

Briefing on Convergence Bidding



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What is convergence or “virtual” bidding?

- 🌐 Financial bids (not backed by physical energy) to buy or sell in the Day Ahead market.
- 🌐 If cleared in the Day Ahead market, these “virtual” bids are automatically liquidated at Real Time prices.
 - *Bidder receives or pays the difference between the Day Ahead and Real Time prices.*
- 🌐 No impact on reliability or Real Time operations.
- 🌐 This market enhancement is mandated to be implemented within a year after MRTU startup.

Why should the CAISO implement virtual bidding?

- Robust virtual bidding:
 - *pushes Day Ahead and Real Time prices closer together,*
 - *which provides strong incentives for accurate scheduling in the Day Ahead market.*
- The additional liquidity from virtual bidding can help mitigate the market power of physical suppliers.
- Some market participants can use virtual bidding as a risk management tool to hedge the possibility of generator outage.

How should virtual bidding be implemented?

- 🌐 Stakeholders are divided over the granularity issue:
 - *Most Load-serving market participants generally favor virtual bidding only at the zonal level (Load aggregation points), similar to the way that load will schedule and pay under MRTU.*
 - *Suppliers and marketers generally favor virtual bids at the nodal level, similar to the way that generators will schedule and be paid under MRTU.*
- 🌐 Significant pros and cons under both methods:
 - *Dependent on underlying assumptions of MRTU market performance.*

How will the CAISO proceed to resolve outstanding issues?

- 🌐 CAISO will build scalable software features:
 - *Allows nodal and/or zonal-level virtual bidding.*
- 🌐 Policy decision can be deferred until after MRTU starts to allow time to:
 - *Gain confidence in the operations of the LMP markets.*
 - *Assess market outcomes and the stability of the markets.*
- 🌐 CAISO will present final policy proposal in 3rd quarter 2008.
- 🌐 Implementation will comply with FERC's timeline.