XO Energy Comments on Draft 2016 Stakeholder Initiatives Catalog;

New Section: Price Correction Improvement

This initiative is intended to reduce the frequency and magnitude of price corrections in the CAISO market.

Price corrections in CAISO occur frequently in all the CAISO markets (DA, RT, and FMM). There are three components to price corrections that are detrimental to market participants:

- Number of intervals corrected,
- Magnitude (change in price for each correction), and
- Delay (length of time to identify corrections to the market).

CAISO appears to conduct far more price corrections than the other ISOs.

Many of the price corrections made in CAISO involve corrections to very large constraint shadow prices. Correcting the constraint shadow price results in correcting the congestion component of the LMP for the relative nodes. The LMPs for the nodes effected by the constraint can change by 100's of dollars.

The current CAISO tariff allows price corrections to made 3 business days after the posting of DA market results and 5 business days after the posting of RT market results. There is also the caveat that price corrections can take up to 20 days if a business process issue prevents the posting of the data within the normal timeline.

The effects of price corrections are extremely detrimental to the market.   All too often, market participants see a pricing signal one day and make business decisions for the next day or multiple days only to find out the original pricing signal was incorrect.

Section 6.6.2 Implement Point-to-Point (PTP) Convergence Bids (CBs).

XO Energy believes Section 7.3 Implement Point-to-Point (PTP) Convergence Bids (CBs) is a highly desirable initiative.

PTP Convergence Bids provide improved grid reliability by better pre-positioning the Day Ahead Market (DAM) for the Real Time Market (RTM) prices and constraints and thus allowing better constraint management.

PTP Convergence Bids improve overall market efficiency by better aligning convergence bids with constraints.   Increment (INC) and decrement (DEC) convergence bid pairs submitted on either side of a constraints may not clear for the same number of megawatts. A PTP Convergence Bid will clear on both sides of a constraint by definition. It allows constraints to be solved in the DAM at lower cost and with less uplift.

PTP Convergence Bids also improve overall market efficiency by allowing better risk management for Market Participants (MPs). MPs do not have to submit price taking pairs of INCs and DECs when bidding on constraints, and thus unwillingly expose themselves to unrealistic levels of DAM shadow prices that

are unlikely to materialize in RTM.   PTP Convergence Bids allow bidding in a price sensitive manner for the congestion between two points. There is also no risk of exposure to system energy price due to asymmetric clearing, which is always present when bidding an INC and DEC pair. In PTP, INCs and DECs always clear together. PTPs also reduce the overall risk to the market by preventing market participants becoming extremely long or short.

PTP Convergence Bids should be highly desired by stakeholders as they eliminate energy price uncertainty. There is no reason to see why such instrument, with multiple upsides and no downside, would not be welcome by MPs

PTP Convergence Bids should cause little to no MP implementation impact. A given market participant may choose to participate in the PTP bidding as they see fit.

PTP Convergence Bids should be straight forward for the CAISO to implementation.   Since CAISO already has wheeling transactions implemented in its clearing system, it seems to be a matter of extending those to include internal convergence bidding locations to enable PTP bids to clear alongside INCs and DECs system-wide. Other markets, such as PJM and ERCOT, have successfully implemented PTP bids (aka "Up-to-Congestions" and "Point-to-Point Obligation"). MISO is investigating the implementation of such PTP bids.

Neil Huber
XO Energy, LLC
484-942-0330