Williams Power Comments on
CAISO Straw Proposal For Convergence Bidding Design Elements
November 15, 2006

Williams appreciates the opportunity to submit these comments on the CAISO’s straw proposal on three Convergence Bidding (CB) design elements – spatial granularity, load distribution factors, and market power mitigation, as requested on the October 30 CB call.

Spatial granularity

Williams believes that implementing CB on a nodal level will provide the greatest benefits. While implementing CB on a LAP level will provide some benefits in addressing monopsony market power, LAP-level CB will not reliably provide other benefits, such as hedging potential generator outages. Moreover, the NYISO’s experience clearly shows that LAP-level CB may not result in optimal convergence. Any proposal to limit CB’s spatial granularity because of concerns about supplier market power or levering CRR payouts suggests a fundamental mistrust in the competitive nature of CB – namely, that CB allows market participants to take positions to counter efforts of other market participants to exploit price differences between the day-ahead and real-time markets. Moreover, Williams acknowledges that the CAISO must monitor CB as diligently as the CAISO will monitor the physical market, and as the CAISO now monitors and reports to FERC load under-scheduling, and Williams expects that this monitoring will be sufficient to detect and address the kinds of undesired behaviors that the CAISO is trying to pre-empt by implementing CB with reduced spatial granularity. With such monitoring in place, Williams sees no reason to implement CB on a LAP level.

While Williams fully supports nodal CB, Williams may not oppose LAP-level granularity as an interim measure if that kind of implementation is necessary to ensure the earliest possible CB implementation. Williams would, of course, request that nodal CB replace LAP-level granularity at the earliest possible date. Additionally, to assist Williams and others in understanding what the implications of spatial granularity may be on CB implementation, Williams requests the CAISO determine what the implications of implementing full nodal CB are and communicate those implications to the CB work group as soon as possible.

Load Distribution Factors

Williams supports the CAISO’s proposal to use the same load distribution factors used in the DA and RT markets.

Market Power Mitigation

Williams’ position on the CAISO’s straw proposal is as follows:

Offer Caps: Williams supports the CAISO’s proposal to apply only the damage control offer caps to virtual bids.

Position limits: Williams agrees that credit requirements will serve as de facto position limits. Williams urges the CAISO to accelerate market settlement payments so as to reduce the amount of credit collateral required; once done, this topic could be revisited.

Suspending CB: Williams believes that the conditions under which the CAISO could suspend CB for a market participant or for the CB market as a whole – especially for reasons other than exceeding the collateral requirements - must be explicitly specified in the Tariff and not subject to CAISO discretion.

Flagging virtual bids: Williams supports the CAISO’s position to explicitly flag virtual bids.

Bid price-quantity pairs: Williams would not oppose reasonable efforts to limit the number of virtual bid price-quantity pairs that could be submitted IF (1) the CAISO determines that such limits are absolutely necessary to ensure acceptable software performance, and (2) any fees or limits imposed are the minimum necessary and do not interfere with or discourage reasonable participation in the virtual market.