

Powerex Corp.

E-Tag Timing Requirements Comments on Draft Final Proposal

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Powerex appreciates the opportunity to comment on the CAISO's E-Tag Timing Requirement Draft Final Proposal. Powerex commends the efforts of the CAISO to vet the issue of implicit virtual bidding activity through this stakeholder process. However, Powerex is concerned that there continues to be a lack of urgency from the CAISO in curbing implicit virtual bidding activity. Powerex notes that implicit virtual bidding was identified as a potential market design flaw prior to MRTU go-live, yet this activity has continued to be tolerated under current CAISO market rules, since MRTU go-live in April 2009. Moreover, Powerex is concerned that such activity has serious consequences; it not only causes significant market inefficiencies but it may lead to an unforeseeable reliability event, particularly as we head into yet another summer season. Powerex strongly urges the CAISO to take action to curb this activity prior to peak load season.

While Powerex believes that its proposals presented through the stakeholder process are preferable, we support the CAISO's proposed solution, but with an expedited implementation timeline. We believe CAISO staff reached a balanced compromise in addressing this issue by (1) Removing the financial incentive to engage in implicit virtual bidding; while (2) Not penalizing market participants who rely on real-time availability of transmission and generation to deliver on their day-ahead schedules. Powerex recommends that the CAISO consider implementing its HASP Reversal Settlement Rule immediately following FERC approval, with other elements to follow.

Below are Powerex's comments on the elements of the Draft Proposal.

1. E-Tag Timing Requirements

Powerex supports the CAISO proposal that "a market participant can only avoid the HASP Reversal Settlement Rule if the full day-ahead schedule is e-tagged at some point". For clarity, Powerex believes the CAISO should ensure this rule clearly applies to the maximum total MW's on implemented e-tag(s) at any single point in time on a given resource ID. A status of "Implemented" on an e-tag is critical to demonstrating

procurement of the resources necessary for physical capability to deliver the respective energy.

2. HASP Intertie Schedules Decline Charges

Powerex generally supports the CAISO decision to introduce a new HASP Reversal Settlement Rule instead of relying on a modified HASP Intertie Schedule Decline charge. However, Powerex feels that the CAISO should initiate a stakeholder process on whether HASP Decline Charge should be modified to apply to all Intertie Uninstructed Energy on non-dynamic system resources, as opposed to only the declined HASP dispatches. Powerex believes frequent failure to deliver a day-ahead schedule that is unchanged in the HASP, also impacts the reliability of the CAISO grid and is a strong indicator of implicit virtual bidding activity.

3. HASP Reversal Settlement Rule

Powerex supports the CAISO's proposal to implement a new HASP Reversal Settlement Rule and implores the CAISO to implement this rule within the coming weeks. Implicit virtual bidding undermines reliability and crowds out legitimate physical suppliers. Powerex agrees that this rule largely "removes the arbitrage opportunity under an implicit virtual bidding strategy with no supporting e-tag." while not penalizing market participants that rely on the real-time availability of transmission and generation (that they believe will become available) to deliver on their day-ahead schedules.

Powerex strongly supports the CAISO's intent to file the required tariff language with FERC following the February CAISO Board meeting (assuming the CAISO Board approves). However by delaying the implementation of this rule for almost a year following the Board meeting, Powerex believes the CAISO continues to effectively condone implicit virtual bidding activity. Powerex recognizes that CAISO resources are required for earlier implementation, however, it should be possible to implement the rule to be effective within weeks following FERC approval, and, if necessary, have the settlements implemented retroactively to that date; just as the CAISO has done with the HASP Decline Charges implementation.

4. CRR Settlement Rule Applied to Intertie HASP Reversals

Powerex does not support the CAISO proposal to apply the CRR settlement rule to all day ahead intertie awards reversed in the HASP. Powerex agrees with PG&E that the CRR Settlement Rule should parallel the HASP Reversal Settlement Rule and only apply to the schedules that do not have implemented e-tag(s) at some point. Applying the CRR Settlement Rule to all HASP reversals would unjustly penalize suppliers (with e-tagged day-ahead schedules) for providing DEC bids into the HASP market.

The CRR Settlement Rule was designed to eliminate the incentive to engage in convergence bids that benefit a market participant's CRR positions. As stated in previous comments, Powerex believes that e-tagged schedules show a physical ability to deliver,

while untagged schedules do not provide the same level of assurance and could be implicit virtual bids. Therefore, Powerex believes applying the CRR Settlement Rule only to untagged schedules would be consistent with the intent to apply the CRR Settlement Rule to convergence bids, implicit or explicit.

5. Bid Cost Recovery Uplift Physical vs. Convergence Bidding

Powerex agrees with the CAISO proposal to apply the appropriate uplifts to implicit virtual bids. To the extent the proposal is based on cost causation, Powerex believes the application of IFM Uplift, Tier 1 and Tier 2, to implicit export bids and Real Time Uplift to implicit import bids is appropriate.

6. Implementation Timeline

The CAISO has stated that the CAISO is unable to implement this proposal until February 1, 2011, or in other words, at the same time as Convergence Bidding. Powerex believes that the CAISO should implement this proposal at the earliest possible time. This is a separate initiative from Convergence Bidding and should be on its own implementation timeline. At the very least, Powerex believes the CAISO should implement the HASP Reversal Settlement rule before the spring/summer of 2010 and implement the balance of this Final Proposal on or before February 1, 2011, even if Convergence Bidding is further delayed.

Powerex commends the CAISO staff on reviewing and taking into consideration the extensive stakeholder comments on this issue and providing a balanced proposal that addresses all stakeholders' legitimate concerns on this issue.