

Stakeholder Comments Template

Subject: E-Tag Timing Requirements

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the following topics covered in the October 20th Market Notice regarding e-tagging. Upon completion of this template please submit (in MS Word) to etagtaming@caiso.com. Submissions are requested by close of business on **November 4, 2009**.

Please submit your comments to the following questions for each topic in the spaces indicated.

1. What comments do you have relating to issues identified in the Issue Paper dated October 22, 2009, or other issues relating to determining physical day-ahead schedules?

Citigroup Energy Inc. (“CEI”) offers these initial comments in response to the October 22, 2009 Issue Paper and the discussions during the October 28, 2009 stakeholder call (the “October 28 Call”). For the reasons stated below, CEI supports maintaining the existing e-tagging rules.

- CAISO/WECC Coordination:** As stakeholders pointed out during the October 28 Call, the WECC has an ongoing e-tagging standards process. This process has involved market participants from all of the interconnected West and has highlighted the many challenges associated with managing e-tagging requirements across many balancing authority areas. CEI’s concern is that the WECC and all market participants in the West have an opportunity to consider the reliability issues that might be triggered if the CAISO changes its e-tagging requirements. Consequently, if the CAISO determines that the WECC e-tagging requirements may be inadequate for its area, then the CAISO should raise its concerns through the established WECC process.
- Rationale For Change:** During the October 28 Call the CAISO stated that 95% of day-ahead intertie transactions are tagged, and it could be assumed that a greater number of final HASP awards are tagged. The CAISO explained that it has not seen any adverse impact to its market arising from the existing e-tagging rules, either pre- or post-MRTU. In light of these statements, the CAISO needs to state what issue it is trying to address

and explain its magnitude. Based on that same data, the CAISO should articulate how this possible market change benefits the market, the CAISO and the market participants. For example, there are situations surrounding generation, transmission and other market factors that would indicate that e-tagging in the day-ahead could be less reliable than e-tagging 20 minutes before flow or 10 minutes before ramp. The CAISO needs to work with stakeholders to consider such factors. Without evidence of a problem and that e-tagging is the correct solution, the better approach is for the CAISO to continue to monitor for instances where a failure to tag at the time of a day-ahead bid creates real and measurable harm to the market. If that occurs, the CAISO should put the market on notice of its concerns and address appropriate corrections at that time.

- Trade Type Identification: One of the stated reasons for considering a change to the e-tagging rules would be to allow the market to distinguish between physical and virtual trades. The CAISO confirmed during the October 28 Call that it would adopt a flag that would apply to each virtual trade, just as other ISOs and RTOs have done. Thus, when convergence bidding is implemented, the CAISO and the market will have the right tool for distinguishing between a virtual trade and a physical trade. It would appear that E-tagging physical trades would be superfluous.
- Permitted Activity: As the CAISO has acknowledged, there is no obligation to tag day-ahead bids or to have supply confirmed before bidding. Similarly, the CAISO has encouraged market participants that want to alter their position as the market moves from day-ahead to real time. For example, in the Bid to Bill-Interties training delivered by the CAISO, Module 6, Real Time Market A,¹ the CAISO acknowledges that market participants can send an economic signal telling the ISO that the bidder is willing to buy back what it sold day-ahead, noting that “as long as you give us an economic signal and you are in the money we’re more than happy to buy back your day-ahead schedule.” This market structure has been vetted as a precursor to MRTU implementation and should not be changed without thoughtful consideration.
- Non-Delivery: During the stakeholder call, a market participant mentioned that there may have been instances where entities submitted intertie bids and subsequently did not deliver power. The stakeholder went on to argue that a day-ahead e-tagging requirement would avoid this problem. Based on information currently available, it is not clear that there is any material non-performance that can or should be corrected through e-tagging. First, during the course of other stakeholder initiatives related to implementing MRTU, there have been several instances where market participants shared stories of receiving conflicting dispatch instructions, late dispatch instructions, late notice of HASP failures and other market issues that impeded optimal performance. The record in the exceptional dispatch stakeholder initiative highlights some of these same issues. It appears from this information that any delivery concerns were the predictable result of implementing a new market. It would be premature to alter e-tagging rules in response to such market initiation growing pains, especially when the CAISO has explained that it has not seen any adverse impact to its market arising from the existing e-tagging rules.

¹ <http://www.caiso.com/mrtu/B2BI/index.html>.

Second, contrary to the stakeholder's suggestion that e-tagging is the solution, changing the e-tagging deadline would provide false comfort. It is true that the e-tag would indicate that the seller had physical supply, but as is completely appropriate, the CAISO also acknowledged that market participants are free to amend a tag at any time and for any reason. Thus, while the tag purportedly would represent supply into CAISO's system, suppliers could decide not to deliver that power to the CAISO just as they can today for both tagged and untagged day-ahead bids. So, based on what we know, imposing Option 2 or 3 would not give the CAISO any appreciable benefits over the current system.

- **Participant Preferences:** Calls to implement a requirement that parties e-tag prior to the existing WECC deadline would amount to a new requirement that market participants can only participate in the day-ahead market when they have firm supply and corresponding load. The CAISO market has never had such a requirement and implementing one now would be bad for the market. First, it would essentially favor asset owning suppliers over power marketers because market participants would no longer be able to bid day-ahead in anticipation of subsequently securing supply from a variety of sources throughout the West. This in turn would reduce liquidity in the day-ahead market and make the CAISO more dependent on fewer suppliers to import power to the state. It also could have adverse impact on prices if the fewer suppliers could drive up prices as a result of reduced competition. Finally, it could mean that the CAISO would be searching for supply closer to real time. The CAISO should consider whether it makes sense to alter the market in this way, especially when there is no evidence that the status quo is not working.

2. What comments do you have regarding maintaining the status quo (Option 1)?

Based on the information presented in the Issue Paper, CEI supports maintaining the status quo. CEI is open to considering other options if more information becomes available that indicates that the tagging rules need to be changed.

3. What comments do you have regarding timing requirement with reporting (Option 2)?

CEI does not support Option 2 because there is no record to indicate that the change is needed.

4. What comments do you have regarding timing requirement with financial implications (Option 3)?

CEI does not support Option 3 because there is no record to indicate that the change is needed.

5. What other solutions would you recommend to resolve issues in number 1 above with no change to the E-Tag Timing Requirement (Option 4)?

Use a virtual bidding flag when the CAISO implements convergence bidding.

6. What comments do you have with the stakeholder timeline?

If the CAISO intends to maintain the status quo, then the timeline is acceptable. If the CAISO is going to adopt an e-tagging rule, then there are a number of other corresponding rule changes that will need to be considered (*e.g.*, altering Section 37.3). Furthermore, any change to the status quo must be coordinated through the WECC. The timeline is too short to accomplish either.

7. Others?

Not at this time. CEI may respond to the CAISO's draft proposal and other stakeholder comments on November 25, 2009.