

## **XO Energy Comments on Revised Draft 2017 Stakeholder Initiatives Catalog**

### **Section 13.2 Implement Point-to-Point (PTP) Convergence Bids (CBs)**

XO Energy believes Section 13.2 Implement Point-to-Point (PTP) Convergence Bids (CBs) is a highly desirable initiative.

We also believe the high level ranking performed by CAISO ranked the initiative too low with the following justification:

#### **Grid Reliability**

We believe 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.

**We believe it should have received a “3” for this criteria instead of a “0”.**

#### **Improving Overall Market Efficiency**

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 constraint 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 DEC 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 DEC always clear together. PTPs also reduce the overall risk to the market by preventing market participants becoming extremely long or short.

**We believe it should have received a “7” for this criteria instead of a “3”.**

#### **Desired by Stakeholders**

PTP Convergence Bids should be highly desired by stakeholders as they eliminate energy price uncertainty. There is no reason to see why such an instrument would not be welcome by MPs. All MPs could use this product. ERCOT and PJM both have a PTP product and the volumes of PTP trades far outnumber those of INCs and DEC. The elimination of energy risk for PTP trades is the main reason for this trend.

**We believe it should have received a “7” for this criteria instead of a “3”.**

### **Market Participant Implementation Impact**

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. Some market participants already engage in these type of trades in other ISOs and any market participant participating in the CRR market is already performing this type of trade.

**We agree with the ranking of “7”.**

### **ISO Implementation Impact**

PTP Convergence Bids should be straight forward for the CAISO to implement. 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.

**We agree with the ranking of “7”.**

Our draft of a ranking would therefore be a **31** as opposed to the 20 assigned by CAISO.

## **Section 12.1 Congestion Revenue Rights Auction Efficiency**

We believe the high level ranking performed by CAISO ranked the initiative too high with the following justification:

### **Grid Reliability**

**We agree with a ranking of “0” for this criteria.**

### **Improving Overall Market Efficiency**

In the Q2 2016 Report on Market Issues and Performance, the DMM states that they believe replacing the congestion revenue rights auction with a congestion revenue rights market would be more equitable, produce more efficient prices set by willing buyers and sellers, and greatly reduce the loss of congestion revenues for ratepayers by the current congestion revenue rights auction design. The DMM also states that they believe it is likely that implementing this type of market would not be more complex than the effort needed to implement the current congestion revenues rights auction. However, the DMM offers no analysis or data backing up these beliefs.

We appreciate the DMM's point that CRRs sold in auction generate less revenue than they are being paid. However, by their own reports this difference dropped significantly in total dollars in 2016 compared to 2012-2015. The difference was \$27M in the first half of 2016 and \$130M per year for 2012-2015. At the end of Q3 2016 the difference was down to \$22M meaning the auction generated positive revenue in Q3.

Rating this initiative as a “7” for this criteria would put in on par with Real-Time Market Enhancements. However, this initiative potentially addresses tens of millions of dollars as opposed to potentially billions of dollars for Real-Time Market Enhancements.

**We believe it should have received a “0” for this criteria instead of a “7”.**

### **Desired by Stakeholders**

The DMM appears to be the only entity desiring this initiative. There are currently 61 active Scheduling Coordinator IDs (SCID) participating in the monthly CRR auctions. These SCIDs include span all types of market participants.

**We believe it should have received a “3” for this criteria instead of a “7”.**

### **Market Participant Implementation Impact**

**We agree with a ranking of “7” for this criteria.**

### **ISO Implementation Impact**

**We agree with a ranking of “7” for this criteria.**

Our draft of a ranking would therefore be a **17** as opposed to the 28 assigned by CAISO.