

**Comments of the Staff of the California Public Utilities Commission**

**Real Time Imbalance Energy Offset Initiative  
Impact of Convergence Bidding on Interties,  
Draft Final Proposal, July 29, 2011**

Submitted by	Company	Date Submitted
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The Staff of the California Public Utilities Commission (CPUC Staff) appreciates this opportunity to comment on the California ISO's (CAISO) July 29, 2011, Draft Final Proposal, *Impact of Convergence Bidding on Interties*. Because of structural defects that result in systematic price differences between the Hour-Ahead Scheduling Process (HASP) price for interties and the Real-Time Dispatch (RTD) price for internal generation and load, the CPUC Staff supports the CAISO's proposal to eliminate convergence bidding at the interties.

The CPUC Staff supports the CAISO's effort to seek enhancements that will reduce the systematic price differences between the HASP and RTM. These differences directly bear on the frequency and magnitude price excursions that increase the real time imbalance energy offsets. Enhancements such as the flexible ramping constraint and increasing the negative bid floor appear to have potential to reduce the price differences. Nevertheless, the price differences have been persistent, and other CAISO efforts to date to address implicit virtual bidding and bring price convergence between HASP and RT prices have not succeeded.<sup>1</sup> The CPUC Staff therefore generally supports the CAISO's proposal, except that the CPUC Staff continues to urge the CAISO to adopt rules to deter implicit virtual bidding within this stakeholder initiative.<sup>2</sup>

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<sup>1</sup> CAISO, Impact of Convergence Bidding on Interties, Draft Final Proposal, July 29, 2011, figure 1 (showing persistent, high monthly real time imbalance energy offset charges for January 2010 to June 2011), available at <http://www.caiso.com/2b6c/2b6c716440a80.html>

<sup>2</sup> CPUC June 24, 2011 comments to Real Impact of Convergence Bidding on Interties Revised Straw Proposal, June 10, 2011, at 5-6, available at [http://www.caiso.com/Documents/CPUC\\_Comments\\_RevisedStrawProposal\\_ImpactOf%20ConvergenceBidding.pdf](http://www.caiso.com/Documents/CPUC_Comments_RevisedStrawProposal_ImpactOf%20ConvergenceBidding.pdf)

The CAISO indicates that it does not want to deter implicit virtual bidding because of concerns it could reduce liquidity at the interties, and because California relies on significant imports to satisfy demand.<sup>3</sup> However, the CPUC Staff is not convinced that deterring implicit virtual bidding would create significant liquidity issues. Implicit virtual bidding creates imbalance charges which averaged \$10mm/month in 2010, and historically California's grid functioned with adequate imports even before the new market was implemented which allows implicit virtual bidding. The CPUC staff believes that implicit virtual bidding is not a market feature that facilitates imports.

Further, the CAISO has not provided sufficient justification or substantive evidence that import liquidity would be jeopardized by reasonable rules that deter implicit virtual bidding. Because the CAISO has concerns based on the methods proposed to date to deter implicit virtual bidding, the CAISO should conduct further analysis to determine what methods, market features or design changes effectively reduce implicit virtual bidding without causing adverse impacts on imports. These concerns need to be explored and dispelled if they do not have merit. Accordingly, the CPUC Staff will continue to strongly encourage the ISO to develop market rules and processes to deter implicit virtual bidding at the interties or to provide additional analyses that support the CAISO's hypothesis.

Finally, at the very least the CPUC Staff requests that the CAISO continue to monitor and report periodically to stakeholders the level of real time imbalance energy offset charges incurred monthly, particularly the megawatt volume and dollar amount associated with implicit virtual bidding. If the imbalance energy offsets increase or remain at significant levels (even after the CAISO implements changes adopted through this and other CAISO initiatives) the CPUC Staff urges the CAISO to revisit this issue in a timely manner. Specifically, the CAISO should develop a plan of action to eliminate adverse impacts from implicit virtual bidding, including starting a stakeholder process to analyze and resolve the issue.

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<sup>3</sup> CAISO, Impact of Convergence Bidding on Interties, Draft Final Proposal, July 29, 2011 at 4.