

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

California Independent System Operator Corporation	)	Docket Nos. ER02-1656-030 and ER02-1656-009
	)	
Investigation of Wholesale Rates of Utility Sellers of Energy and Ancillary Services in the Western Systems Coordinating Council	)	Docket No. EL01-68-017
	)	
California Independent System Operator Corporation	)	Docket No. ER06-615-000
	)	(not consolidated)

**UPDATED STATUS REPORT ON CONVERGENCE BIDDING OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

The California Independent System Operator Corporation (“CAISO”)<sup>1</sup> hereby submits the following updated report on the status of efforts to consider a “convergence” or “virtual” bidding feature as part of the CAISO’s Market Redesign & Technology Upgrade (“MRTU”) process.<sup>2</sup> The CAISO submits this filing as an update to the status report it filed on March 15, 2006, in the captioned dockets (“March 15 Status Report”). A previous update to the March 15 Status Report was provided in the reply comments the CAISO filed on May 16, 2006, in Docket No. ER06-615-000 (“Reply Comments”).

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<sup>1</sup> Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff.

<sup>2</sup> For purposes of this filing, the CAISO will use the term “Convergence Bidding” to refer to the market design feature alternately referred to as “virtual bidding” or “convergence bidding.”

## I. BACKGROUND

The CAISO submitted the March 15 Status Report in compliance with a directive in a Commission order issued on July 1, 2005, in Docket No. ER02-1656, that required the CAISO to explain why it is not feasible to implement Convergence Bidding simultaneously with the MRTU day-ahead energy market and to provide a date when it would be feasible to implement Convergence Bidding.<sup>3</sup> The CAISO's submittal of the March 15 Status Report was also consistent with the CAISO's commitment in its August 2, 2005, compliance filing in Docket No. ER02-1656 to provide the Commission with a further report on the status of the consideration of Convergence Bidding by March 15, 2006.<sup>4</sup> The CAISO filed the Reply Comments to respond to initial comments, protests, and requests for hearings and other procedures concerning the CAISO's February 9, 2006, MRTU tariff filing in Docket No. ER06-615.

For the reasons set forth in the March 15 Status Report and the Reply Comments, the CAISO cannot incorporate a Convergence Bidding feature into the initial release ("Release 1") of the new MRTU market design without a significant delay in the implementation of the new markets. In order to address concerns raised by stakeholders, the CAISO initiated a stakeholder process to consider the development of a Convergence Bidding feature on a faster track than other market design elements that the CAISO is considering as potential MRTU "Release 2" items. Accordingly, Convergence Bidding is being treated as

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<sup>3</sup> *California Independent System Operator Corp.*, 112 FERC ¶ 61,013, at P 174 (2005).

<sup>4</sup> See CAISO Aug. 2, 2005 filing in Docket No. ER02-1656-030, at 4.

a potential MRTU “Release 1A” design element under consideration for implementation as soon as practical after Release 1 of MRTU and prior to Release 2.<sup>5</sup> Other market initiatives that are not mandated would be reviewed through new “ranking criteria” and those could be considered “Release 2” candidates.

The CAISO stated in the March 15 Status Report that it intended to conduct a stakeholder process over the late spring and summer of 2006 to discuss possible options related to Convergence Bidding, and that the CAISO sought to develop a conceptual design for Convergence Bidding that could be presented to the ISO Governing Board as soon as the end of the summer.<sup>6</sup> In the Reply Comments, the CAISO stated that the proposed schedule outlined in the March 15 Status Report had been updated such that the CAISO would:

conduct a stakeholder panel discussion in June [2006] to focus on issues associated with Convergence Bidding. This stakeholder panel discussion will include a tutorial on Convergence Bidding concepts, a discussion of the experience of eastern ISOs with Convergence Bidding, and stakeholder perspectives on Convergence Bidding.<sup>7</sup>

The CAISO also sought to develop a conceptual design for Convergence Bidding that could be presented to the ISO Governing Board in September 2006. The CAISO anticipated that a specific proposal regarding Convergence Bidding would be presented for a vote of the ISO Governing Board in December 2006.<sup>8</sup>

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<sup>5</sup> Initial Status Report at 2-3; Reply Comments at 312.

