Price Inconsistency Caused by Intertie Constraints

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The dual constraints are required solely due to virtual bidding. If the CAISO opts for a "make-whole" payment to pay physical exporters when the dual constraint binds, then the uplift created by these payments should be exclusively funded by virtual inter-tie bidders. Any charge of such uplift to physical transactions would be contrary to cost-causation, and unreasonable.

We note, physical importers are already eligible for (Bid Cost Recovery) BCR payments. To the extent a BCR payment is the result of the dual-constraint, measured demand should not pay this uplift, but instead, virtual inter-tie transactions should pay this uplift. SCE supports uplifts arising from the dual constraints issue to be allocated solely to virtual bidding activity.

Finally, if the CAISO feels that this is impacting inter-tie transactions to the degree that it is causing a reliability issue, they should take immediate action. We note the CAISO's tariff empowers it to suspend/eliminate virtual bidding at any location if such bids create a reliability issue. Thus, the CAISO has authority to "turn off" virtual bids at the interties under these conditions.

SCE also suggests that the CAISO explore the following option: if both the physical constraints and the virtual constraints are binding in the scheduling run, then exclude all virtual bids on the ties from the market and in the subsequent pricing run. This effectively identifies the conditions that virtual bids may be problematic and thus need to be "turned off" at those locations and it should result in consistent prices, and will still allow virtuals to set prices under most circumstances.