

## Stakeholder Comments Template

### Subject: Market Initiatives Roadmap – High Level Ranking Process

Submitted by	Company	Date Submitted
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The ISO is requesting written comments on the *Preliminary Results of the High Level Prioritization of Market Enhancements* published on the ISO website and discussed at the July 23<sup>rd</sup>, 2009 stakeholder meeting. This template is offered as a guide for entities to submit comments; however participants are encouraged to submit comments in any form. Comments are due by July 30<sup>th</sup>, 2009.

All documents related to the Market Initiatives Roadmap Process are posted on the ISO Website at the following link: <http://caiso.com/1fb1/1fb1856366d60.html>

Upon completion of this template please submit (in MS Word) to [MIRoadmap@caiso.com](mailto:MIRoadmap@caiso.com). Submissions are requested by close of business on Thursday, July 30, 2009.

Please answer the following questions on the results of the high level ranking:

Powerex thanks the CAISO for providing this opportunity to provide comments.

Powerex is in general agreement with the list of high priority Market Initiatives. However as detailed below, Powerex believes the Potential Modifications to Market Rules for DA Intertie Schedules should receive a much higher ranking and be implemented on an expedited basis, and in the meantime, the CAISO should issue a market notice to remind market participants that implicit virtual bidding is not allowed under the CAISO tariff.

- 1. Should rankings be different for the initiatives that the ISO ranked “High” in the preliminary ranking process? If yes:**

Powerex offers the following observations on the need for clarity on Market Rules for DA Intertie Schedules.

[Concerns about Implicit Virtual Bidding and its Negative Impact on Reliability](#)

Powerex supports market rule changes that will ensure the physical feasibility of Day Ahead intertie schedules awarded in the Integrated Forward Market (IFM). Such changes will address a current flaw in the CAISO market where there is limited direct means to prevent implicit virtual bidding and its negative impacts on the reliability of the CAISO grid. Powerex publicly raised its concerns about this implicit virtual bidding and market flaw in its MRTU readiness comments to FERC in February 2009.

Powerex believes that the CAISO and FERC have stated that until explicit virtual bidding is allowed, implicit virtual bidding is not allowed. Given the recent questions and comments being raised by market participants during the July 9<sup>th</sup> Convergence Bidding stakeholder meeting and the July 23<sup>rd</sup> Market Initiatives Roadmap stakeholder meeting, it is clear that bidding activities that are indistinguishable from implicit virtual bidding may be occurring. More specifically, some participants may be submitting physical bids in the IFM, without the ability to deliver. The participant simply reduces any IFM awards to zero in the HASP market, capturing any price divergence between the IFM and HASP financially. If left alone, implicit virtual bidding has the potential to cause significant reliability impacts on the CAISO system on peak demand days.

In addition to this market initiative and as requested by SCE<sup>1</sup>, the CAISO should issue a clear market notice on this issue (similar to the messaging in advance of the pre-dispatch decline stakeholder process) to simply remind market participants that the IFM is a physical market and that market participants should only submit viable Day Ahead intertie bids that are backed by external physical resources that they have a reasonable expectation of being available and capable of performing.

#### Cost Impacts to other Market Participants

Implicit virtual bidding also has negative cost impacts to nearly all physical market participants, and if left unchecked, these costs will grow. First, to the extent that the CAISO is concerned about the reliability impacts of implicit virtual bids, the CAISO may have a tendency to use its exceptional dispatch authority to commit additional units to make up for the anticipated physical shortfall. The costs of those exceptional dispatches are borne predominantly by physical load serving entities.

Second, load serving entities will also bear the ultimate cost of reliability from these virtual supply bids that will not materialize physically on peak load days in the current summer peak season.

And third, physical suppliers (both internally and on the interties) are often crowded out by these virtual supply bids. The submitters of these implicit virtual bids do not face any of the unit commitment or transmission costs associated with physical delivery. On such hours when physical generators and intertie participants are faced with no dispatch in the IFM, internal generators may forgo procuring fuel for their plants and the physical

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<sup>1</sup> Southern California Edison Company July 24, 2009 comments on Virtual Bidding at the Interties in the Convergence Bidding Stakeholder Process.

suppliers on the interties may commit their supply elsewhere. This may result in an inability for the CAISO to make up the physical shortfall in the real-time market<sup>2</sup>.

