California Public Utilities Commission

Comments on CAISO Straw Proposal:
E-tag Timing Requirements Initiative

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CPUC staff is pleased to provide comments on CAISO's proposal on E-tag Timing Requirements Initiative.

Currently the CAISO follows the Western Electricity Coordinating Council (WECC) Business Practice Schedules, WECC Pre-scheduling conventions and North American Electric Reliability Corporation (NERC) reliability standards related to e-tag processing and timing. It also considers e-tags of resources late if they are not submitted by the Purchasing Selling Entity at least 10 minutes prior to the hourly ramp, or 20 minutes prior to the start of the operating hour (T-20 minutes) for WECC. Some stakeholders state that there is no evidence that the lack of a mandatory day-ahead e-tagging has resulted in an operational or reliability problem under Market Redesign and Technology Upgrade (MRTU) so there is no need to change this timing. However, the CPUC staff is concerned that the current timing for e-tagging will not provide the same level of reliability when the virtual bidding market starts up in February of 2011.

Overall, CPUC staff sees benefits to the CAISO proposal. CPUC staff believes that the CAISO should require e-tag timing earlier than in the current process and CAISO should retain e-tags for the following important reasons:

- DMM's recommends that submitting e-tags 20 minutes prior to Hour Ahead Scheduling Process (HASP) market would allow market participants to procure transmission that became available in the evening of the prior day. Requiring the e-tags to be submitted earlier than HASP market--but not at the day-ahead period--will also help the CAISO market maintain the desired volume of bidders.

- According to the Congestion Revenue Rights (CRR) Settlement Rule,, if the CAISO determines that a market participant is both a Convergence Bidder and a CRR holder, and if this participant actively engages in virtual bidding results that results in a significant impact on the value of the market participant's CRR in the day-ahead market, then the CAISO will "claw back" the market participant's additional revenue. This CRR Settlement Rule can only be effective when CAISO can distinguish between virtual and physical bids because the CRR Settlement Rule is only applied to virtual bids identified. Without the e-tagging of physical resources, there may be incentives for market participants to submit implicit virtual bidding and avoid a claw back payment penalty as suggested by the CAISO CR Settlement Rule.

- By not e-tagging and allowing implicit virtual bidding there are higher transaction costs for implicit virtual bidding than utilizing convergence bidding as pointed out by the CAISO proposal.

In conclusion, the CPUC staff believes that the CAISO should require e-tagging of resources. However, to accommodate flexibility and market liquidity, such tagging should not be required within the day-ahead market. Such tagging can be done *after* the day-ahead market but *before* the HASP in order to provide a balance between reliability, appropriate monitoring of the virtual bidding market, as well as scheduling flexibility, for example, to accommodate dynamic schedules for renewable energy. As far as HASP intertie schedules Decline Charges, CPUC staff believes that there should be a stricter non-performance penalty. But such a penalty should not be so high that it will negatively impact liquidity.

CPUC staff looks forward to working with CAISO and other stakeholder to resolve outstanding issues related to CAISO's e-tag timing initiative.