<sup>6</sup> Initial Status Report at 14.

<sup>7</sup> Reply Comments at 318-19.

<sup>8</sup> *Id.* at 319.

## II. UPDATED STATUS REPORT AND SCHEDULE FOR THE DEVELOPMENT OF A CONVERGENCE BIDDING FEATURE

The stakeholder panel discussion described in the Reply Comments was held on June 13, 2006. The materials that the CAISO made available as part of that stakeholder process are available on the ISO Home Page at <http://www.aiso.com/1807/1807996f7020.html>. These materials include a white paper prepared by the CAISO's Department of Market and Product Development describing the fundamentals of Convergence Bidding and several presentations from various stakeholders outlining different perspectives on the development of a Convergence Bidding feature for MRTU. Participants in the June 13 stakeholder panel discussion included a member of the CAISO's Market Surveillance Committee ("MSC") and the market monitor for PJM. Several members of the ISO Governing Board took part in and listened to the discussion.

Convergence Bidding is also included in the list of potential post-Release 1 Market Initiatives as described on the ISO Home Page at <http://www.aiso.com/1822/1822931f287d0.html>. On that section of the ISO Home Page, the CAISO posted a first draft of its *Working White Paper on Design Criteria for Convergence Bidding* ("*Working White Paper*") for stakeholder review in advance of the July 18-19, 2006 Market Initiatives stakeholder meetings. In that first draft, the CAISO noted that, "the CAISO undertook to present a Convergence Bidding proposal to the CAISO Board of Governors before the end of summer 2006, for the board to vote on before the end of the year." The first draft of the *Working White Paper* described all of the elements of a conceptual design for Convergence Bidding that needed to be addressed within the

stakeholder process. In response to those stakeholder meetings and to the June 13 stakeholder panel discussion, the CAISO received numerous stakeholder comments on Convergence Bidding issues. These comments are posted, along with stakeholder comments on other Market Initiatives, on the ISO Home Page at <http://www.aiso.com/1822/1822931f287d0.html>. The first draft of the CAISO's *Working White Paper* was also reviewed at the August 8, 2006, meeting of the MSC.

On August 15, 2006, the CAISO posted a revised draft of the *Working White Paper* on the same ISO Home Page site described above, <http://www.aiso.com/1822/1822931f287d0.html>. The revised *Working White Paper* analyzed further the key elements of a conceptual design for Convergence Bidding and summarized the stakeholder comments that had been received to date. *Inter alia*, the revised *Working White Paper* noted a comment from Williams Power Company that the CAISO "appeared to refer to Convergence Bidding as just one post-Release 1 project that had to undergo a ranking process along with all other post-Release 1 projects." The CAISO responded to this comment by clarifying that it was exempting Convergence Bidding from the ranking criteria applicable to other post-Release 1 issues, because it was a "mandated" issue.

The CAISO held an additional stakeholder meeting on August 18, 2006, at which Convergence Bidding was discussed for about 90 minutes (though the posted agenda scheduled only an hour for discussion on the issue). At the August 18 stakeholder meeting, there appeared to be some consensus toward

focusing on the following three key elements, which appear to be critical to the foundation of a conceptual design for Convergence Bidding: spatial granularity, the choice of load distribution factors for virtual bids, and provisions for market monitoring and market power mitigation. As a result of the stakeholder meeting, a Convergence Bidding Work Group was formed, with about 20 stakeholders signing up to participate. The CAISO is tasked with leading the Convergence Bidding Work Group. The CAISO also conducted conference calls on September 6 and 8, 2006, each of which was two hours long, with staff from the NYISO, ISO New England, and PJM. The focus of these discussions was on the three key elements identified above. Stakeholders were provided ample opportunity to engage in the discussions and to ask questions about the virtual bidding experiences of the other ISOs that took part in the conference calls.

