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Board of Governors
California Independent System Operator
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Ladies and Gentlemen:

SESCO CALISO is a Delaware limited liability company with its principal place of business in East Brunswick, New Jersey. SESCO CALISO is a power marketer that engages in the purchase and sale of energy, both physical and financial, in the Day-Ahead and Real-Time Markets of various Independent System Operators (ISOs) and Regional Transmission Organizations (RTOs), including the California ISO's (CAISO) convergence bidding market. The trades submitted by SESCO CALISO provide invaluable benefits to the CAISO markets by increasing liquidity, improving Day-Ahead and Real-Time price convergence, and by increasing competition to put downward pressure on electricity prices. SESCO CALISO is an active participant in many ISO and RTO stakeholder proceedings. SESCO CALISO seeks to remind the Board of Governors of the importance of protecting the independent energy trading sector as an essential component of a competitive, efficient and robust electricity market.

The California ISO must modify the Energy Imbalance Market ("EIM") Draft Final Proposal to rectify the unwarranted proposed asymmetric cost allocation to convergence bidders. The EIM Draft Final Proposal, dated September 23, 2013, discriminates against convergence bidders by allocating congestion imbalance offset charges to convergence bidders but failing to provide an offset credit to convergence bidders:

If the virtual schedule creates a credit to the out-of-market congestion uplift, then no allocation is made to the virtual schedules. If the virtual schedule creates a charge to the out-of-market congestion uplift, then the virtual bucket is allocated to convergence bid schedules in proportion to each schedules congestion revenue that is collected through the out-of-market congestion uplift.

EIM Draft Final Proposal at page 69. If implemented, this draft proposal would arbitrarily assess charges to convergence bidders but fail to provide corresponding credits to convergence bidders. Such an asymmetrical approach unduly discriminates against convergence bidders in a manner that deprives such bidders from the benefits provided by their activities.

The EIM Draft Final Proposal fails to provide a convincing rationale in support of this proposed inequitable cost allocation. In fact, the Draft Final Proposal attempts to justify this treatment of convergence bids by stating that it would be “not appropriate to transfer the BAA congestion balancing account credits to convergence bidders [because] the credits arose because the EIM Entity Scheduling Coordinator appropriately approved a resource plan that was free of congestion.” *Id.* This attempted justification lacks support and misses the mark. Vague assertions regarding potential harm cannot justify the inequitable treatment of convergence bids, particularly given that the EIM Draft Final Proposal fails to concretely demonstrate whether convergence bids in fact cause the incurrence of uplift charges without providing a benefit. More importantly, what the EIM Draft Proposal fails to note is that convergence bids provide a number of quantifiable benefits.

As other stakeholders have recognized, the proposed settlement of convergence bids should be symmetrical, with both charges and credits to the BAA congestion balancing account allocated to convergence bids. Virtual transactions play a critical role in the market. The Federal Energy Regulatory Commission and other ISOs and RTOs have recognized these benefits. The Commission has repeatedly found that all “market participants benefit from the trading activities engaged in by arbitrageurs through price convergence between the Day-Ahead and Real-Time market, a more stable market, [and] increased price discovery and market liquidity.”¹ Further, the Federal Energy Regulatory Commission has also noted that:

[V]irtual traders are beneficial to bid-based markets by helping to ensure that Day-Ahead and Real-Time prices do not diverge significantly, as well as by providing enhanced price discovery and liquidity to the market. ... [T]he presence of virtual transactions in the model led to increased price convergence ... reduced market price of risk. ... Further ... the availability of virtual transactions ... continued to increase participation and, therefore, liquidity in the ... electricity market and expanded trading options.²

Virtual transactions also provide the additional benefit of displacing more expensive generation with less expensive generation, making electricity prices more competitive. Virtual transactions

¹ *ISO New England, Inc.*, 113 FERC ¶ 61,055 at P 45 (2005); *see also Cal. Indep. Sys. Operator Corp.*, 112 FERC ¶ 61,013 at P 175 (2005) (discussing the importance of virtual trading); *PJM Interconnection, LLC*, 116 FERC ¶ 61,088 at P 17 (2006) (citing the beneficial qualities of virtual transactions to the PJM market); *New York Independent System Operator, Inc.*, 112 FERC ¶ 61004 at P 13 (2005); *ISO New England, Inc.*, 111 FERC ¶ 61,442 at P 17 (2005) (Finding that imposing additional costs on virtual transactions “threatened to minimize, if not eliminate, the market benefits attributable to their trading activities.”).

² *ISO New England, Inc.*, 113 FERC ¶ 61,341 at P 43 (2005) (internal citations omitted).

can theoretically alter the manner in which generating facilities are selected for dispatch, just as any less expensive generating unit can displace a more expensive source of energy. For example, a convergence bid can outbid an \$80/MWh generator at \$70/MWh, in turn lowering the bid price.

SESCO CALISO recognizes that the California ISO is attempting to improve modeling consistency between the Day-Ahead Market and Real-Time Market for ISO constraints. Indeed, the EIM Draft Final Proposal alludes to the Full Network Model Expansion stakeholder initiative commenced by the California EIM to provide additional visibility across WECC within the day-ahead market. The EIM Draft Final Proposal recognizes that improved consistency between the Day-Ahead Market and Real-Time Market will allow the California ISO to “commence an ISO stakeholder initiative to evaluate changes in the ISO allocation methodology.” EIM Draft Final Proposal at page 70. This recognition supports the position that the discriminatory treatment of convergence bids lacks equity or support. The California ISO should work to remedy this bias now by allowing for the symmetrical treatment of credits and charges for convergence bids.

SESCO CALISO appreciates the opportunity to provide comments to the board on the development of an EIM.

Sincerely,

/s/ Jason T. Kuzma

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