Ex Post Price Correction "Make-Whole" Payments for Accepted Demand Bids

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In response to the Ex Post Price Correction "Make-Whole" Payments for Accepted Demand Bids straw proposal, and the meeting held November 4, 2009 the CPUC staff submits the following comments.

The CPUC staff appreciates the continued efforts made by the CAISO staff in fine tuning and ameliorating pricing issues in the market. Most believe price corrections provide a mechanism within the market to address systems malfunctions, human error, sporadic software design issues and other anomalous conditions, and as a necessary feature to ensure fairness and balance within the market. It appears that the frequency and severity of price corrections have decreased since the start of the new market.

Because the ex-post price corrections occasionally lead to instances, where demand bids that were economically cleared in the market become un-economic after price corrections, buyers of energy could be negatively affected. It is reasonable for the CAISO to initiate changes to protect the demand bids when the ex-post price corrections exceed the demand bid curve.

MAKE-WHOLE APPROACHES

The CPUC staff agrees with the need to establish a procedure and policy for a "make whole" payment for accepted demand bids. Staff also believes both the "*Scenario 1: Corrected Price > Original Market Clearing Price and is outside of bid curve*"[1], **and** "*Scenario 2: Corrected Price > Original Market Clearing Price and but is still within the range of bid curve*"[2] provide reasonable

[1] Issue Paper and Straw Proposal Ex Post Price Correction "Make-Whole" Payments for Accepted Demand Bids, October 28, 2009, p. 3. http://www.caiso.com/2455/2455c0b571d80.pdf

[2] Ibid, p.4.

methods for determining ex-post price correction for demand bids and that the calculation provides a basis for establishing the revenue imbalance amount.

However, CPUC staff believes the methods of allocating the revenue shortfall (imbalance) need more explanation. In addition to discussing the theoretical basis for "make-whole" approaches and shortfall allocation, the cost benefit of each allocation option should help inform the discussion in order to formulate a reasonable as well as pragmatic solution. The CPUC staff would welcome more information quantifying how much revenue shortfall the CAISO is contemplating with this proposal. CPUC staff would also like to understand the cost of implementing the different allocation methods compared to the anticipated shortfall in revenue from these situations. In addition, staff is interested in understanding whether certain market anomalies or market conditions such as morning or evening ramp, Hour Ahead Scheduling Process (HASP) software failures, load or transmission biasing, load forecast errors, scheduling on open ties, or invalid binding constraints or any other anomalous conditions correlate to upward price corrections that result in Integrated Forward Market (IFM) demand bids becoming uneconomic.

Any solution by definition must be just and reasonable, therefore burdening any subgroup or category of market participant with market revenue shortfalls caused by anomalies in market pricing should be considered carefully.

GROUPING REVENUE SHORTFALLS WITH OFFSET CHARGES

CPUC staff would like more details and explanation of the option to group the revenue shortfall into the "day-ahead / real-time offset charges". How would the revenue shortfalls be allocated to the day-ahead offset charges? The CPUC staff would also like more information on how the revenue shortfall would be allocated on an interval specific basis, with a clear explanation on the potential effects and costs of matching the shortfall to the interval where it occurred.

NETTING REVENUE SHORTFALLS AGAINST BID COST RECOVERY

The other option in the presentation circulated at the November 4th stakeholder meeting to "(n)et *the revenue short fall* against bid cost recovery payment to generators"[3] also needs more explanation. In order to assess this option it would be helpful to understand the estimated frequency and magnitude of the revenue shortfalls, the time of day they statistically are more likely, and the per megawatt impact to market participants over 24 hours and on a per interval basis.

ALLOCATION OF REVENUE SHORTFALLS TO INTERVALS OR OVER THE DAY

[3] Ex Post Price Correction and Make-Whole Payments for Accepted Demand Bids – Issue Paper & Straw Proposal, Dongqing Holly Liu, Ph.D., November 4th, 2009, slide 7. http://www.caiso.com/245a/245ae43f33050.pdf

Initially, the CPUC staff believes the revenue shortfall generated by ex-post price corrections "make-whole" adjustments should be allocated to the interval in which the price correction occurred. However, CPUC staff recognizes that, depending on the magnitude of the average shortfall that needs to be allocated, and the cost of processing the allocation, matching the shortfall on an interval basis may not be warranted. At this point CPUC staff believes that allocating the revenue shortfall to other than the interval in which it occurred, may negatively impact the price signals of other intervals. Also, allocating revenue shortfalls to the corresponding interval will burden only the market participants (MPs) who are in the market at that time.

CONCLUSION

The CPUC staff believes the methods for calculating the "make whole amounts under both the scenarios noted above appear reasonable [1-the corrected price is outside the original bid curve, 2- a part or all of the corrected price is in the original bid curve]. At this time the CPUC staff believes that allocating the revenue shortfall generated by ex-post price corrections "make-whole" adjustments should be to the corresponding interval in which the price correction occurred. Lastly, CPUC staff believes further discussion is needed to determine a reasonable methodology for allocating any revenue shortfall and whether the allocation should burden suppliers, buyers, or both.