

Stakeholder Process: Scarcity Pricing Design

Summary of Submitted Comments

Stakeholders submitted two rounds of written comments to the ISO in 2009 on the following dates:

- Round One, 09/15/09
- Round Two, 10/19/09

- Six additional rounds of written comments were received from stakeholders from May 2007 to July 2008

Stakeholder comments are posted at: <http://www.caiso.com/1bef/1bef12b9b420b0.html>

Other stakeholder efforts include:

- MSC Meetings
 - 10/15/09
 - 12/2/09

- Conference calls¹
 - 10/12/09
 - Additional calls held during November 2009

- In-person meetings²
 - 08/31/09

¹ Three additional conference calls were held between November 2007 and July 2008

² Three additional in-person meetings were held between September 2007 and February 2008

Management Proposal	PG&E	SCE	WPTF	CPUC	JP Morgan	Management Response
Lower scarcity reserve demand curve value (SRDCV) for sub-region than A/S region	Support	No comment	Oppose Scarcity pricing design should pay comparable scarcity premiums whether the shortages are system wide (regional) or sub regional.	No comment	Support However, believes the establishment of location-sensitive prices warrants further analysis and discussion.	A shortage for the ISO region (not meeting the A/S requirements) has greater reliability implications than a shortage in an A/S sub-region. Scarcity prices should reflect that fact. When a shortage triggers scarcity pricing in an A/S sub-region only, the scarcity reserve demand curve value (SRDCV) in a sub-region is incremental to the A/S marginal price (ASMP) in the outer A/S region. The higher ASMP in the sub-region reflects that the ISO places a higher value on the A/S supply resources in the A/S sub-region than that outside the sub-region for maintaining the reliability of the system. In such situation there are also resources available outside the A/S sub-region. There may also be resources available within the A/S sub-region that the ISO could re-dispatch to provide A/S at certain price. The ISO believes that the proposed SRDCV in the sub-region should be sufficient to trigger the re-dispatch of these resources.
SRDCV based upon a percentage of the energy bid cap and tiers based upon bid deficiency analysis.	Support Recommend starting at lower scarcity values with the ability to raise them.	No comment Introduce some form of elasticity in the regulation requirement to help prevent an artificial scarcity event. May overcompensate for fixed costs given no resource adequacy capacity offset mechanism.	Oppose Insufficient premium to incent investment and demand response	No comment Seek clarification for the basis of the demand curves Appreciates the benefits of a tiered approach to regulation down but curve should have lower pricing	No comment	The main purpose of scarcity pricing is to utilize (re-dispatch) all available resources (supply and demand) through the ISO markets to meet the A/S requirements. By co-optimizing ancillary services and energy, the ISO believes scarcity prices tied to the maximum energy bid price will provide sufficient price incentive to those resources to relieve a shortage condition. This is consistent with the designs of ISO-NE and NYISO. The ISO believes establishing a higher scarcity price is unnecessary. Scarcity pricing is not the sole source for investment cost recovery. Revenues exist from a combination of sources, including A/S, energy, and capacity markets. The ISO has posted a document describing the steps of the tiered demand curves for non-

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						spinning and regulation down. The document is posted at http://www.caiso.com/241c/241ccfc422550.pdf .
Simultaneous rollout of scarcity pricing and proxy demand resource	Support	No comment	Support Functionality necessary to provide meaningful demand response	Oppose Delay implementation until April 1, 2011 to allow sufficient time to develop effective demand response tools.	No comment	The ISO already has demand response tools at its disposal. For instance, CDWR consistently provides demand response through the participating load product. Additionally, the ISO is working collaboratively with load serving entities to learn how to develop additional demand response capability through the participating load pilot program.
Review of scarcity pricing design every three years or more frequently as necessary	Support	No comment	Support	No comment	Support Request DMM include scarcity pricing in their regular reviews.	The ISO proposes to review the design every three years or more frequently as necessary. The performance will be measured against the six criteria FERC proposed in Order 719. The ISO will also consider the price certainty needs for market participants. The ISO will begin a stakeholder process if it determines changes are necessary and will propose revisions based on analysis of the market results.
Publish A/S requirements for region and sub-region	Support	Support	Support	No comment Seek clarification regarding the basis for reserve requirement.	Support	In the future, when the ISO changes its rules for determining the minimum A/S procurement requirements based on either NERC/WECC reliability standards or ISO operational requirements, the ISO will issue a market notice to inform stakeholders about the change. The ISO intends to prepare a white paper outlining the methodology for determining A/S requirements for the system and sub-region. The white paper should be available in advance of the implementation of scarcity pricing.
Scarcity pricing flag for OASIS in scope of "Data Release &	Support Initiative may not be completed	Support	Support	Support	Support	In the interim, the ISO will publish a market notice after scarcity pricing has been triggered.

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Accessibility in ISO Markets” initiative	prior to scarcity pricing implementation					