

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
Michael Rosenberg	EMTRI	January 27, 2010

EMTRI strongly believes that the currently proposed arbitrary CRR Bid Transaction Fee of \$1 is excessive and should be equalized with the Bid Segment Transaction Fee for DAM Generation or Load bids, or virtual transactions (Bid Segment Transaction Fee). This CRR Bid Transaction Fee of \$1 appears to be 200 times higher than the Bid Segment Transaction Fee of \$0.005. EMTRI proposes that these charges be equalized by making the CRR Bid Transaction Fee the same as the Bid Segment Transaction Fee, i.e. \$0.005 instead of \$1.

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. In its 2012 Grid Management Charge Straw Proposal dated November 11, 2010 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 CRR Bid Transaction Fee of \$1 appears arbitrary by this measure and considerations. No other ISO levies such a high charge.

Artificially high CRR Bid Transaction Fee as compared with the Bid Segment Transaction Fee of \$0.005, will discourage participation, reduce volume and liquidity, and thus distort the price discovery of the true market cost of congestion. Reduction of volume and liquidity will act counter to the CAISO asserted direction that “if the number of unsuccessful bids increases, the CRR services rate for those participants who cleared the market will be reduced.” In fact EMTRI asserts that the number of bids will dramatically fall, thus significantly reducing the expected cash flow from the CRR Bid Transaction Fees and thus reducing the predictability and stability of the fees collected --- the very principles of the GMC process that CAISO is trying to uphold.

Since no other ISO levies or ever levied such stratospheric CRR Bid Transaction Fees on market participants, it is impossible to find a direct parallel to this proposal in the history of ISO markets. However, ISOs experimented with different levels of bid charges on virtual transactions before converging on the current industry standards. In one example of such dramatic change ISO New England introduced previously absent, high bid charges of \$0.584 on submitted virtual transactions in January 2004. As a result, the number of virtual transactions plummeted (See Fig. 2 in Sec. IV.B on p. 20 of the Report “Impact of Virtual Transactions on New England’s

Energy Market". The Report was submitted to and accepted by FERC and is available at http://www.iso-ne.com/pubs/spcl_rpts/2004/virtual_transactions_report.pdf). Later the bid charges on submitted virtual transactions were reset to the level of \$0.005, identical with the current Bid Segment Transaction Fee. Based on this experience alone it does not appear correct to infer future cash flows from the CRR Bid Transaction Fee based on the assumption of identical number of submitted bids prior to and after the proposed CRR Bid Transaction Fee. The proposed high CRR Bid Transaction Fee will lead to a significantly lower number of CRRs submitted with the accompanied decrease in liquidity and price discovery without the expected effect of increased cash flow from the CRR Bid Transaction Fee. This effect is not unlike the effect of tax increases that often lead to less tax collected, opposite to expectations. Here the change is dramatically amplified by going from zero CRR Bid Transaction Fee to a very high level of \$1. A dramatic and not fully considered change can very well have unforeseen consequences. Such dramatic changes can certainly appear to be useful a-priori, but later become highly counter-productive. The industry standard of \$0.005 strikes the right balance while increasing predictability and forecastability without the negative impact on market efficiency. EMTRI's proposed CRR Bid Transaction Fee of \$0.005 will ensure continued participation, preservation of liquidity, and market price discovery in the CAISO congestion market.