



California ISO
Your Link to Power

News Release

For immediate release | **October 29, 2009**

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California ISO Board of Governors approves convergence bidding

FOLSOM, Calif. – Today the California Independent System Operator Corporation (ISO) Board of Governors unanimously approved adding convergence bidding in the ISO market in early 2011.

Convergence bidding allows market participants to better manage price fluctuations that can occur between the day-ahead and real-time markets. It is used in most competitive energy markets in the United States because it reduces risk and provides market liquidity. Reducing the price differential between market time frames provides a variety of benefits, including:

- Increased liquidity which helps mitigate market power
- Lower cost to serve load through a more efficient day-ahead unit commitment
- Ability to hedge against real-time market exposure stemming from forced generation outages
- Improved grid operations because the day-ahead market better reflects real-time conditions
- May be used to account for anticipated intermittent generation in the day-ahead market

Convergence bids are financial; they do not represent physical energy or load. If cleared in the day-ahead market, they are settled at day-ahead prices and then automatically liquidated with the opposite position at real-time prices. For example, a virtual supply bid would be an offer to sell energy at the day-ahead price and buy the same amount back at the real-time price. A virtual demand bid would be just the opposite. Generators and utilities that are also bidding to buy and sell physical energy can use these strategies to reduce the risk of being caught on the wrong side of price fluctuations between the day ahead and real time.

Market participants that do not represent physical load or generation can participate in convergence bidding as a way to potentially make a profit if they bid wisely. But they also assume some risk, relieving physical load and generation from some of their risk. The ISO proposal is the result of an extensive stakeholder process.

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The California ISO operates the state's wholesale transmission grid, providing open and non-discriminatory access supported by a competitive energy market and comprehensive planning efforts. Partnering with more than 90 client organizations, the ISO is dedicated to the continual development and reliable operation of a modern grid that operates at the least cost to the benefit of consumers. The ISO bulk power market allocates space on transmission lines, maintains operating reserves and matches supply with demand. Recognizing the importance of global climate change, the ISO welcomes new, advanced technologies that will help meet the energy needs of 30 million Californians efficiently and cleanly. The ISO is a nonprofit public benefit corporation.