Sempra Generation Stakeholder Comments:
Pricing Inconsistency Caused by Intertie Constraints
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Submitted by	Company	Date Submitted
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Sempra Generation appreciates this opportunity to provide the following comments regarding the Pricing Inconsistency Caused By Intertie Constraints Draft Final Proposal, presented on May 25, 2011.

- <u>The CAISO Proposed Option A Would Reduce the Effectiveness of Convergence Bids and Should be Replaced With a Bid-Cost Recovery Mechanism for Intertie Transactions that Receive Awards Inconsistent with their Bid Price.</u>

As described in the Draft Final Proposal at page 3, physical transactions may be adversely affected by having to pay/receive a higher/lower price than they bid under circumstances in which a physical intertie constraint is binding, because the intertie price determination is based on the physical plus virtual schedule constraint. Currently, import bidders are protected from this outcome, through bid cost recovery, while export bidders are not. The CAISO proposes to resolve this discrepancy through Option A, which would determine separate clearing prices for virtual and physical transactions consistent with the submitted bids, when the physical intertie constraint is binding. This result is undesirable from the standpoint of creating an imperfect hedge for physical intertie transactions when prices separate, reducing the value of convergence bidding to market participants at the interties and increasing the potential for gaming opportunities.

An alternative discussed in the stakeholder meetings is to provide some form of bid cost recovery for intertie transactions where the physical plus virtual constraint results in a price outcome that is inconsistent with the awarded bids. Bid cost recovery is already provided for internal CAISO market transactions and intertie import transactions. This approach should be extended to intertie export transactions to address the limited circumstance where the physical import constraint is binding, and export bidders are potentially affected. This solution is appropriate in that incremental bid cost recovery amounts would only occur when the physical import constraint is binding, and potential costs to date would have been minor ($250,000 per month). Sempra Generation views this as a small cost to maintain the hedging benefits of convergence bidding at the interties for all market participants.