PG&E Comments

Subject: E-Tag Timing Requirements

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Pacific Gas & Electric (PG&E) appreciates the opportunity to participate in the E-Tag Timing stakeholder process and to submit comments regarding the October 22, 2009 Issue Paper and the October 28, 2009 Conference Call. PG&E offers the following comments regarding the CAISO's E-Tag Timing Proposal.

PG&E is supportive of establishing and enforcing a more stringent e-tagging timeline. This will increase reliability by confirming the intention of intertie schedules before HASP. Moreover, it will also help to deter implicit virtual bidding and help support Convergence Bidding.

Two elements of the Board-approved Convergence Bidding proposal depend heavily on CAISO's ability to correctly identify intertie bids as physical or virtual. First, in the IFM scheduling run two separate sets of constraints will be enforced for the interties, one which includes both physical and virtual bids and another which only considers physical bids.[1] For the second constraint to be meaningful, and to conform with NERC and WECC reliability standards, it is essential the CAISO be able to effectively differentiate between physical and virtual schedules.

Second, the proposed CRR Settlement Rule depends on the correct identification of virtual and physical bids since the Rule only applies to virtual bids. To avoid a claw back payment, market participants may be incentivized to engage in implicit virtual trading rather than correctly flagging their convergence bids. Such behavior would simultaneously decrease the reliability of power delivered over the interties and undermine the effectiveness of the CRR rule.

[1] The concern is that virtual counter-flows could allow a set of physical intertie schedules to clear the IFM that would violate established scheduling limits for one or more inter-ties, which would in turn violate NERC and WECC reliability standards. Moreover, given California's dependence on imported power, failure to observe the scheduling limits with respect to physical imports and exports in the IFM could result in the IFM accepting a set of import schedules that may not be fully deliverable in real time. To avoid such problems the ISO proposes that the design of convergence bidding at the interties include the enforcement of a constraint within the IFM optimization that will ensure that physical intertie schedules are within the required limits. *CAISO Addendum to the Draft Final Proposal for the Design of Convergence Bidding, Oct. 2, 2009, p.8.*

For the reasons outlined above, it is important that the CAISO have a mechanism to help enforce the intentions of traders that are scheduling physical energy at the interties. Simply flagging a schedule as physical at the time of bid submission is a weak statement of confirmation. A firm confirmation of intention is the submission of an e-tag.

That notwithstanding, PG&E is also sensitive that any new requirement not impose an unworkable burden for traders scheduling energy over the interties. The CAISO should not impose an absolute WECC pre-schedule day-ahead 1500 e-tag deadline on IFM market results. Such a deadline does not provide sufficient time to conclude all trading actions associated with IFM awards issued at 1300. PG&E endeavors to tag as soon as possible, often time before 1500. But sometimes this deadline cannot be met and should not be the firm and final requirement. Finally, any solutions adopted by the CAISO must not adversely affect physical bilateral trading opportunities and must not contravene WECC tagging conventions.

PG&E suggests the e-tagging deadline for day-ahead transactions be moved up to a time nominally before the beginning of HASP. The current HASP deadline is TH-75 minutes, so PG&E suggests TH-90 minutes as a workable deadline for e-tagging of IFM transactions. Such a deadline would allow the CAISO to adequately distinguish between physical and non-physical intertie transactions prior to running HASP and would leave maximum flexibility for scheduling coordinators to firm up their trades.

Potential CAISO E-tag Timing Options

Option 1: Maintaining the Status Quo

Do Not Support. PG&E supports an accelerated tagging deadline (e.g., TH-90 min.) that will support both market reliability and Convergence Bidding and does not impose an unworkable requirement on traders.

Option 2: New Timeline with Reporting

Support. As stated above PG&E supports moving the e-tagging requirement to a time nominally before the beginning of HASP (e.g., TH-90 min.). If adjustments to a day-ahead schedule are made in HASP, then the scheduling coordinator would adjust the e-tag to reflect the HASP schedule amount.

PG&E suggests the CAISO initially implement with a reporting requirement only and recommends two types of reporting. First the DMM would publish quarterly the number of incidents in which the new e-tagging requirement is violated in its Quarterly Report on Market Issues and Performance. The report would include the names of the market participants and the interties involved. The release of the violation information with the identity of the participant would serve a beneficial sunshine regulation function in enhancing overall reliability and Convergence Bidding performance. Second, the DMM would refer to the FERC Office of Enforcement those participants that repeatedly violate the new e-tagging requirement.

If more significant enforcement action is deemed necessary after the CAISO gains experience with the new requirement, PG&E would be open to consideration of other options.

Option 3: New Timeline with Financial Enforcement

Do Not Support Financial Enforcement at this Time. Option 3 would treat schedules that are untagged before HASP as virtual schedules with the possible application of a monetary penalty. PG&E prefers the Reporting Option over Financial Enforcement. Such monetary sanctions may just become internalized by market participants engaging in implicit virtual bidding, thereby defeating some of benefits of the added tagging requirements. As indicated above PG&E would be open to consideration of more severe sanctions if experience with the new rule shows that this is needed.

Additional Options or Comments

While PG&E has no further recommendations at this time, PG&E does support the discussion of other possible solutions.