For each of these reasons Powerex strongly believes the CAISO must modify its market rules on an expedited basis and issue an immediate market notice to improve reliability and ensure that load-serving entities and other physical participants are not adversely impacted.

**a) Provide your revised ranking of the initiative**

The CAISO has ranked Potential Modifications to Market Rules for DA Intertie Schedules at an overall total of 30. For the reasons below, Powerex believes the ranking should be increased to 41.

**b) Explain what factors led to your ranking decision**

Powerex believes the ranking for Grid Reliability should be increased from Moderate (7) to Significant Improvement (10). The clarification to market participants provided by a clear market rule for e-tagging of DA Intertie Schedules that are subsequently reduced in the HASP, gives market participants certainty of when they have met the provisions of the tariff. The market rule will also remove any uncertainty on whether DA intertie schedules can be physically delivered so that CAISO operators concerns about reliability are reduced.

Powerex believes the ranking for Improve Market Efficiency should be increased from Minimal (3) to Significant Improvement (7). Powerex believes that both IFM and HASP prices are substantially distorted by the inappropriate inclusion of non-transparent, financial bids into physical markets and actions CAISO operators may take to protect reliability. In other words, the displacement of physical resources by financial bids disguised as physical resources and actions CAISO operators may take results in substantial market inefficiency.

Powerex believes that the ranking for Desired by Stakeholders should be increased from Desired by a Small Subset of Stakeholders (3) to Desired by a Majority of Stakeholders (7). Powerex believes this change is supported by the comments related to this issue that were provided by SCE and PG&E<sup>3</sup> in the Convergence Bidding stakeholder process. Powerex believes that stakeholder support would be even wider spread, with greater awareness of this issue by all physical stakeholders, including physical intertie participants, internal generators and other load serving entities. Powerex also believes the publication of data on the hourly volume of IFM DA intertie schedules that were reduced, without an associated e-tag for the IFM award amount, would assist in this regard.

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<sup>2</sup> Powerex Corp. July 24, 2009 comments in the Convergence Bidding Stakeholder Process.

<sup>3</sup> Comments by Pacific Gas & Electric Company and Southern California Edison Company on July 24th on Convergence/Virtual Bidding on the Interties in the Convergence Bidding Stakeholder Process.

Powerex believes the CAISO has correctly ranked the Market Participant Implementation Impact as No Impact. Currently, across the WECC, Day Ahead energy transactions are generally required to be e-tagged by participants on the pre-schedule day. Powerex believes bi-lateral participants largely rely upon the existence of an implemented e-tag in the Day Ahead period to ensure energy purchased is physically capable of being delivered.

Powerex is not advocating for a strict Day Ahead e-tagging of all IFM awards, but that the CAISO should have a market rule that requires Day Ahead e-tagging of all IFM awards that the participant wishes to have the option of reducing in the HASP. This e-tagging requirement is not onerous since the vast majority of WECC bi-lateral Day Ahead transactions already require strict Day Ahead e-tagging and the CAISO itself stated at the Market Initiative Stakeholder meeting that up to 95% of DA schedules are already e-tagged.

Finally, Powerex believes the CAISO has correctly ranked the ISO Implementation Impact as Minimal Impact. The market rule will significantly reduce concerns CAISO operators may have that Day Ahead intertie schedules may not be ultimately delivered.

- 2. Should rankings be different for the initiatives that the ISO ranked “Medium” or “Low” in the preliminary ranking process? If yes:**

Powerex has no comments on other market initiatives at this time.

- a) Provide your revised ranking of the initiative**
- b) Explain what factors led to your ranking decision**

- 3. Are there initiatives that were missing from the Market Design Catalogue (or the presentation)?**

- a) Describe the Market Design Initiative to be added**
- b) Rank the initiative and provide the reasoning for your ranking.**

- 4. Do you have any comments on or suggestions to improve the annual roadmap process?**

Powerex would appreciate the CAISO providing updates whenever the CAISO decides internally to re-rank an initiative. In addition, Powerex would appreciate the CAISO providing market participants with information on the CAISO's capacity to implement market initiatives in addition to the FERC mandated market initiatives.