

# **Elements of Convergence Bidding Design: Credit and Cost Allocation Issues**

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**November 13, 2006**

# Major Elements for Convergence Bidding Design

- **Straw Proposal**
  - Explicit Bidding
  - Zonal Virtual Bidding
  - Same Distribution Factors for virtual and actual (physical) bids.
  - Market Power Mitigation Measures
  
- **Credit and Collateral**
- **Cost Allocation**

## Options for Credit and Collateral

### – Collateral requirements

- Option 1: Constrain VB participation based on credit posting (VB quantity times proxy clearing price)
- Option 2: Revise SC credit requirements based on the introduction of VB in CAISO markets
- Option 3: Constrain VB participation initially; then move to a more conventional credit policy

### – Proxy clearing price for collateral computations

- Reference clearing price based on some percentile of the highest actual price during the previous 90 days.

## Options for Cost Allocation

### – IFM and RUC Unit Commitment cost allocation

- Option 1: Exempt virtual bids from unit commitment cost allocations
- Option 2:
  - Include DA virtual demand bids (along with actual demand) as billing determinants for DA Unit Commitment uplift cost allocation
  - Include DA virtual supply bids (along with under scheduled demand) as billing determinant for RUC cost allocation

### – Ancillary Service cost allocation

- Option 1: Exempt VB from A/S cost allocation
- Option 2: Exempt VB from Tier 1 A/S cost allocation (based on User Rate), but not from A/S neutrality cost allocation (including both virtual supply and virtual demand)