



**TO:** YAKOUT MANSOUR, CAISO GOVERNING BOARD MEMBERS  
**FROM:** GARY ACKERMAN AND ELLEN WOLFE, WESTERN POWER TRADING FORUM  
**SUBJECT:** CAISO POLICIES ON PRICE CORRECTION  
**DATE:** JULY 16, 2009

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The Western Power Trading Forum (WPTF) request that the California ISO (CAISO) clarify and codify its price correction policy. Price certainty is an essential element of any market. Price certainty enables market participants to participate in the market with the confidence that they can and have effectively managed their risks and efficiently managed their business. Such certainty and confidence is critical to the success of the CAISO's new market.

That is why we are writing to you. Two recent events have highlighted concerns regarding the CAISO's price correction policy.

First, in late May the CAISO identified a problem with certain factors used to calculate the CAISO's Existing Zone Generation (EZGen) trading hub prices and to allocate, auction and settle the Congestion Revenue Rights (CRRs) associated with the trading hubs. Upon discovery, the CAISO moved quickly to correct the factors such that all prospective prices would be correct. The CAISO initially stated that since the impact on prices was determined to be relatively small, the CAISO would not retroactively calculate correct trading hub prices back to April 1, 2009, the start of the new market. At that time, the CAISO's recommendation was circulated for stakeholder comment.

After receipt of stakeholder comment, the CAISO set aside its original recommendation and a decision was made to re-calculate all prices back to April 1. The CAISO explained that while Section 35.2 of the CAISO Tariff provides that price corrections must be made and posted within eight days of a trade date (T+8), section 35.3 of the Tariff states that, "...the CAISO may adjust, recalculate, or otherwise correct such prices after the conclusion of the price correction process *to the extent authorized by the provisions of the CAISO Tariff other than this Section 35.*" [emphasis added]. The CAISO reasoned that since the correct factors used to calculate the trading hub prices were stated in the Tariff, the CAISO had an obligation to correct the prices retroactively back to the start of the market.

Both the CAISO's reasoning and the process by which it arrived at its revised recommendation are problematic. First, contrary to established CAISO practice, written stakeholder comments provided to the CAISO were not made publicly available. Second, the CAISO chose to apply its decision only to the trading hub energy prices and not to the applicable CRRs and related CRR settlements. Other than stating that it was "difficult" to re-calculate the CRR allocation and auction results and related CRR settlements, no further explanation was given.

Both decisions – to restate energy prices back to the start of the new market and to forego any re-calculation of CRRs – are very problematic for us. The CAISO creates significant market uncertainty regarding many bilateral transactions which may or may not be re-settled, with no contractual basis to adjust prices after the fact, and potentially creates significant re-settlement and legal costs for market participants, who may ultimately resettle large numbers of bilateral deals, in addition to resettling CAISO transactions.

The second circumstance that resulted in a CAISO price correction, outside the T+8 window, involved the recalculation of intertie processes for certain trading hours on April 22 and 23, 2009. According to the CAISO, incorrect prices for certain interties were posted to the CAISO's OASIS. While the CAISO apparently recalculated correct process within the applicable T+8 window for price corrections, CAISO system issues prevented the downstream transfer of the corrected prices and the corrected prices were not made publicly available. Once that error was discovered, the CAISO included the revised prices in the initial settlement statements for the period. Thus, market participants were not informed of the price changes until well after the trading date and outside of the T+8 window. The resulting price changes were significant and had a substantial impact on market participant revenues.

WPTF agrees that the CAISO must ensure that published market prices are correct and in accordance with the terms of the CAISO Tariff. However, the events outlined above, and the CAISO's application of its price correction policy, raise several questions and identify several areas that need to be clarified and improved.

- First, the Tariff should be much clearer as to how the provisions of Section 35.2 (that specifies the T+8 – and soon to be T+5 - price correction process) work in conjunction with the overly broad generic authorization in Section 35.3. WPTF recommends that:
  - The Tariff and the Business Practice Manuals specify the criteria that will be used to determine when the CAISO will apply the broad authority of Section 35.3.
  - When the authority provided under Section 35.3 is invoked, the CAISO conduct and publish a thorough analysis and explanation of the decision, citing to the specific Tariff provisions at issue.
  - The CAISO comprehensively apply its decision to all affected market instruments and prices.

- Second, all written stakeholder input received on this and any future resettlement matters should be posted on the CAISO web site, as is typically done for all other stakeholder input.
- Third, we request that the CAISO periodically report to the Board on measures it is taking to improve the quality of the market solution and thereby reduce the need for corrections outside of the correction windows.

The unbridled ability of the CAISO to change prices after the 8-day or 5-day window will ultimately reduce market participation and increase risk, both of which will add costs to consumers. Price certainty is absolutely critical for a stable energy market in California.

Retroactive changes beyond the standard tariff correction period should only be made for exceptional reasons. When such corrections are made, the reasons should be transparent and clearly supported by analysis. We recognize that start-up issues in an enterprise of the magnitude of MRTU are inevitable, and we commend the CAISO for identifying and fixing the above identified errors as quickly as it did. The process for handling the retroactive corrections, however, could be improved. We strongly urge that the CAISO quickly address these shortcomings so that any future corrections are handled according to a clear protocol. We ask that the Board endorse this recommendation by specifically directing the CAISO to provide an update to the Board on these process issues no later than three months from the July, 2009 Board meeting.

Thank you for your attention to, and interest, in this issue.

Sincerely,



Gary B. Ackerman  
Executive Director  
Western Power Trading Forum  
3527 Mt. Diablo Blvd #338  
Lafayette, CA 94549  
Tel: 925-299-9271