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Eliminating Convergence Bidding at the Interties

DC Energy appreciates the opportunity to submit these comments on the CAISO's proposal to eliminate Convergence Bidding (CB) at the interties. DC Energy has been an active participant in the stakeholder discussions and has expressed the views below during stakeholder discussions and directly with staff.

Overview: DC Energy strongly opposes CAISO's proposal to eliminate convergence bidding at the interties. Intertie convergence bidding is an essential part of CAISO's markets – providing a number of benefits to participants (i.e., ability to bid out-of-state renewable energy in the IFM, hedging of physical and CRR positions, etc.) and the market as a whole (liquidity, market power mitigation, price formation, etc.). While DC Energy agrees that there is a market design flaw (namely that the spot market for interties is hour-ahead and the spot-market for internal nodes is real-time), DC Energy also believes that eliminating CB at the ties harms the market overall – and hence is not the best path forward. Instead, we suggest the Board instruct the staff to formally explore a two-pronged solution: (a) eliminate Hour-Ahead (HA) settlement at the interties within 6-12 months; and (b) in the meantime implement an HA-RT (Real Time) settlement reversal rule that will largely eliminate the uplift cost contribution to the Real Time Imbalance Energy Offset (RTIEO) from convergence bidding while preserving all of its benefits.

Discussion: One thing that everyone in this stakeholder process has agreed on is that the reason it's even possible for convergence bidding to contribute to the RTIEO charge is because intertie nodes settle on HA prices and not RT prices. As such, the logical solution to this issue is to simply settle the intertie nodes in RT. This type of a change need not be rolled into a several year renewable integration design process as some have suggested, but rather can be implemented in the very immediate term – as this change would largely just require alterations to CAISO's settlement systems. It is important to also point out that this change would address much more than the RTIEO associated with convergence bidding (which has represented only 20-40% of the total charge since convergence bidding launch). In fact, it would address the vast majority (if not all) of the RTIEO amount.

DC Energy realizes that the above solution cannot be implemented immediately, and that CAISO feels the need to take some type of near term action in the interim. Here again though, elimination of convergence bidding is not a judicious path forward. While the portion of RTIEO associated with convergence bidding is estimated at \$40M-\$60M annually, the benefit to load from convergence bidding at the interties is estimated at \$300M annually.¹ Further, CAISO has an option at its disposal to cut the \$40M-\$60M cost contribution to a small fraction of its size. This option (termed the “HA-RT settlement rule”) would nullify any convergence bidder’s contribution to the RTIEO by simply disallowing the associated gains. CAISO’s analysis suggests that based on current bidding practices, this option would address about 80% of the cost contribution (and of late, all of it), thereby leaving at most \$10M in RTIEO contribution from convergence bidding.

DC Energy’s understanding is that CAISO believes that by eliminating convergence bidding at the interties, it will instead be able to eliminate this minor residual \$10M RTIEO contribution while still retaining all of the benefits of convergence bidding -- including the \$300M savings to load. The argument that the savings will continue relies on the mistaken assumption that the net virtual supply volume currently placed at the interties will upon elimination simply migrate internally – however there is a very simple explanation why that will not occur: There is no price incentive to do so. The net virtual supply that’s in the market today can earn a slight premium when placed at the interties (earning the difference between DA and HA prices), whereas if it were placed internally it could not given the higher and more volatile RT pricing these bids would settle against.

In summary, DC Energy does not believe that elimination of convergence bidding at the interties is the right course of action either now or in the future.

Recommendation: DC Energy requests that the CAISO Board NOT eliminate convergence bidding at the interties, and instead direct CAISO to (a) prepare a plan that eliminates the root cause of RTIEO and implement it within 6-12 months, and (b) in the immediate term, implement the “HA-RT settlement rule”.

¹ DC Energy’s own analysis suggests that if anything, \$300MM is an under-estimation of the amount of savings being provided to load via convergence bidding at the interties – as the \$300MM assumes that upon suspension, any internal DEC’s associated with “HA-RT balanced” volume will completely disappear (an unlikely occurrence), and hence not place any additional upward pressure on Day-Ahead prices.