Stakeholder Comments Template

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

Submitted by (name and phone number)	Company or Entity	Date Submitted
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As a follow-up to the discussion during the November 4 stakeholder conference call, the ISO is requesting written comments on the Issue Paper and Straw Proposal for Ex Post Price Correction Make-Whole Payments for Accepted Demand Bids ("Issue Paper/Straw Proposal") dated October 28, 2009. This template is offered as a guide for formulating stakeholder comments and for any additional comments that participants may have based on the discussion during the call. Documents related to this meeting are posted at: http://caiso.com/2453/2453ab8e10ff0.html.

Written comments should be submitted by close of business on Wednesday, November 11, 2009 to: dliu@caiso.com.

Based on the discussion during the November 4 stakeholder conference call, the ISO will extend the stakeholder process to allow more time to incorporate stakeholder input to develop the proposal and present it to the ISO Board of Governors for approval in February, 2010. An updated straw proposal incorporating stakeholders' written comments will be posted for additional stakeholder input and discussion.

Please comment on the following design issues and the proposed solutions discussed in the Issue Paper/Straw Proposal.

1. What is your entity's view on the make-whole calculation methods discussed in Scenario 1 and Scenario 2 when 1) price is corrected upward to be outside of the bid curve, or 2) price is corrected upward but is still within the range of the bid curve. Please also submit any other calculation method your entity would like to propose.

SCE does not agree with the calculation methodology described in the issue paper for determining "make-whole" payments to load and export bids that are adversely impacted by price corrections. First, the calculation for scenarios 1 and 2 fail to recognize the slope of the bid curve - making the incorrect assumption that all quantity of uneconomic demand is priced at $25. Second, the calculation for scenario

2 does not consider the "consumer surplus" of the demand bid for the MW quantity that remains economic after the price correction.

As an alternative, SCE recommends that CAISO implement a methodology very similar to how the bid cost recovery calculation is performed for generations (e.g. energy component). Under the SCE methodology the calculation will consider each step of the demand bid curve rather than only the lowest price of the bid in determining the loss or "make-whole" payment a load bid should receive. In addition, the SCE methodology will offset losses with the consumer surplus, similar to profits of a generation, for each segment of the demand bid curve.

SCE provides the following examples to help illustrate our alternative methodology:

Example 1

Example 1 depicts a load bid (or export) which has a three step bid curve. The step 1 is from 0 to 150 MW's with a price of $75. This step is signaling to the market the willingness to purchase 150 MW's of load at a price up to $75. Step 2 is from 150 to 350 MW's at a price of $50, which signals to the market the willingness to purchase an additional 200 MW's of load if the price is less than $50. The last step in the bid curve is from 350 to 500 MW's with an associated price of $25, signaling the willingness to purchase an additional 150 MW's if the price is less than $25. Consistent with the CAISO issue paper the original price is $20 and the bid is awarded 500 MW's.

The blue area depicts the consumer surplus (e.g. the cost savings between the actual price and the price the bid was willing to pay) for each segment of the bid curve. In this example the total consumer surplus is $15,000.[1] Since the LMP price is lower than the last bid price no make-whole payment is needed.

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[1] Consumer surplus is calculated based on the maximum MW quantity of each step and the difference between the price of each step and the LMP, for steps where the LMP is below the bid price.

