



Memorandum

To: ISO Board of Governors

From: Keith Casey, Vice President, Market & Infrastructure Development

Date: February 3, 2010

Re: **Briefing on Information Release Policy for Convergence Bidding**

This memorandum does not require Board action.

EXECUTIVE SUMMARY

Some stakeholders have indicated a strong need for additional information to participate effectively in the California Independent System Operator Corporation market once convergence bidding is implemented. In response to comments and recommendations from stakeholders, the Market Surveillance Committee (MSC) and the Department of Market Monitoring (DMM), the ISO initiated a separate phase in the data release and accessibility initiative (Phase 2) to consider convergence bidding information release.

As a result of the stakeholder process, Management devised an information release policy to promote efficient, effective market development and operation. Specifically, the ISO intends to release a daily market summary report and the hourly net cleared quantities of virtual bids by node at the close of the real-time market. Because the nodal information will be sufficiently aggregated, publishing the net cleared quantities by node is permissible under the ISO tariff. Therefore, this data release approach will not require a filing with the Federal Regulatory Energy Commission. This information would be provided to the market in addition to the 90-day release of masked virtual bid data which the ISO committed to provide to as part of the design of convergence bidding.

BACKGROUND

The ISO committed to take a broader look at the release of market information since the launch of the locational marginal pricing (LMP) market. As part of this initiative, we have examined the issue of what information should be made available to the market to facilitate efficient market outcomes once convergence bidding is implemented. Our goal was to strike the right balance between the provision of information that would facilitate competition without compromising confidentiality or promoting unfair advantage. The ISO has already committed to the release of convergence bid information on the same timeline as that for physical bids which are currently published on a 90-day lag.

On October 29, 2009, the ISO Board of Governors approved the convergence bidding design.¹ In the convergence bidding stakeholder forum, stakeholders submitted comments both for and against additional information release related to convergence bids. In addition, both the MSC in its formal opinion on convergence bidding and the DMM in its October Board memo supported the release of additional information related to convergence bids. In response to these comments from stakeholders, DMM and the MSC, the ISO initiated a stakeholder process to resolve information release issues related to convergence bidding.

DISCUSSION AND ANALYSIS

When developing the proposal for information release, Management sought to accommodate stakeholder requests for the release of additional information on convergence bids while respecting requirements to protect confidential information of market participants.

The ISO posted an issue paper on December 3, 2009, and a straw proposal on December 31, 2009. The major area of debate among stakeholders was whether or not to release any aggregated nodal virtual bid data and whether there should be comparable treatment of virtual and physical bid data. However, stakeholders agreed on the release of a daily market report that would include a summary of submitted and cleared physical and virtual bidding activity.

During the stakeholder process, five nodal data release options were discussed and evaluated:

1. Release of virtual and physical bids (with 90-day lag);
2. Net cleared virtual quantity (at the close of day-ahead market);
3. Gross cleared virtual demand and gross cleared virtual supply (after the close of the real time market);
4. Net cleared total virtual and physical quantities; and
5. Percentage of cleared virtual and physical quantities

Based on analysis and discussion of the five options with stakeholders, Management proposes to adopt option 2 and release the net hourly cleared virtual quantities at each node at the close of the real-time market. We believe this approach will enhance market efficiency, particularly in the early stages of the ISO market under convergence bidding. This approach provides sufficient information to help promote participation and thus increase liquidity, without compromising confidentiality or bidding strategies of individual market participants. Posting the information at the close of the real-time market for the trade day rather than after the close of the day-ahead market further ensures that the information will not adversely influence behavior of market participants in the real-time market. While the ISO believes the release of

¹ ISO Board of Governors, Meeting Documents, October 29, 2009, <http://www.caiso.com/244e/244e8eae13040.html>

this information will be beneficial to the market, we will actively monitor the market for potential harm and consider modifications to the information release policy as necessary.

As previously noted, there was consensus on the release of a daily market report that would include a summary of submitted and cleared convergence bidding activity. This system-wide report will provide a high-level public summary of day-ahead market activity for virtual and physical supply and demand for both energy and dollars cleared and submitted at the close of the day-ahead market. This report would incorporate features from similar reports at other independent system operators.

POSITIONS OF THE PARTIES

The positions of the parties fell into two divergent groups. Stakeholders that support treating virtual bid data comparable with physical bid data do not support releasing additional information beyond what the ISO agreed to in the convergence bidding stakeholder process. These stakeholders contend that additional information could disclose commercially sensitive information that would be damaging to market participants. On the other hand, the investor-owned utilities and the California Public Utilities Commission contend that either the net cleared virtual quantity information or aggregate cleared information for both virtual supply and demand is needed to help formulate financial and physical positions in the market, accelerate the rate at which virtual bids bring convergence and overall market efficiency to the market, provide market participants with a complete picture of the supply and demand position going into the operating day and identify nodes with high levels of virtual activity which will encourage participation.

CONCLUSION

The release of a daily market summary report and the hourly net cleared virtual quantities by node at the close of the real-time market will promote market efficiency in the ISO energy markets once convergence bidding is implemented in February 2011. Because the nodal information will be sufficiently aggregated, publishing the net cleared quantities by node is permissible under Section 20.2 of the ISO tariff. Accordingly, implementation of this data release approach will not require a subsequent FERC filing.