

# *Powerex Corp.*

## **E-Tagging Timing Comments on Draft Straw Proposal**

| <b>Submitted By</b>          | <b>Company or Entity</b> | <b>Date Submitted</b> |
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Powerex appreciates the opportunity to comment on the CAISO's E-Tag Timing Draft Straw Proposal. Powerex continues to believe that the CAISO needs to be able to, prior to the HASP, distinguish physical intertie schedules from other schedules.

Powerex believes that our proposal outlined in our November 2<sup>nd</sup> comments will enable the CAISO to determine, prior to the HASP, which schedules are backed by physical generation and transmission versus schedules which do not have the same physical assurances and may potentially impact system reliability if not delivered.

Powerex does not believe that the CAISO's Draft Straw Proposal - to require only an e-tag at T-20, to modify section 11.31 HASP Intertie Schedule Charges, and to apply the CRR settlement rule to Day Ahead awards which are 100% reversed in the HASP – provides the necessary assurances that Day Ahead schedules are physically capable of being delivered. The CAISO's proposal to remove the financial incentive to implicitly virtual bid on the interties may unintentionally limit the legitimate need to buy back physical schedules and create the opposite incentive of increasing implicit virtual bidding.

First, modifying section 11.31<sup>1</sup> in regards to the HASP Intertie Schedule Decline Charge will actually incent the opposite behavior that the CAISO is intending. Specifically, lowering the exemption threshold on final HASP "goto" amounts (IFM awards plus/minus HASP increases/reductions) will actually encourage participants to reverse any Day Ahead awards in the HASP. Since the decline charge applies to the final goto amount, any Day Ahead awards reversed in HASP would have a zero MW goto amount and zero decline charge. In other words, implicit virtual bidding activity will actually enable participants to reduce or eliminate their exposure to these decline charges. Moreover, as IFM prices approach the bid cap under constrained market conditions, market participants will be further encouraged to engage in

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<sup>1</sup> Powerex notes that the current tariff was approved by FERC following a significant stakeholder process at the CAISO and at FERC. Modifying section 11.31 to apply to the HASP "goto" amount is a significant change to the existing tariff and, in Powerex's opinion, would require its own stakeholder process and FERC approval before implementation.

implicit virtual bidding. Under these conditions, a participant will be able to sell at high prices in the IFM and reverse it in the HASP with substantial upside potential and minimal downside risk. At the same time, failing to reverse the schedule in the HASP, under these conditions, would actually increase the participant's decline charge exposure substantially. Moreover, it is during these conditions that such implicit virtual bidding behavior can have real reliability impacts. In other words, this change would incent this bidding behavior precisely when the CAISO would be relying on real physical imports for reliability. Powerex believes that the CAISO may have overlooked this unintended consequence.

Secondly, the CAISO proposal for applying the CRR settlement rule to Day Ahead awards which are 100% reversed in the HASP (and potentially other uplift charges that typically only apply to virtual bidding activity) could unfairly penalize physical participants that have legitimate reasons for reversing Day Ahead schedules, such as responding to the CAISO's system needs, or responding to generator and transmission outages. Applying additional charges to reductions to IFM import awards also incents SC's to bid Export schedules in HASP on a new resource, instead of reducing existing import schedules. Physically both activities accomplish the same thing, yet a new export schedule increases the cost of transacting by forcing SC's to purchase additional third party transmission, instead of reducing their usage of transmission already owned. These third party transmission costs will undoubtedly be reflected in bid prices, resulting in the CAISO load serving entities unnecessarily bearing substantial additional costs of third party transmission systems.

There is a fundamental element missing in the CAISO proposal i.e. it does not propose any physical requirement to ensure that intertie schedules are physical in the Day Ahead market. This was the fundamental problem raised by the stakeholders and the MSC that needed to be addressed. The analogy for not requiring e-tags for Day Ahead intertie schedules would be to allow the CAISO in-control area generating fleet to participate in the Day Ahead Market without any requirement that they have telemetry or any physical visibility to the CAISO control area.

Powerex still firmly believes that the CAISO needs to adopt an e-tagging rule that helps ensure that Day Ahead schedules are physically capable of being delivered. Powerex is surprised that the CAISO continues to contemplate enabling participants to engage in an activity of selling a physical product without any demonstration of the capability to perform. Powerex notes that the DMM comments posted on December 10<sup>th</sup>, 2009 suggesting that an e-tagging deadline 20 minutes prior to the HASP would address many of the concerns and issues in regards to liquidity and availability of transmission and energy. Powerex would urge the CAISO to consider this later e-tagging requirement as an appropriate compromise to a strict Day Ahead e-tagging requirement. Powerex believes this HASP minus 20 minutes timeline would still ensure that participants' IFM awards reflect real physical generation output and transmission. At the same time, this timeline will enable increased IFM bid liquidity compared to a strict Day Ahead e-tag timeline, due to the real-time release of transmission rights by adjacent transmission providers to the CAISO.<sup>2</sup>

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<sup>2</sup> Powerex notes that the vast majority of incremental real-time transmission capacity on the major interties becomes available well before this HASP minus 20 minutes timeline.

Therefore, Powerex believes that there can be no legitimate reason for any party to object to the compromise of an e-tag deadline for Day Ahead awards at HASP minus 20 – unused transmission has been released and is available for purchase; generation not required for local load or reliability is also available for purchase well before this deadline. In Powerex's opinion, any party that cannot or is unwilling to e-tag a Day Ahead award by HASP minus 20 had no intention of physically delivering on the Day Ahead award and may be engaging in implicit virtual bidding.

Finally, Powerex strongly suggests that an e-tagging requirement prior to HASP would significantly increase assurances that Day Ahead schedules are capable of being physically delivered and eliminate the need to implement financial penalties which, as noted above, will lead to unintended consequences.