

proposed transmission constraint violation penalty levels in the Integrated Forward Market (“IFM”). In addition, the Commission directed the CAISO to submit revised tariff language clearly indicating that the penalty is not a financial penalty in the traditional sense and to clarify what constitutes an economic bid for purposes of determining when the CAISO would relax transmission constraints. Furthermore, the Commission required the CAISO to articulate in its transmittal letter accompanying its compliance filing: (1) what the revised provision does; (2) how the provision works in practice; (3) the practical and financial effect of the provision on the Market Participants; and (4) detailed answers to the questions raised by commenters concerning this provision. Finally, the Commission also accepted the CAISO’s commitment to conduct market simulations in order to evaluate the performance of the proposed penalty, and directed the CAISO to propose modifications if necessary.³

On August 3, 2007, the CAISO filed a motion for extension of time in the above-captioned proceeding regarding compliance with, *inter alia*, Paragraphs 162-164 of the June 25 Order. The CAISO stated that it planned to conduct market simulations that would provide critical information concerning the best methodology for implementing the constraint violation penalty and, accordingly, that the CAISO believed the most efficient way to proceed was to wait to file additional tariff language and explanations concerning the constraint violation penalty until such time as the CAISO was able to complete and evaluate the results of the market simulations. The CAISO stated that it anticipated that the market simulations would

³ See June 25 Order at PP 158, 164.

be completed in October 2007, and therefore the CAISO requested an extension of time until October 31, 2007, to comply with Paragraphs 162-164. The CAISO noted that to the extent any changes to the market simulation schedule resulted in the need for additional time to comply with Paragraphs 162-164, the CAISO would inform the Commission and request a further extension of time.

On August 8, 2007, the Commission issued a “Notice of Extension of Time” that granted the CAISO’s request that it be permitted to comply with Paragraphs 162-164 of the June 25 Order by October 31, 2007.

On October 31, 2007, the CAISO reported that due to a delay in the market simulation schedule it had not yet been able to complete the market simulations that would provide critical information concerning the best methodology for implementing the proposed provision governing the relaxation of transmission constraints if economic bids cannot clear the market. The CAISO also reported that it expected to complete the market simulations, evaluate their results, and finalize additional tariff language and explanations concerning the constraint violation provision no later than December 31, 2007. Therefore, the CAISO respectfully requested an extension of time to comply with Paragraphs 162-164 of the June 25 Order until it has had an opportunity to complete the testing of its intended functionality but no later than December 31, 2007.

On November 7, 2007, the Commission issued a “Notice of Extension of Time” that granted the CAISO’s request that it be permitted to comply with Paragraphs 162-164 of the June 25 Order by December 31, 2007.

II. Motion for Extension of Time

As required by Rule 2008(a), good cause exists to grant the CAISO the extension of time requested in the instant motion. Due to further revisions to the market simulation schedule the CAISO has not yet completed the market simulations that will provide critical information concerning the best methodology for implementing the proposed provision governing the relaxation of transmission constraints if economic bids cannot clear the market. As explained above, the most efficient way to proceed is for the CAISO to file additional tariff language and explanations concerning this provision after the CAISO has completed and evaluated the results of the market simulations.

On December 10, 2007, after discussion with Market Participants during the MRTU Integrated Market Simulation (“IMS”) Update 1 Debriefing Call held on December 6, 2007, the CAISO decided to extend IMS Update 1 through December 21, 2007 and reschedule the IMS Update 2 start date to January 2, 2008. This IMS schedule change will provide Market Participants with the ability to test additional fixes, retest and run new scenarios, and validate additional Charge Codes in IMS Update 1, while allowing the CAISO additional time to test and stabilize the systems and environment for IMS Update 2.

During the months of November and December the CAISO has been working to address the issues that have arisen during the IMS Update 1 market simulation in order to get the testing environment stabilized to proceed with its next phase of market simulation. These efforts in the IMS Update 1 environment did not, however, allow the CAISO sufficient opportunity to test and evaluate the

transmission constraint and penalty price sensitivities in those cases where uneconomic adjustments are needed to clear the market.

In reviewing the results of market simulation of the Day-Ahead and Real-Time Market during the IMS Update 1 market simulation period, the CAISO has observed that in situations where there is Congestion that cannot be resolved using Economic Bids and Self-Schedules must be reduced, or there are other constraints that become binding when there is insufficient economically bid supply to meet the load, the optimization may produce anomalous high Locational Marginal Prices (*e.g.*, in the range \$3,000 - \$300,000+). The anomalous prices may be the result of penalty price functions that are invoked in the scheduling run when Self-Schedules have to be adjusted or transmission constraints have to be relaxed to obtain a solution. The use of such penalty functions to resolve binding constraints is a standard element of the scheduling run of optimization routines used in ISO markets. The prices resulting from the scheduling run are typically not appropriate for settlement purposes, however, because they are affected by the extreme magnitudes of the penalty prices that must be used under uneconomic adjustment to enforce desired scheduling priorities while obtaining an efficient scheduling run result. Therefore each CAISO market optimization follows the scheduling run with a pricing run that translates the scheduling run results into appropriate pricing parameters for determining the market prices for settlement.

At this stage of the CAISO's analysis of the uneconomic adjustment cases, not all the scenarios that lead to the observed extreme prices are being correctly translated into pricing parameters by the pricing run functionality as the CAISO had

expected. These high prices are then observable by Market Participants via the OASIS and the CAISO Market Results Interface (“CMRI”) during the Market Simulation. The CAISO emphasizes that these extreme pricing results are anomalies which indicate the need to adjust the market functionality that translates scheduling run results into pricing parameters for the pricing run, and should not be viewed as indicative of expected prices under uneconomic adjustment when the MRTU markets go live. Through both the new IMS Update 2 Market Simulation environment as well as the Analysis Track Testing program, the CAISO is continuing to develop and test the scheduling run penalty functions and the functionality that specifies the pricing run pricing parameters to ensure that the correct priorities are observed in the scheduling run and that appropriate prices are calculated in the pricing run in each case. Upon completion of its internal review and analysis, the CAISO will hold a stakeholder discussion on the results.

In light of the need to continue to investigate and address the observed pricing anomalies in the new ISM Update 2 environment and as a result of the market simulation delay, the CAISO believes it is most appropriate to file any required tariff sheets and explanation for the Commission to comply with Paragraphs 162-164, after it has had an opportunity to test and evaluate fully the market simulation cases relevant to the issues described above. Based on the current status of the Market Simulation effort the CAISO expects it will have had sufficient market simulation results and an opportunity to evaluate these results, and will be able to propose additional tariff language and provide explanations concerning the constraint violation provision by January 31, 2008. Therefore, the

CAISO respectfully requests an extension of time until January 31, 2008 to comply with Paragraphs 162-164 of the June 25 Order, to allow the CAISO sufficient opportunity to test and analyze its intended functionality.

III. Conclusion

For the reasons explained above, the CAISO requests that the Commission grant this motion for extension of time.

Respectfully submitted,

/s/Sidney M. Davies

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Dated: December 21, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service list in the captioned proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 21st day of December, 2007.

/s/Susan Montana
Susan Montana