Stakeholder Comments Template

Subject: Cost Allocation to Convergence Bids

The CAISO is requesting written comments on the Straw Proposal for Convergence Bidding Cost Allocation that was discussed at the February 8th MSC/Stakeholder meeting. This template is offered as a guide for entities to submit comments; however participants are encouraged to submit comments in any form.

All documents related to cost allocation for Convergence Bids are posted on the CAISO Website at the following link:

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

Upon completion of this template please submit (in MS Word) to convergencebidding@caiso.com. Submissions are requested by close of business on Friday February 29, 2008.

Please submit your comments to the following questions for each topic in the spaces indicated.

1. The proposed refinements to the cost allocation proposal described in the 2/9 Straw Proposal:

   a) Allocates costs for IFM tier 1 and RUC Tier 1 based on each SC’s gross cleared virtual bids rather than the net of each SC’s virtual transactions, and

   While WPTF mostly supports the CAISO’s additional refinement of its CB allocation proposal, WPTF finds that in this area the CAISO has moved away from cost-causation principles. To the extent that an entity’s virtual supply and demand bids offset one another in terms of impacts on the CAISO commitment, such transactions should be netted. Further, while the proposal does not allow system-wide netting for virtual transactions, it does allow netting for physical transactions. In this sense, the proposal seems to discriminate against virtual transactions compared with physical transactions. WPTF encourages the CAISO to reconsider this issue, including further
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discussion to address issues of netting versus gross bids as the granularity of convergence bidding is resolved.

b) Allocates IFM Tier 1 Uplift to virtual demand only in the case where physical demand plus virtual demand exceeds the CAISO Forecast.

WPTF supports this change, as it more fully reflects cost-causation principles. Virtual transactions only cause the CAISO to incur additional uplift/unit commitment costs when they cause the CAISO to commit generating units that would not have otherwise been committed in the IFM or RUC processes. Since the CAISO’s most recent proposal reflects this fact, WPTF believes the proposal is more closely aligned with cost-causation.

c) Allocates RUC Tier 1 Uplift to virtual supply based on the quantity of physical supply that was displaced by virtual supply in the DAM resulting in the need for the CAISO to procure additional supply in RUC. This quantity is equal to the net of all cleared virtual demand and all cleared virtual supply if the net virtual supply is positive.

The CAISO RUC Tier 1 allocation seems reasonable based on cost-causation principles, other than not allowing market-participant based netting as discussed in (a) above.

Is this proposal a reasonable assessment of the uplift costs that should be imposed upon virtual transactions? How might it be improved?

The general methodology seems appropriate. However, the CAISO has disallowed some netting and that seems inconsistent with cost-causation principles and the general cost-causation principles the CAISO is considering. The proposal could be improved by using system-wide netting when calculating the contribution to commitment costs in the IFM and market-participant netting in both the IFM and RUC cost allocations.

2. Is a flat fee a workable alternative for cost allocation to convergence bids as an initial starting point until the CAISO has market data available to analyze the impact convergence bids have on uplift costs?

A flat fee could be workable, it would be much simpler, and assuming it is an ex-ante rate, it would reduce risk. However, given the lack of bases for setting such fees, WPTF believes finding a reasonable rate would be challenging and subject to significant stakeholder debate. WPTF would welcome further discussion on this topic to see if a rate could – potentially – be established and then reviewed periodically by the CAISO based on a methodology that is agreed upon ahead of time (for example, the allocation methodology that is currently being developed by the CAISO).

3. Other suggestions for methodology by which to allocate bid cost recovery uplift costs to convergence bids?
WPTF does not have other suggestions besides the incremental recommendations proposed above to the CAISO’s present design or a periodically adjusted rate that reflects such a design.