

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

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the following topics covered in the October 20th Market Notice regarding E-tagging. Upon completion of this template please submit (in MS Word) to etagtimg@caiso.com. Submissions are requested by close of business on **November 4, 2009**.

Please submit your comments to the following questions for each topic in the spaces indicated.

1. What comments do you have relating to issues identify in the Issue Paper dated October 22, 2009, or other issues relating to determining physical Day Ahead schedules?

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) October 21, 2009, as amended October 22, 2009, Issue Paper entitled E-Tag Timing Requirements (“Issue Paper”) and the October 29, 2009, stakeholder conference call on the same matter.

Imposition of a Day-Ahead or Pre-HASP E-tagging Requirement May Impose Unnecessary Restrictions on Importers, Reduce Liquidity, and Create Seams Issues

As represented in J.P. Morgan’s October 14, 2009, comments to the CAISO on the CAISO’s Convergence Bidding proposal, Joint Parties do not support a requirement to submit a NERC e-tag with all physical day-ahead import awards. Nor do Joint Parties support a requirement to submit a NERC e-tag prior to the CAISO’s Hour Ahead Scheduling Process (“HASP”). As acknowledged by the CAISO, currently WECC permits entities to submit and finalize e-tags up until 20 minutes before the operating hour. While Joint Parties understand the CAISO’s desire to

firm up and be able to rely on day-ahead import schedules, there may be legitimate business reasons why an importer is unable to secure or finalize an e-tag in the day-ahead timeframe. First, while an importer may have every intent to deliver on an import bid awarded in the CAISO's day-ahead market, that importer may need to finalize its supply arrangements outside of the CAISO's Balancing Area and thus may be unable to finalize a NERC e-tag in the day-ahead. Second, the importer may need to secure and finalize transmission service to the CAISO's Balancing Area and once again may be unable to finalize service arrangements in the day-ahead market. An explicit requirement to submit a day-ahead NERC e-tag may impose unnecessary burdens on importers, increase risk premiums, and may reduce otherwise available import bids into the CAISO's market. Moreover, imposition of a day-ahead tagging requirement to increase the "reliability" of imports may in fact have the opposite effect. To the extent that the CAISO implements a day-ahead or pre-HASP e-tagging requirement, importers may be forced to rely on non-firm transmission for delivery to California; an outcome that would reduce, not improve, reliability. In addition, imposition of an earlier e-tagging requirement may reduce the ability and incentive for market participants to flexibly respond to price signals and the CAISO's operating requirements. As has been seen over the first several months of the CAISO's new market, HASP prices have been at times very low as a result of the CAISO needs to sell/export excess energy. Imposition of a day-ahead e-tagging requirement, and the concomitant need for importers to line up firm transmission and supplies in the day-ahead timeframe, may make importers reluctant to back out of day-ahead market awards and flexibly respond to CAISO operating day price signals.

Finally, as noted on the October 28, 2009, conference call on this issue, the WECC region has historically relied on its geographic and seasonal diversity to ensure that excess capacity/energy is made available to those in need. The CAISO should move cautiously before implementing any measures that may disrupt or impact the regional and seasonal exchange of power or otherwise create "seams" issues between California and the rest of the West. Joint Parties recommend that the CAISO raise its concerns and possible remedies with both WECC and regional transmission providers prior to finalizing any proposal.

CAISO Needs to Clearly Identify the Problem and Clearly Identify Anomalous Bidding Behavior

Perhaps most importantly, and prior to proceeding further with this effort, the CAISO should first attempt to clearly identify and articulate the "problem" or "issue" that the CAISO is attempting to address through this initiative. In the Issue Paper, the CAISO states that¹:

Certain market participants have expressed concern that the ISO's current e-tag timeline may result in **reduced reliability and unintended market impacts**. For example, their assertion is that day-ahead import schedules for which energy and transmission are not procured in the day ahead timeframe and are not substantiated by submission of day-ahead e-tags **may not provide the ISO the same certainty regarding the real-time delivery of the imports as those for which day-ahead e-tags are submitted...**

Some market participants have also argued that only requiring submission of Requests for Interchange (RFI's or e-tags) after HASP allows parties to engage in **"implicit virtual bidding"** at the interties, i.e., day-ahead interchange

¹ CAISO Issue Paper at pp.3-4 [emphasis added].

transactions which the market participant intends to liquidate in the HASP rather than deliver in real time and that are not backed by actual physical resources. This type of activity could result in reliability to the extent a schedule clears the HASP clears but is not delivered in real time.

Market participants have also argued that **under convergence bidding**, which the ISO intends to implement by February 1, 2011, without additional tagging requirements **market participants may have incentives to provide “implicit virtual bids” to avoid market costs and rules** such as the Congestion Revenue Rights (CRR) claw back rules, certain Grid Management Charges (GMC), and the convergence bidding IFM and RUC Tier 1 uplift cost allocation.

In addition, on the October 28, 2009, conference call, the CAISO represented that certain market participants have represented that the tariff requirements regarding the submission of e-tags may not be sufficiently clear.

