PG&E Comments

Phase 2 - Convergence Bidding Information Release Comments on Issue Paper

Submitted by	Company	Date Submitted
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Pacific Gas & Electric (PG&E) appreciates the opportunity to participate in the stakeholder process for CAISO's Data Release Phase 2 (Convergence Bidding Information Release) Initiative and to submit comments regarding the December 31, 2009 Straw Proposal and the January 7, 2010 CAISO Presentation. In the conference call, the CAISO indicated that participants need not be constrained to comment on the two nodal release options developed by the CAISO. The CAISO also asked for comments regarding the initiative timeline.

1. PG&E Supports the Nodal Release of Cleared Virtual Supply and Cleared Virtual Demand. PG&E continues to prefer the nodal data release proposal presented in our December 22, 2009 comments - reporting of two quantities at each node, cleared virtual supply and cleared virtual demand. This recommendation is a slightly expanded version of the MSC's suggested release of the net virtual position at each location.[1] Based on the comments by the DMM on the January 7th conference call, it is our understanding that this is the preferred option of the DMM as well.

2. Release of Nodal Virtual Data Will Be Helpful to Support Virtual Market Liquidity. In our December 22nd comments, PG&E outlined how the release of nodal virtual data after the close of the trade day could enhance market efficiency, monitoring and validation…

> In general, PG&E agrees with the DMM's observation that releasing aggregated virtual bid data by node on a relatively frequent basis, "may provide a reasonable and effective way of increasing the potential efficiency benefits of convergence bidding and alleviating concerns about convergence bidding at a nodal level."[2] One way the efficiency benefits may arise is that the aggregated nodal data will identify nodes with high levels of virtual activity. Alerted to this activity, other virtual bidders may enter the market with virtual bids at the high interest nodes and spur

[1] The MSC defined net virtual position as "total virtual supply bids accept[s] minus the total virtual demand bids accepted." The MSC Opinion refers to "accepted" bids. PG&E interprets this to mean "cleared" bids.
[2] *Memo to the ISO Board of Governors*, Convergence Bidding, October 21, 2009, p. 8, http://www.caiso.com/244f/244f99f1605d0.pdf.

> additional convergence. The additional market efficiency may help to lower costs for California customers.
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> Moreover, release of such information would act as a "sunshine regulation" and allow all market participants to monitor the virtual markets and spot malicious bidding behavior or detect possible market flaws. Allowing all market participants timely access to this information would strengthen the overall monitoring of the market. This is especially important since virtual bids will not be subject Local Market Power Mitigation (LMPM) at the start of convergence bidding like physical bids.
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> Finally, releasing this information will allow market participants to better validate the market results at individual nodes in a timely fashion (i.e., within the price correction window). Without the aggregated nodal data it may be difficult for participants to determine if an unusual market price at a node is being influenced by virtual bids, an LDF issue or some other market modeling problem.[3]

Given that the CAISO has adopted a nodal convergence bidding structure rather than adopting convergence bidding at a higher level of aggregation, this poses particular problems for the load side of the market. At the time convergence bidding will be adopted and for some period afterwards, the physical load side of the market will be required to bid at the LAP level and will not be able to bid physical load at particular nodes. This is not true for the supply side of the market which submits physical bids at the nodal level.

Consequently, because of LAP-level demand bidding, the only way an LSE will have to influence load at the nodal level will be through convergence bids. Thus, the LSE will only be able to address modeling problems or compete with other demand-side virtual bidders through convergence bidding. Without information about convergence bids, the LSE will not be able to identify the cause of market anomalies. The supply side of the market does not face such challenges since a market participant can alter its physical bid as well as use convergence bids to defend its positions.

Further, given the CAISO credit requirements and convergence bidding transaction fee, it may be expensive for an LSE to protect nodal load positions, particularly if the LSE has many load nodes. Providing information about convergence bidding activity will help the LSE's more effectively compete in the virtual market without imposing undue costs for participation.

In addition to these benefits, the release of nodal virtual data may augment the liquidity of the virtual market by allowing more participants, including the IOUs, to play a more active role. Depending on the CPUC rules and the perceived uncertainty regarding expenditure recovery, IOUs may be hesitant to robustly participate in the virtual market. This would reduce the liquidity of the market.

[3] PG&E Comments, December 22, 2009, pp. 1-2. http://www.caiso.com/248d/248dbca252bd0.pdf

Releasing nodal virtual data after the close of the markets may increase market liquidity in two ways. First, it would highlight those nodes with previous trade-day virtual activity that an LSE may want to adjust its CAISO-determined physical position with virtual bids. An LSE may be more willing to participate in this limited manner rather than making "blind" virtual bids across all nodes. Second, having this data available may help a participant demonstrate that its participation at a node was reasonable and not speculative.

3. Release of Nodal Information Applies to Both Pnodes and Aggregated Nodes. PG&E wants to clarify that it is seeking the release of nodal information from all nodes. This includes Pnodes (including interties) and aggregated nodes such as the Default LAPs, Custom LAPs, and Trading Hubs.

4. PG&E Supports the Release of the Nodal Data After the Close of All Markets. The MSC recommended this information be released at the close of the Day-Ahead (DA) market. PG&E continues to recommend that the information be released after the completion of all markets for a particular trade date. Releasing this information after the Real-Time (RT) market would prevent physical bidders from taking advantage of this information in the formulation of their RT bids. Our concern is not with specific identified scenarios, but, instead, with the gaming scenarios we have yet to identify. The easiest solution to address this concern would be to delay the data release until after the close of the RT market.

5. PG&E Would Consider Supporting the MSC Proposal if It Promotes Quicker Action by the CAISO Board. As noted above PG&E continues to support its December 22nd nodal data release proposal, but recognizes it has limited support from other stakeholders. Based on written comments from other market participants, there appears to be more support for the MSC proposal.[4] Moreover, PG&E recognizes the similarity between the MSC and the PG&E proposals. Given this, PG&E would consider supporting the MSC proposal if it would help the CAISO meet its original objective to bring this issue to the February Board meeting. Although less information will be released, there should be adequate information to meet the goals identified in our comments - greater market efficiency and better market monitoring and validation by all market participants.

[4] Both SCE and SDG&E have submitted comments supportive of the MSC proposal.