

Comments of Southern California Edison on Convergence/Virtual Bidding

SCE supports implementation of Convergence Bidding (also known as Virtual Bidding). We all have worked hard throughout this process towards the goal of reaching a beneficial design that can be implemented by February 2011. We appreciate the hard work of staff, and I want to emphasize the good work done in moving forward this very contentious issue. The proposal has a lot of solid and innovative ideas. We support CAISO management's recommendation for a November filing with FERC and a commitment to start Convergence Bidding by February 2011.

SCE believes Virtual Bidding, if designed and implemented properly, can improve overall market efficiency, while preventing new gaming opportunities. However, based on the current state of the design, we are concerned that these important goals may not be fully realized. While we believe enough progress has been made to allow CAISO management to go forward with Virtual Bidding, we recommend that the Board continue to monitor four critical areas that are essential for achieving market efficiency gains and preventing gaming. These four areas are:

Information release: The 10/19/09 MSC opinion indicates what minimum amount of information release should accompany a nodal design: The release of the net cleared virtual quantities, by node, contemporaneously with the release of day-ahead price results. We agree with the MSC that timely information release on virtual bids is important for market transparency and ultimately market efficiency. We encourage CAISO management to continue to work with the MSC and stakeholders on the appropriate level and timing of information release. We would request that the Board continue to stay engaged on this issue, and that the CAISO come back to the Board with its final proposal for information release in connection with Virtual Bidding.

Treatment of interties: Intertie participation in California is vital for both market efficiency and reliability, and the position limits proposed here, while certainly helpful, only partly address SCE's concerns. The ISO recognizes this and has initiated a parallel process related to modifying intertie tagging requirements in part to better distinguish between "Virtual imports" and true "Physical imports" and to address possible incentives related to gaming under the new market rules. A shortcoming of the current RUC design is that it cannot secure imports unless they are backed by RA resources. Thus, physical imports can be displaced in the day-ahead market by virtual bids, but RUC cannot recover these physical imports through its process. The result can be the commitment of unneeded internal generation and higher costs to customers. A temporary solution could be to delay implementation, or further limit Virtual Bidding on the interties. A permanent solution may require a redesign of RUC. We would ask that CAISO management continue to work with stakeholders on addressing the interactions between Virtual Bidding and RUC and that the Board continue to remain engaged.

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