

SDG&E appreciates the opportunity to provide comments on the July 29, 2011 Impact of Convergence Bidding on Interties proposal.

SDG&E supports the CAISO's proposal to suspend convergence bidding at interties under the current market design. Specifically, such a suspension should remain until convergence bids for interties are settled in the same real-time market as internal nodes (i.e. no HASP settlement for convergence bids).

However, the CAISO's proposal does not actually address the root cause of high RTIEO costs – the persistent spread between HASP and real-time settlement prices. This fact is highlighted by Figure 1 in the proposal, which shows that the highest RTIEO costs occurred in 2010 before convergence bidding was even implemented. Further, market participants can simply use physical intertie bids in lieu of convergence bids to replicate the "SC Balanced Virtual" strategy.

SDG&E urgently requests that the CAISO now focus on the root cause. The Impact of Convergence Bidding on Interties proposal contemplates that a permanent solution will result from redesign of the real-time market (presumably elimination of the HASP market) addressed in the RI-MPR2 initiative. However, this approach could significantly delay the a fix for high RTIEO costs given the other complex issues such as RTIS, 15-minute only real-time market and expanded STUC contained in the RI-MPR2 proposal. SDG&E believes a better approach is to start now on a separate initiative to redesign the HASP market that eliminates the driver of RTIEO costs, deters the physical substitute for SC Balanced Virtual bids or fairly allocates uplift costs until such redesign is implemented, and is consistent with the policy objectives of RI-MPR2. Each month a solution is delayed, SDG&E and other CAISO load-serving entities will continue to pay millions of dollars in uplift costs – costs that are unnecessary and avoidable.

Regards,

Tony Choi  
Market & Policy Analysis Manager