Stakeholder Comments Template

Subject: **CASIO Straw Proposal for Participation Of Non-Generator Resources in California ISO Ancillary Services Markets - Issued October 14, 2009**

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 "Straw Proposal E-tag Timing Requirements Initiative" ("Straw Proposal"), dated December 07, 2009.

SCE appreciates the work that went into developing the Straw Proposal, and the identification of potential measures "to ensure that the ISO can effectively differentiate between physical and financial (implicit or explicit virtual) bids on the inter-ties". The Straw Proposal attempts to eliminate any cost advantage for performing implicit virtual bidding rather than explicit virtual bidding. Unfortunately, it fails to address the core issue: the CAISO's ability to clearly distinguish between physical and financial/virtual imports and exports. Without solving this problem, implicit virtual bids may crowd out physical imports from the IFM and adversely impact the pricing and optimization results of the IFM. SCE has recently filed comments with FERC asking the Commission to prohibit virtual bids on the inter-ties until the CAISO has the ability to distinguish between physical and virtual imports[1].

At issue is an implicit virtual bid's ability to bind the "physical" constraint at an inter-tie in the IFM by essentially submitting bids at prices lower than economic physical bids. As a result, implicit virtual bids will be selected over physical bids by fooling the IFM software

[1] Docket Nos. ER10-300-000 - SCE Comments on CAISO Convergence Bidding Design Policy, December 11, 2009. Page 6.

into thinking it has solved the constraint by selecting what it has determined to be the lowest cost physical resources. In the subsequent pricing pass of the IFM virtual counter-flow is allowed to “un-bind” the constraint and create room for only virtual imports to be scheduled and ultimately set the LMP prices for the inter-tie. The end result is a physical bid, at say $50/MWh, can be crowded out by an implicit virtual bid, but the final LMP can be well in excess of $50/MWh. This higher LMP is due to the additional virtual supply clearing the market under the “combined” constraint at the inter-tie.

SCE views the ability of implicit virtual bids to crowd out physical supply and create disconnects between offer prices and final LMP’s as a significant issue, and an item that the CAISO needs to rectify in this stakeholder process. As such, it is unfortunate that the Straw Proposal, while being a step in the right direction, does not go far enough to correct this problem.

Recommended Rule Changes to Address Implicit Virtual Bidding

After re-reviewing the Straw Proposal and the previous discussion paper it is now SCE’s belief that the issue of crowding out of physical supply by virtual bids can be solved by modifying day-ahead transaction tagging requirements. This would be a targeted and relatively low impact solution, especially in-light of the fact that today over 90% of all day-ahead schedules submitted to the CAISO are tagged by 1500 hrs the day before the operating day (according to the recent DMM analysis on this issue).

SCE recommends the CAISO consider the following proposed rules in-conjunction with the Straw Proposal. These proposed rules combined with those found in the Straw Proposal should allow the CAISO to reasonably distinguish between physical and virtual transaction on the inter-ties and eliminate any cost incentives for participants to submit implicit virtual bids.

1. Change the CASIO Tariff to require all day-ahead schedules on the inter-ties to be tagged before the applicable HASP market results are published (45 minutes before the hour) but after the transmission rights are available in other WECC balancing areas. SCE notes that this recommendation is being made with the understanding that

most, if not all, transmission in other control areas will be "released" prior to this deadline. Such a rule change would provide a meaningful barrier for parties "actually" submitting virtual transactions with no intention of lining up physical supply/load to back their physical day-ahead purchase/sale. That is, at the time a market participant submits a day-ahead bid, they know they have an obligation to provide a physical tag prior to the HASP results. It is SCE's view that a tagging requirement of this nature would address the issue of the CAISO's current inability to clearly distinguish physical from virtual transactions on the inter-ties. It would also deal with concerns regarding the crowding out of physical supply by implicit virtual bids. SCE believes, based on the discussion to date on this topic, this is the most effective solution, but remains open to considering additional facts as to why it is either unworkable or undesirable.

Based on information released by the CAISO, such a change would only impact about 10% of the current market, while having zero impact on 90% of day-ahead schedules submitted in the IFM. SCE does not foresee this rule would harm market efficiency since parties could still sell day-ahead and then arrange their physical transaction (transmission and source/sink) closer to real-time.

2. SCE feels its proposed change to E-tag timing requirements should become effective once virtual bidding is allowed on the interties. A change of this nature to the E-tag timing requirements is necessary in-order to allow the CAISO to properly distinguish between virtual and physical bids on the interties. SCE has also noted in recent comments to the FERC, virtual bids should not be allowed on the interties until the CAISO can clearly distinguish between physical and virtual bids.

3. All Day-ahead schedules would require a tag prior to the posting of HASP results, and this tag would require both transmission and source/sink information. However, if parties change their schedules in the HASP, they could simply modify the E-tag so it corresponds with the volume cleared by HASP.

4. CRR clawback rule should apply to all day-ahead awards that are reversed in HASP, not just those that are reversed by 100%.

5. The CAISO proposal to increase HASP charges and removing the exemption threshold for HASP inter-tie schedule changes as identified in section 11.31 of the CAISO Tariff should be adopted. However, SCE feels if these changes are implemented the CAISO should develop a tolerance band (5% -10%) to address rare but legitimate reasons why market participants would be unable to tag their IFM awards by the new deadline. For example, if SC1 submits tags for 99% of all day-ahead transactions prior to the posting of HASP, but 1% of the time that have operational issues and are not able to submit a tag prior, they should be exempt from any penalties. The CAISO should be trying to address systematic "bad behavior", and not penalize SCs for occasional issues that are beyond their control. A small tolerance band helps address these issues.

Clarification of Existing CAISO E-Tagging Requirements

SCE would like additional clarification regarding statements made by the CASIO during the December 14, 2009 E-Tag Timing Requirement stakeholder call.

Written clarification should be provided in the next stakeholder paper as it appears CAISO Operating Procedure S-313 ties directly to Section 4.5 of the CAISO Tariff, Responsibilities of a Scheduling Coordinator. More specifically, it ties to Section 4.5.3.2.2 which states a Scheduling Coordinator shall submit Interchange schedules prepared in accordance with all NERC, WECC and CAISO requirements, including providing E-Tags for all applicable transactions pursuant to WECC practices.

If it is ultimately decided that E-Tags are due prior to the publishing of HASP market results, and this is anyway inconsistent "with all NERC, WECC, and CAISO requirements" SCE recommends the CAISO modify its tariff to clarify what would be required by stakeholders. This would need to include clarification on the timing of E-Tagging in support of IFM transactions.

Request for additional information to support CAISO cost assumptions

Section 5.5 of the Straw Proposal explains that GMC market charges for physical and virtual bids (proposed in the case of virtual bids) would result in a higher transaction cost for implicit virtual bidding than explicit virtual bids. One thing the Straw Proposal does not take into account is IFM and RUC uplift charges that will be applied to those bids[2]. SCE requests the CAISO provide stakeholders with an $/MWh estimate on uplift costs for virtual bids and include those costs into its analysis to determine if any cost advantages exists for implicit virtual bidding.

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[2] SCE notes the uplift allocation rules for virtual bidding are before FERC and have yet to be approved by the Commission.