Example 1 – Base Case
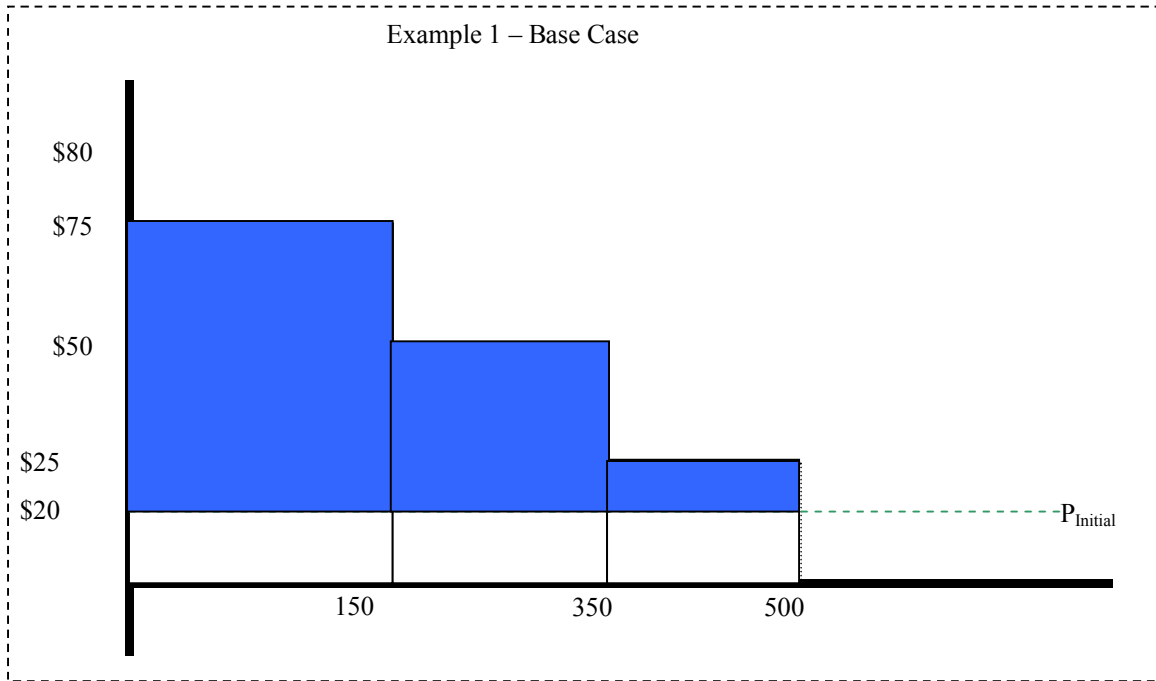
Example 2

Example 2 compares the make-whole payment methodology described by the CAISO in scenario 1 with the methodology being proposed by SCE. This example uses the same bid curve as example 1 but now the corrected LMP price is $80 (same price used in CAISO scenario 1). As described in the CAISO issue paper the methodology being recommended would calculate a make-whole payment of $27,500.

Under SCE's methodology of considering the slope of the bid curve as well as the consumer surplus the make-whole payment would equal $15,000 (area depicted in red). The red shaded area reflects the economic loss per bid segment if the LMP price is increased after the fact to $80. In this example the bid has no consumer surplus because the corrected LMP price is greater than the price associated with each bid segment.

Example 2 – $80 Corrected LMP Price
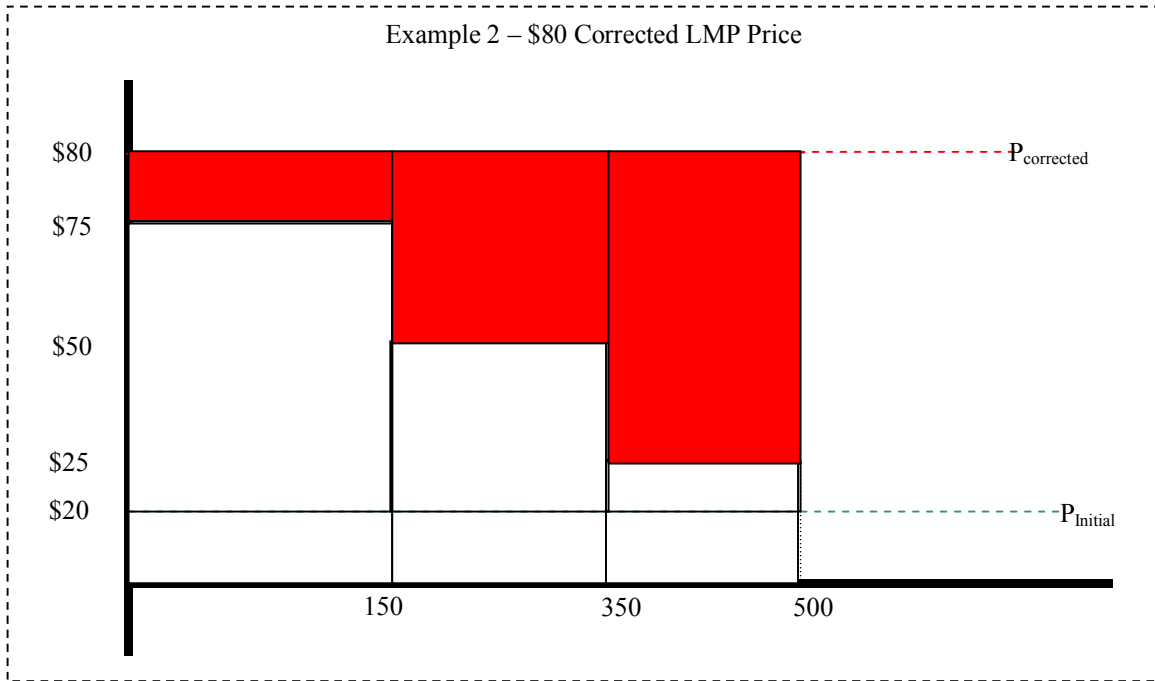
Example 3

The intent of example 3 is to compare the make-whole payment methodology described by the CAISO in scenario 2 with the methodology being proposed by SCE. Example 3 uses the same bid curve as the previous examples but now the corrected LMP price is $42 (same price used in CAISO scenario 2). As described in the issue paper under the CAISO methodology the make-whole payment would be $2,125[2].

