

Joint Comments of J.P. Morgan and Shell Energy North America (US), L.P. on CAISO Straw Proposal E-Tag Timing Requirements

Submitted by	Company	Date Submitted
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J.P. Morgan Ventures Energy Corporation and BE CA, LLC (together, “J.P. Morgan”) and Shell Energy North America (US), L.P., (collectively, “Joint Parties”) appreciate this opportunity to provide comments on the California ISO’s (CAISO’s) December 7, 2009, Straw Proposal on E-Tag Timing Requirements (“Straw Proposal”) and the December 14, 2009, stakeholder conference call on the same matter. Joint Parties support the CAISO’s proposal to not change the existing e-tagging timing requirements. While Joint Parties cannot at this time support the CAISO’s proposal to apply both the CAISO’s existing HASP Intertie Schedules Decline Charges and the CAISO’s proposed convergence bidding related CRR Settlement Rule to intertie HASP reversals, Joint Parties support the general direction of the CAISO’s proposal to ensure that financial incentives discourage implicit virtual bidding at the ties.

Joint Parties support the CAISO’s proposal to not change the existing e-tagging timing requirements

Joint Parties support the CAISO’s proposal to not change the existing e-tagging timing requirements for physical day-ahead import awards. As stated in Joint Parties’ previously submitted comments on this issue, neither the CAISO nor other market participants have identified a clear problem with the existing requirement that, consistent with the WECC requirement, permits participants to finalize e-tags up until 20 minutes before the operating hour. Joint Parties concur with the CAISO’s assessment that establishing a new e-tagging timing requirement would not definitively address expressed concerns about implicit virtual bidding at the interties. Joint Parties also agree with the CAISO that establishing a day-ahead e-tagging requirement may reduce liquidity in the market and would require greater discussion/coordination among other Balancing Authority Areas (BAAs) and the WECC. For those same reasons, Joint Parties do not support alternative suggestions that e-tags be required prior to the start of the HASP. While Joint Parties are not opposed to the CAISO discussing this issue further with other BAAs and market participants in the West, Joint Parties are concerned that such a requirement may in fact create seams issues with other areas and would in fact not address the issue of concern.

Joint Parties generally support the CAISO's proposal to align financial incentives to discourage implicit virtual bidding

In concept, Joint Parties agree with the CAISO that it is important to, "... ensure that the incentives, penalties and costs provide the appropriate economic signals to market participants that discourage implicit virtual bidding." (Straw Proposal at p.5). At this juncture, however, Joint Parties remain unconvinced that the CAISO's proposal to expand and apply both the CAISO's existing HASP Intertie Schedules Decline Charges and the CAISO's proposed convergence bidding related CRR Settlement Rule to intertie HASP reversals is necessary or would be effective at addressing the CAISO's concerns regarding implicit virtual bidding. Rather, Joint Parties recommend that the CAISO continue to closely monitor bidding activity at the ties and, should it identify anomalous behavior, then consider imposition of the charges/rules it has proposed or other appropriate measures.

While Joint Parties support consideration of the financial incentives proposed by the CAISO, Joint Parties are concerned that application of measures such as the CRR Settlement Rule, a rule designed to address specific concerns associated with convergence bidding, may have unintended consequences when applied to physical trades and schedules. The proposed CRR Settlement Rule for convergence bidding is multi-dimensional and the mechanics complex. Joint Parties request further time to evaluate the impact of applying such a rule to physical bids and a further description of how the CAISO would apply the rule to physical intertie bids and schedules. The CAISO should proceed cautiously when considering the imposition of additional charges on physical import/export bids; bids/offers that the CAISO frequently relies on to address its energy requirements.

In addition, while application of the HASP Intertie Schedules Decline Charges to those entities that fail to deliver on their day-ahead and HASP schedules in real-time may create incentives to address certain instances of implicit virtual bidding, i.e., those circumstances where participants fail to deliver on day-ahead awards in real time, it would not address all instances and may thus prove to be ineffective or an incomplete solution. To be clear, Joint Parties support application of the HASP Intertie Schedules Decline Charges Decline to those that fail to deliver in real-time. However, Joint Parties do not support application of these charges to all changes to day-ahead awards, as this would unnecessarily punish those entities that fully intend to deliver on day-ahead market awards but legitimately modify their day-ahead schedules in HASP in response to CAISO market signals or operating requests. Joint Parties believe this position is consistent with the CAISO's proposal, as discussed on the December 14, 2009, conference call. Finally, Joint Parties do not support changes to the current exemption threshold; a threshold that was vetted in an extensive stakeholder process and strikes a careful balance between discouraging declined bids while not imposing penalties when it is reasonable and necessary to decline awarded bids.

Based on the fact that, as stated by the CAISO, 95% of participants already submit e-tags consistent with the WECC pre-scheduling timeframe, i.e., the day before actual delivery, it is not at all established that there is an issue that needs to be addressed. Joint Parties recommend that the CAISO continue to monitor overall market results and individual market participant behavior and, to the extent anomalous behavior is identified, propose appropriate rules to align market participant behavior with financial incentives in the market.

Joint Parties appreciate the opportunity to submit these comments and commend the CAISO for considering the comments of market participants in developing proposed solutions. Joint parties look forward to continued participation in this initiative.