FIEG

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Mr. Mason Willrich, Chair, Board of Governors
California Independent System Operator
151 Blue Ravine Road
Folsom, California 95630
Dear Mr. Willrich

The Financial Institutions Energy Group (FIEG) is an organization consisting of fourteen major investment and commercial banks that actively participate in energy markets. The members provide a range of services including physical power supply, risk management and hedging to both buyers and sellers, infrastructure finance, and participation in organized electricity markets such as the CAISO. We are writing to you today to express our strong support for the implementation of “convergence bidding” functionality in the CAISO’s markets at the earliest possible date. This capability, typically known as “virtual bidding” in other ISOs and RTOs, is a proven market tool for identifying and mitigating pricing inefficiencies in nodal electricity markets. The elimination of such inefficiencies can help reduce the ultimate cost to consumers. For example, if the average real-time price is lower than the average day-ahead price, convergence bidding would result in lowering the average day-ahead price to the benefit of consumers. This fact has been repeatedly documented by the various ISOs and RTOs where it has already been implemented.

Some parties have advocated a “go slow” approach to implementation, starting only with Load Aggregation Points (LAPs), and then slowly expanding to individual nodes and interties later. However, a zonal or LAP level would be inconsistent with the nodal design under MRTU and perhaps not worth the trouble. Additionally, it may also discriminate against sellers that transact at nodes or interties by not offering them the same flexibility that would be available to those that transact at LAPs. Ideally, FIEG would prefer a full implementation as soon as the necessary programming changes can be made. However, in the spirit of cooperation and compromise, we are generally willing to accept the proposal of the CAISO management to start with all nodes and interties, subject to position limits which escalate and terminate on a pre-determined schedule. However, our support does come with one caveat. We do not believe that the proposal to keep the intertie position limits at levels equal to one half the position limits at individual nodes is justified.

The concern over the ability to ensure that physical bids at intertie points are supported by physical resources, and that the volume of such bids does not violate established scheduling limits, i.e., are deliverable, is understandable. However, no party has provided support for how restricting position limits on intertie convergence bids to one half the level of individual nodes provides significant extra protection. Conversely, under the assumption that convergence bidding will provide real and substantial benefits to all market participants, not least of all end use consumers, any slowdown in implementation will result in a permanent loss of benefits. Finally, it is to be assumed that the CAISO staff will be monitoring intertie convergence bidding on a daily basis, and can easily put emergency restrictions in place if some unanticipated problems arise. For that reason, FIEG strongly urges the Board of Governors to approve CAISO Management's proposal to implement convergence bidding, subject to instructions to apply the same phase-in schedule to interties as is used for internal nodes.

FIEG appreciates the opportunity to provide our views to the CAISO Board. Thank you for your consideration of our perspective.

Sincerely,

The Financial Institutions Energy Group

CC: Ms. Linda Capuano
Ms. Laura Doll
Ms. Kristine Hafner
Mr. Tom Page
Mr. Yakout Mansour