Using SCE's methodology of considering the slope of the bid curve as well as the consumer surplus the make-whole payment would be equal to $0. That is, because the consumer surplus of bid segments 1 and 2 of $6,550 (blue shaded area) is greater than the economic loss (red shaded area) incurred by the load bid for the uneconomic scheduled quantity of $2,550.

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[2] For simplicity SCE's examples only use 3 bid segments instead of the 10 included in the CAISO issue paper.

Example 3 – $42 Corrected LMP Price
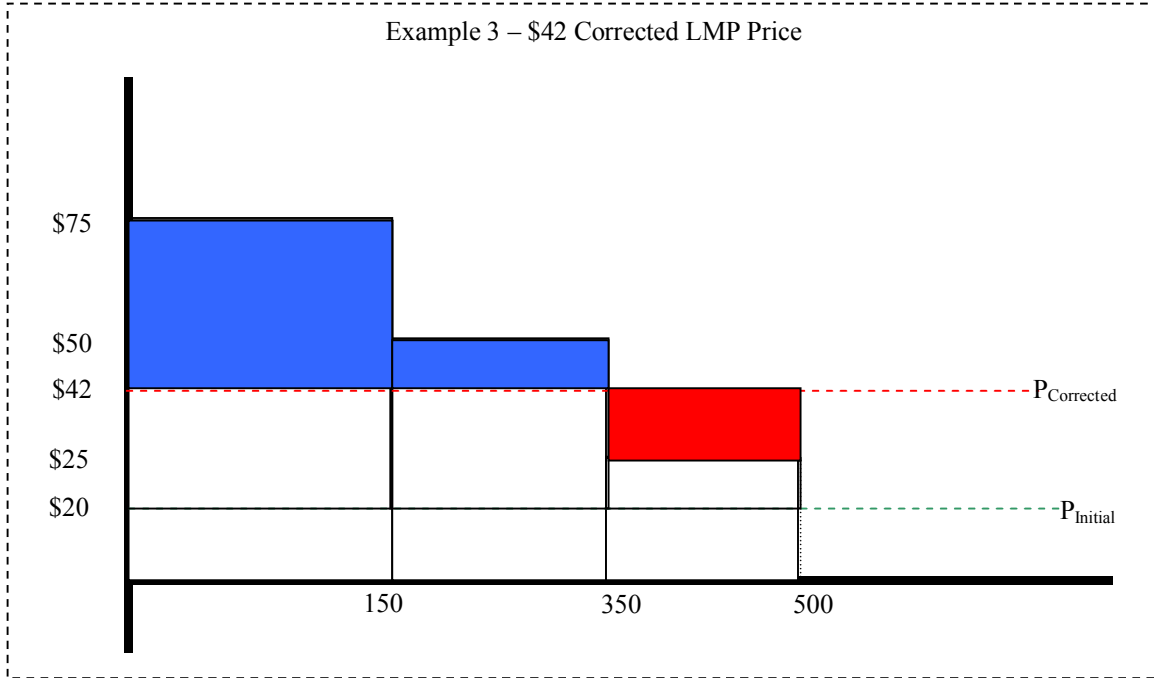
2. What is your entity's view on making participants whole on a per-interval basis versus a daily basis?

It is SCE preference that the make-whole payment calculation be consistent, to the greatest extent possible, with how BCR payments are calculated for generators.

3. Does your entity have other proposals to make participants whole other than those discussed in the Issue Paper/Straw Proposal?

Yes, SCE has included in our response to question 1 an alternative methodology that takes into consideration the slope of the demand curve as well as any consumer surplus received when the LMP price is below a given bid segment.

4. What is your entity's view on the appropriate approach to allocate the revenue imbalance caused by make-whole payments?

It is SCE recommendation that the CAISO create new charge codes for the payment and cost recovery of these make-whole payments. It is SCE's position that the money paid to load and export bids should be recovered by a charge to supply resources, based on their participation in the market.

5. Other comments:

It is unclear from the issue paper how a make-whole payment would be calculated for a load or export bid that has a partial self-schedule associated with it. Would a load /export bid with an associated self-schedule be excluded from the make-whole payment all together or just the self-scheduled portion?

Does the CAISO intend to expand ex-post price correction make-whole payments to virtual supply and demand bids?