be clearly defined such that it can be applied on a non-discriminatory and objective basis. WPTF looks forward to the review of specific provisions as they are developed.

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