Stakeholder Comments Template
Subject: E-Tag Timing Requirements

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 etagtiming@caiso.com. Submissions are requested by close of business on November 4, 2009.

Submitted by	Company	Date Submitted
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Please submit your comments to the following questions for each topic in the spaces indicated.

1. **What comments do you have relating to issues identify in the Issue Paper dated October 22, 2009, or other issues relating to determining physical Day Ahead schedules?**

Southern California Edison Company ("SCE") would like to thank the California Independent System Operator Corp. ("CAISO") for providing the opportunity to submit comments on its "E-tag Timing Requirements Initiative" Issues Paper ("Issues Paper"), revised October 22, 2009.

SCE greatly appreciates the work that went into developing the Issues Paper, and commends the CAISO for this first step forward toward solving the many issues revolving around E-Tag requirements. At the same time, SCE cautions that making E-Tag requirements more restrictive could adversely impact the CAISO and its market participants by: (1) reducing the amount of time they would have to secure energy and transmission to meet their awards in the day-ahead market; and (2) place both at a disadvantage by being out of sync with other balancing authority regarding the timing of when transmission routinely becomes available. As such, it is SCE's contention that focusing solely on revising E-Tag requirements to "support both the CAISO market functions as well as reliable grid operations" may not fully resolve the key issue driving this initiative, which is the desire to discourage implicit virtual bidding on the inter ties.

One of the major market improvements promised by the CAISO in the development of virtual bidding is the ability to eliminate the practice of "implicit" virtual bidding. To this regard, the CAISO board of governors approved the implementation of a virtual bidding design allowing for market participants to submit virtual bids at the nodal level, including inter-ties. During the numerous policy discussions on the nodal virtual bidding, in particular on the inter-ties, stakeholders raised many reliability and market concerns with respect to allowing virtual bids on the inter-ties. One of those concerns was to ensure the IFM would not "over-schedule" physical imports on the inter-ties. Another concern stakeholders had with the CAISO's virtual bidding design proposal was that embedded within were potential unintentional incentives to flag virtual transactions as physical in the IFM so as to avoid transaction costs and CRR clawback provisions.

It is SCE's expectation that the outcome of this stakeholder initiative will satisfactorily address the concerns raised by stakeholders in the virtual bidding stakeholder process. In particular, this stakeholder process must address the following three issues:

Clearly Distinguish between Physical and Virtual Transactions on the Inter-Ties

The CAISO proposal to allow virtual bidding on the inter-ties is meant to allow market participants to engage in explicit virtual bidding in order to eliminate the incentives for parties to engage in implicit virtual bidding, which can negatively impact reliable operations[1]. To address this issue, the CAISO is will introduce a new constraint in the IFM scheduling run for each inter-tie scheduling point requiring net physical schedules across the inter-ties be within their respective established scheduling limits, while ignoring accepted virtual bids.

To gain maximum market efficiency from enforcing this constraint the CAISO must have a clear way to distinguish between physical and virtual transaction at the inter-ties. Failure to do so would allow perceived physical schedules to crowd out actual physical schedules and not be discovered until the HASP market, at the earliest. As a result, RUC would make an incorrect assumption that it had sufficient capacity to serve forecast load and miss the opportunity to procure physical capacity. Ultimately, the energy associated with the perceived physical schedule will have to be replaced in real-time, potentially increasing overall costs to the market. A corollary affect of this scenario is that it has a strong likelihood to contribute to a divergence between HASP and RT prices – increasing real-time imbalance energy offset costs.

Another potential outcome of not clearly distinguishing between physical and virtual transactions, as raised by the MSC, is by crowding out actual physical transactions the prices that come out of the IFM pricing run may be higher than those of the scheduling run - create a disconnect between offer prices and LMP's.

The outcome of this stakeholder process must address this issue and ensure CAISO can clearly distinguish between physical and virtual transactions on the inter-ties.

[1] CAISO Virtual Bidding Design Final Draft Proposal, page 6

<u>CRR Clawback Rule</u>

As part of the CAISO's virtual bidding design are rules that prevent a Scheduling Coordinator (SC) from using explicit virtual bids to increase the revenues of its CRR holidings. The ability for a SC to implicitly virtual bid on the inter-ties would allow a SC to circumvent this rule and game the market of excess CRR revenues.

The outcome of this stakeholder process must prevent this type of gaming opportunity from occurring.

<u>Cost Allocation between Physical and Virtual Bids at the Inter-Ties</u>

The CAISO's virtual bidding proposal includes rules for applying transaction costs for SC's who submit virtual bids. These costs include (1) a per bid segment fee, (2) GMC charges, and (3) IFM and RUC tier 1 uplift costs. Without clear rules to prevent implicit virtual bidding on the inter-ties the potential exists for the costs of implicit virtual bidding to be lower than explicit bidding. This possibility is in direct conflict with the cost allocation principles endorsed by the MSC, which state "deviations from equitable treatment could create arbitrage opportunities between physical and financial markets for energy that may detract from overall market efficiency and system reliability".

The outcome of this stakeholder process must prevent this type of inequitable treatment from occurring.

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

As stated above the primary objective for this stakeholder initiative is for the CAISO to develop market rules that will allow them to clearly distinguish physical from virtual transactions on the inter-ties. If the CAISO has determined that the only way to accomplish this necessary objective is to modify E-Tagging requirements then it is SCE's understating that the status quo is not sufficient to meet the requirements of the CAISO virtual bidding design. However, SCE does see the potential for the CAISO to modify the incentives and clawback rule in a manner which does not require modification and therefore Option 1 (status quo) would be the appropriate course of action.

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

SCE would like the CAISO to document the procedures and processes involved with this option. Ultimately in order to better evaluate these different options SCE needs to better understand the full extent of the CAISO proposal. In particular, SCE has concerns over seams issues with the timing of other transmission markets in the west.

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

SCE would like the CAISO to document the procedures and processes involved with this option. Ultimately in order to better evaluate these different options SCE needs to better understand the full extent of the CAISO proposal. In particular, SCE has concerns over seams issues with the timing of other transmission markets in the west.

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)?

SCE is not supportive of an E-Tagging design change that would require all IFM physical inter-tie transactions to submit tags within the day-ahead time frame. Scenarios may arise where a SC with a physical inter-tie schedule may need to wait until the HASP process to submit a tag.

If CAISO has determined changes to the E-Tagging requirements are ultimately needed, SCE recommends the CAISO investigate the possibility of revising the submission deadline for E-Tags to coincide with the close of the HASP market for the delivery hour instead of T-20 minutes prior to the delivery hour.

Ultimately, SCE is concerned that certain resource types, namely resources that are intermittent by nature, would require tags at a point in time where they can not be forecast with any real accuracy. If such resources were handled in an appropriate (separate) manner, then SCE could support some type of earlier tagging requirement.

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

Given the primary objective of this initiative SCE would be supportive of any changes being implemented coincident with the implementation of software changes that allow virtual bidding on the inter-ties.

7. Others?

SCE requests the CAISO clearly state in the next white paper the minimum timing requirements for submitting E-Tags. A lot of confusion exists between what is required versus what is "recommended". Especially, given the chart included in the current white paper on page 4.