Although these meetings and conference calls were successful in initiating the necessary stakeholder discussions on a Convergence Bidding feature for MRTU, the CAISO has determined that it must modify the proposed schedule regarding Convergence Bidding described in the Reply Comments in order to comply with the Commission's Final Rule on long-term firm transmission rights ("LTTRs") that was issued on July 20, 2006.<sup>9</sup> In the July 20 LTTR Order, the Commission amended its regulations to "require each transmission organization that is a public utility with one or more organized electricity markets to make available long-term firm transmission rights that satisfy each of the guidelines

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<sup>9</sup> *Long-Term Firm Transmission Rights*, Order No. 681, 71 Fed. Reg. 43564 (Aug. 1, 2006), FERC Stats & Regs., Regs. Preambles ¶ 31,226 (2006) ("July 20 LTTR Order").

established by the Commission in this Final Rule.”<sup>10</sup> The July 20 LTTR Order directed “each transmission organization subject to its requirements to file with the Commission no later than January 29, 2007, either: (1) tariff sheets and rate schedules that make available long-term firm transmission rights that satisfy each of the guidelines set forth in the final regulations, or (2) an explanation of how its current tariff and rate schedules already provide for long-term firm transmission rights that satisfy each of the guidelines.”<sup>11</sup>

In light of the directives the July 20 LTTR Order, the CAISO has determined that it must devote substantial resources to the development and timely submission of a LTTR compliance filing. Indeed, the Commission “encourage[d] transmission organizations to explore ways to reorder their priorities to ensure that this important Congressional directive is fulfilled,” and specifically recognized that to comply with the July 20 LTTR Order a transmission organization might need to “reorder its schedule for market design changes.”<sup>12</sup> Therefore, the CAISO proposes to update the schedule for developing a Convergence Bidding proposal as follows. The CAISO plans to work to resolve issues needed to develop a conceptual design for Convergence Bidding by December 2006. Following that process, the CAISO plans to make an informational briefing on the results of this stakeholder process and the Convergence Bidding conceptual proposal at the January 2007 meeting of the

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<sup>10</sup> *Id.* at P 1.

<sup>11</sup> *Id.*

<sup>12</sup> *Id.* at P 491.

ISO Governing Board, and plans to seek approval of a specific Convergence Bidding proposal through an ISO Governing Board vote at the Board meeting in second quarter of 2007.<sup>13</sup>

The CAISO notes that this updated schedule will not result in a halt to stakeholder discussions on Convergence Bidding issues. The CAISO remains committed to building on the progress made since June of this year, as evidenced by the posting of a revised draft of the *Working White Paper* on August 14, 2006, reflecting stakeholder comments received to date. Also, Convergence Bidding was discussed further at the MSC meeting that took place on September 18, 2006. The CAISO intends to schedule additional stakeholder meetings to discuss Convergence Bidding over the next several months, probably one meeting in October and another in November. The updated schedule will allow the CAISO to develop a comprehensive design for Convergence Bidding that will account for and thoroughly consider the safeguards requested by stakeholders and will allow the CAISO to consider the implementation impacts. The updated schedule will also allow the CAISO to consult with its software vendors as the details of the conceptual design are developed. Thus, this updated schedule will not only permit the CAISO to satisfy the requirements of the July 20 LTTR Order, but will also give the CAISO and stakeholders sufficient time to develop a well-vetted Convergence Bidding proposal.

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<sup>13</sup> The MSC will prepare a written opinion on the Convergence Bidding proposal prior to the Board's decision in the second quarter of 2007.

### III. CONCLUSION

Wherefore, for the foregoing reasons the CAISO respectfully requests that the Commission accept this updated status report.

Respectfully submitted,

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Date: September 18, 2006

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of this document upon all parties listed on the official service lists compiled by the Secretary in the above-captioned proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated this 18<sup>th</sup> day of September, 2006 at Folsom in the State of California.

/s/ Sidney Mannheim Davies  
Sidney Mannheim Davies