With respect to the identified “reliability” and “certainty” arguments, the CAISO and other market participants have not demonstrated that there has been any adverse impact on reliability or the CAISO’s ability to rely on firm imports under the existing market and e-tagging rules. In fact, by the CAISO’s own admission, 95% of import schedules are already tagged in the day-ahead timeframe. Moreover, although the CAISO has not provided information on the remaining 5%, Joint Parties suspect that the majority of the remaining schedules are e-tagged in accordance with the NERC e-tagging requirements, at least 20 minutes prior to the operating hour. Therefore, it is not obvious that the reliability concerns raised by certain market participants and identified by the CAISO have at all materialized. On a long-term basis, should such concerns materialize, Joint Parties recommend that the CAISO closely consider necessary changes to the scheduling and offer-related obligations of identified Resource Adequacy imports. To the extent that the CAISO is experiencing issues with reliability of import bids, the CAISO may want to require RA imports to self-schedule in the day-ahead market or, if they do not presently, submit day-ahead e-tags.

With respect to the “implicit virtual bidding” concerns, Joint Parties suggest that rather than revising the existing e-tagging requirements and thereby possibly reducing the supply of import bids, the CAISO should instead rely on its existing authority to monitor and potentially take action against those entities, if there are any, that *systematically* liquidate in the HASP their day-ahead positions.² (Joint Parties note that the CAISO already has authority to penalize entities that fail to deliver on awarded HASP intertie schedules for any reason.³). In this effort, it is important that the CAISO clearly distinguish between those entities that consistently and systematically liquidate their day-ahead awards in the HASP, i.e., engage in implicit virtual bidding, versus those that, consistent with the CAISO tariff, reduce their day-ahead awards in the HASP in response to CAISO price signals and CAISO requests, e.g., purchase/export power in the HASP in response to CAISO over-generation conditions.

Finally, with respect to the concerns related to incentives under Convergence Bidding to disguise virtual bids as physical bids, Joint Parties do not believe that the CAISO or certain market participants have demonstrated that this approach would be a winning strategy under Convergence Bidding nor that such a strategy cannot be mitigated by close monitoring and

² See CAISO Tariff section 37 generally, 37.3, 37.5, referrals to FERC under Section 37.7 and 37.8.

³ See CAISO Tariff Section 11.31.

possible enforcement action under the CAISO's existing rules of behavior. Joint Parties support further discussion of this issue and the identified gaming concern. However, in light of the fact that Convergence Bidding is not proposed to implemented for over a year, Joint Parties do not believe that this gaming concern warrants that the CAISO implement revised e-tagging requirements prior to the implementation of Convergence Bidding and certainly does not warrant a rush to judgment on this issue (the CAISO's Issue Paper indicates that the CAISO may present this matter to the CAISO Governing Board at its December 16, 2009, meeting).

2. What comments do you have regarding maintaining the status quo (Option 1)?

Joint Parties support Option 1, maintaining the status quo. The CAISO has not identified a problem that needs to be addressed. Nor has the CAISO discussed its concerns with WECC or regional transmission providers to determine if its proposals would have an adverse impact on regional trading practices.

3. What comments do you have regarding timing requirement with reporting (Option 2)?

Joint Parties do not support Option 2, requiring e-tags be submitted prior to the HASP, with appropriate reporting of non-compliance. As noted above, Joint Parties is concerned that a revised e-tagging schedule that would require that e-tags be submitted prior to HASP may impose unnecessary burdens on importers, increase risk premiums, and may reduce otherwise available import bids into the CAISO's market. To the extent that the CAISO has concerns about parties systematically submitting implicit virtual bids (i.e., liquidating their day-ahead schedules in HASP), Joint Parties recommend that the CAISO rely on its existing authority to monitor and potentially take action against those entities under the CAISO tariff's rules of behavior.

4. What comments do you have regarding timing requirement with financial implications (Option 3)?

Joint Parties do not support Option 3, requiring e-tags be submitted prior to the HASP, with appropriate financial penalties for non-compliance, for the reasons stated in (1) and (2) above.

5. What other solutions would you recommend to resolve issues in number 1 above with no change to the E-Tag Timing Requirement (Option 4)?

As noted above, should the CAISO clearly identify market rules or scheduling practices that adversely impact the reliability of imports, Joint Parties recommend that the CAISO closely examine the scheduling rules and related offer obligations for Resource Adequacy Resource imports.

6. What comments do you have with the stakeholder timeline?

Joint Parties do not believe that the CAISO's proposed stakeholder timeline is sufficient. Notwithstanding Joint Parties' concerns with moving ahead with this initiative at all until a clear

problem or issue has been identified, Joint Parties recommend that prior to finalizing any proposal and presenting such proposal to the CAISO Board Governing board for approval, that the CAISO proactively engage, and solicit feedback from, WECC and regional transmission providers to determine the best means to address the concerns identified and if any of the potential solutions may have an adverse impact on regional trading practices or otherwise create “seams” issues between the CAISO and the rest of the West.

7. Others?

No other comments.