

Template for comments

Please use the template below to submit comments to the CAISO. Comments are due by close of business Thursday, October 21, 2010 to gmc@caiso.com.

Stakeholder Comments Template **Subject: 2012 GMC Cost of Service Straw Proposal**

Submitted by (Name and phone number)	Company or Entity	Date Submitted
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Summary: The Draft Final Proposal for the 2012 Grid Management Charge (GMC) Stakeholder Process ignores the majority of stakeholders who commented at the different stages of the Process about the necessity to change or eliminate the proposed \$1 CRR Bid Transaction Fees. In its current form, the Draft Final Proposal jeopardizes market efficiency and liquidity of the CAISO CRR market without bringing any predictable benefits. We continue to advocate the industry standard level of \$0.005 CRR Bid Transaction Fee by the proper adoption of Bid Segment Transaction Fee for energy and convergence bids for CRR market.

EMTRI continues to strongly believe that the proposed by CAISO arbitrary \$1 CRR Bid Transaction Fee is excessive and unjustifiable. EMTRI also continues to recommend a \$0.005 CRR Bid Transaction Fee by the proper adoption of Bid Segment Transaction Fee for energy and convergence bids instead.

In its Draft Final Proposal on p. 17 CAISO provided the calculation that attempts to state the equivalence of the proposed \$1 CRR Bid Transaction Fee and \$0.005 Bid Segment Transaction Fee for energy and convergence bids. The problem with this argument comes from scaling \$0.005 bid fees by the number of hours in a month for CRR Bid Transaction Fee. Such scaling is not appropriate for the following reasons. In the IFM, participants submit bids on an hourly granularity and CAISO needs to resolve each hour separately and then all hours together in order to come up with an hourly price as a part of unit commitment and dispatch process. The energy and convergence bids require the daily auction accompanied by RUC and then real-time process every day of the month / year. In contrast, there is no such variation across hours in the CRR market, just the two times-of-use (TOUs) which should be treated distinctly. One cannot bid each CRR hour separately and CAISO does not need to solve for each hour of a CRR. The CRR price does not vary across hours within each time of use and it is as easy to solve for an hour as it is for entire TOU as all hours within a time-of-use are identical. The proper application of bid fee is per bid block – per time-of-use in the CRR case which takes into account a very different reality of the CRR and energy markets. The hours-scaling argument, while trying to back-engineer the original CAISO-proposed \$1 CRR Bid Transaction Fee, does not appear to be critically examined. The entire argument is copied essentially verbatim from the recent comments of the only market participant who specifically argued in support of \$1 CRR Bid

Transaction Fee. EMTRI continues to propose the true equalization of the IFM Bid Segment Transaction Fee and the CRR Bid Transaction Fee by charging \$0.005 per bid segment per time-of-use. This would also bring the proposed CRR Bid Transaction Fee in line with industry standards.

When CAISO designed its Bid Segment Transaction Fee of \$0.005, it used the benchmarks of other ISOs and the outcome of the Convergence Bidding stakeholder process to set this Fee. It was a good and rational choice based on careful considerations. On p. 16 of Draft Final Proposal CAISO noted that the charge of \$0.005 “does not represent a significant expense to market participants under typical scheduling practices, but is enough to deter the submission of excessive bid volumes.” The proposed CRR Bid Transaction Fee of \$1 appears arbitrary by this measure and considerations. No other ISO levies such a high charge.

Majority of stakeholders who spoke on the issue of CRR Bid Transaction Fee spoke against the proposed \$1 CRR Bid Transaction Fee and in favor of the more equitable \$0.005 or similar bid fee. Unfortunately, their opinions and suggestions on this particular issue appear to have been disregarded.

The adoption of high \$1 CRR Bid Transaction Fees will cause the market disruption by significantly reducing the volume of submitted bids and thus drastically reducing liquidity, price discovery, and market efficiency to adequately price transmission. FERC uses impact of tariff charges on liquidity, price discovery, and market efficiency when reviewing requests for tariff changes.

These bid fees also reduce the predictability and stability of the collected fees due to the significant impact of high bid fees on submitted volumes. In fact, they will result in less total revenue collected from decreased participation, as a side effect of excessive “taxation” on the market-efficient activity.

EMTRI urges CAISO and its Board of Directors to reject this \$1 CRR Bid Transaction Fee. EMTRI also urges CAISO to use \$0.005 CRR Bid Transaction Fee instead, which, when properly applied, reflects the industry standard and ensures the continuation of price discovery and liquidity in the CRR market, allowing it to remain an efficient market. At the same time such change will increase predictability and the forecastability of collected revenue, the very principles CAISO set out in the beginning of the GMC process.