

Stakeholder Comments Template

CAISO Draft Final Proposal: E-Tag Timing Requirements Initiative

Submitted By (Name & phone number)	Company or Entity	Date Submitted
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Southern California Edison Company ("SCE") would like to thank the California Independent System Operator Corp. ("CAISO") for providing the opportunity to submit comments on the "Draft Final Proposal for E-Tag Timing Requirements Initiative" ("Draft Final Proposal"), dated January 7, 2010. SCE finds that as a whole the Draft Final Proposal strikes an even balance between changing the e-tag timing requirements and the status quo as a means to discourage implicit virtual bidding on the inter-ties. In this vein SCE provides comments on the following elements of the proposal: (1) HASP Reversal Settlement Rule; (2) CRR Settlement Rule applied to inter-tie HASP reversals; and (3) Bid Cost Recovery Uplift Physical vs. Convergence Bidding.

HASP Reversal Settlement Rule

The Draft Final Proposal includes a HASP Reversal Settlement Rule that seeks to allow appropriate HASP reversals while closing potential incentives that may facilitate implicit virtual bidding. This proposed rule removes the arbitrage opportunity under an implicit virtual bidding strategy for all day-ahead inter-tie schedules that don't have a supporting e-tag. The rule does not consider the time an e-tag is submitted, but rather applies to the day-ahead MW quantity which is not supported by an e-tag.

It is SCE's belief, as previously stated in comments submitted to the CAISO December 21, 2009, that the crowding out of physical supply by virtual bids can be solved with the modification of day-ahead transaction tagging requirements. The change SCE proposed would require the tagging of day-ahead schedules on the inter-ties prior to the publishing of applicable HASP market results (45 minutes before the hour), but after the transmission rights are available in other WECC balancing areas. Implementing this tagging requirement would address (1) the CAISO's current inability to clearly distinguish physical from virtual transactions on the inter-ties, and (2) the crowding out of physical supply by implicit virtual bids¹.

¹ SCE Comments on CAISO E-Tagging Straw Proposal, December 21, 2009.
<http://www.caiso.com/248c/248cc6ec36a60.pdf>

However, it would appear the reversal rule being proposed in the Draft Final Proposal is a reasonable compromise between revising the e-tagging timing requirements and the keeping the status quo.

SCE would not oppose the CAISO moving forward with the HASP Reversal Settlement Rule provided the CAISO add language to exclude ETC/TOR transactions. SCE contends that the CAISO cannot penalize holders of transmission rights from exercising the terms of those rights. Since these rights are communicated through self-schedules, changes in schedule should not be caught up in efforts to reduce implicit virtual bidding. Additionally, SCE requests that the CAISO clearly state that this rule does not apply to dynamic transfers since changes to such transfers are handled in RTM not HASP.

SCE's expectation is that the reversal rule would become effective in conjunction with allowing virtual bids on the inter-ties. If technical or regulatory issues arise and the proposed rule is not in place for the start of virtual bidding, the CAISO should not allow virtual bids on the inter-ties until all issues are resolved.

CRR Settlement Rule Applied to Inter-Tie HASP Reversals

The Draft Final Proposal will apply the virtual bidding CRR settlement rule to day-ahead inter-tie awards that are reversed in HASP by a market participant. Consistent with the virtual bidding rules the settlement for inter-tie reversals would apply to the entire MW quantity reversed in HASP.

In principal SCE supports applying the virtual bidding CRR settlement rule to day-ahead inter-tie awards reversed in HASP, not just those reversed by some percentage (e.g. 100%). Without such a rule, physical schedule changes have the potential to influence CRR values, especially on inter-ties with low transfer capacity. The proposed rule would add additional costs of reversing a HASP transaction, and as a result help deter participants from using physical bids to inflate CRR revenues.

SCE would not oppose the CAISO moving forward with the CRR settlement rule applied to inter-tie HASP reversals provided the CAISO add language to exclude ETC/TOR transactions. SCE contends that the CAISO cannot penalize holders of transmission rights from exercising the terms of those rights. Since these rights are communicated through self-schedules, changes in schedule should not be caught up in efforts to reduce implicit virtual bidding. Additionally, SCE requests that the CAISO clearly state that this rule does not apply to dynamic transfers since changes to such transfers are handled in RTM not HASP.

Bid Cost Recovery Uplift Physical vs. Convergence Bidding

The Draft Final Proposal intends to subject implicit virtual bids on the inter-ties to IFM or real-time uplift charges. Applying uplift charges to implicit virtual bids on the inter-ties is a reasonable attempt to further eliminate any cost incentives for submitting implicit rather than explicit virtual bids.

SCE supports the allocation of uplift cost based on cost causation principles, and as such supports the CAISO's proposal to apply uplift charges to implicit virtual supply and demand bids over the inter-ties.