



TO: CAISO GOVERNING BOARD MEMBERS, STEVE BERBERICH AND KAREN EDSON
CC: SAEED FARROKHPAY, MAURY KRUTH, FERC
FROM: GARY ACKERMAN AND ELLEN WOLFE, WESTERN POWER TRADING FORUM
SUBJECT: CAISO BOARD PROPOSAL ON ELIMINATION OF CONVERGENCE BIDDING
DATE: AUGUST 24, 2011

The Western Power Trading Forum (WPTF) is a consortium of generators, power marketers, traders, energy service providers, municipalities and market service providers.¹ We appreciate the opportunity to comment on the staff's convergence bidding proposal.

There is no doubt that the current market design has problems. Day-ahead, hour-ahead, and real-time prices across internal and external locations cannot be driven towards convergence when some locations are cleared and priced in one market, and others cleared and priced in another market. There is no convergence mechanism that explicitly spans those markets. This problem needs to be quickly fixed.²

WPTF, however, opposes the CAISO's specific proposal to eliminate convergence bidding at the interties for several reasons.

1. Suspending convergence bidding at the interties with no clear process for addressing the underlying problems is unacceptable.

As the CAISO staff, DMM and MSC clearly agree, the root problem stems from the fact that interties currently clear at hour-ahead prices and internal nodes currently clear at real-time prices. The staff indicates that this issue is being address in the Renewable Integration and Market Product Review Phase 2 process. However, in that process, the staff has proposed a new design whereby interties and internal nodes would be scheduled and settled in sub-hourly (e.g., 15-minute) intervals. Not only does this

¹ The position expressed herein represents the majority view of WPTF's members. Individual members' views may differ and can be discerned from their individual comments.

² WPTF has opposed the abbreviated HASP process since the time that it was proposed by the CAISO during the MRTU design process.

require substantial market design changes – changes which may take several years at the CAISO – it is also unclear whether other WECC parties will even adopt these changes, or whether FERC will require such scheduling and settlement time frames in a timely manner.

2. The CAISO proposal leaves “broken” the market design driving the real-time imbalance uplift

The intertie (hour-ahead)/internal node (real-time) pricing discrepancy drives the real-time imbalance uplift. This uplift existed before the implementation of convergence bidding. From January 2010 through January 2011, prior to convergence bidding, the real-time imbalance uplift costs exceeded \$135 million. Since convergence bidding was implemented in February 2011, convergence bidding has accounted for significantly less than half of the uplift charge. The uplift will persist even if convergence bidding at the interties is eliminated. The MSC points to this concern as well. The CAISO must pursue a near-term remedy to the *fundamental* problem. Eliminating convergence bidding at the interties neither resolves the uplift charges nor addresses the fundamental problem caused by settling interties at hour-ahead prices and internal resources at real-time prices.

3. The CAISO proposal fails to implement interim measures that could otherwise allow convergence bidding on the interties to remain in effect.

Given (1) that convergence bids are not the primary contributor to the real-time imbalance uplift charge, and (2) that mechanisms³ can be created to remove the incentive for scheduling coordinators to use convergence bidding to profit from the pricing disparity, WPTF believes it is beneficial to rely upon mitigation mechanisms and retain intertie convergence bidding until the root cause of this problem is addressed and the market design can be fundamentally remedied.

4. There is no evidence of harm to any market participant or participant group.

The CAISO staff has focused on the impacts of intertie convergence bidding on the uplift costs borne by load serving entities. While WPTF does not endorse using costs to load as the sole metric for evaluation, we also wish to bring to the Board’s attention that the CAISO has failed to reflect the full impact of the convergence bids on load serving

³ For example the CAISO staff initial proposed settlement reversal or “claw-back” approaches to remove the incentive for a scheduling coordinator to try to take advantage of the market design issue.

entities. Convergence bids have many effects on the market place. In particular, convergence bids at the interties have been, on net, *supply* bids, and the substantial level of the bids at the interties (approximately 500 MWs additional supply per hour on average) works to lower the day-ahead market price.⁴ It is likely that the CAISO would find this impact to well exceed the uplift costs attributed to convergence bids. Again, while WPTF does not advocate only using load costs to measure benefit, nevertheless it is not proper for the CAISO to only point to a portion of load costs and suggest that certain functionality is harming the load serving entities.

For the reasons stated above, WPTF strongly opposes the CAISO staff proposal. We believe the underlying issues could and should be remedied prior to the summer of 2012. We will continue to devote ourselves to meeting this aim, and we prefer to work in partnership with the CAISO staff rather than through protests of this matter at the FERC.

To that end we offer the following board resolution language.

Moved, that the CAISO Board of Governors directs the CAISO staff to work diligently with WPTF and other stakeholders to fast-track market design changes that will address the root cause of the hour-ahead/real-time pricing design discrepancy for implementation prior to the summer of 2012.

Sincerely,

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⁴ Nearly all the energy purchased by load serving entities from the CAISO markets is procured in the day-ahead.