



California ISO
Your Link to Power

Straw Proposal Addendum

Post-Five Day Price Corrections

March 19, 2010

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Since the posting of its *Straw Proposal* on the Post-Five Day Price Correction Process on March 4, 2010 and the subsequent conference call on March 11, the ISO has received extensive feedback from Stakeholders on this issue. In particular, stakeholders have stressed the importance of price finality. The *Straw Proposal* was developed in an effort to balance the concerns expressed to the ISO about price accuracy against the feedback that confidence in prices staying constant. Based on the input we are now receiving, it seems that the balance we struck did not reflect the actual weight that market participants place on these two competing considerations. In an effort to seek more price certainty *a priori*, a number of participants requested that the ISO pursue a more definitive bright line type of rule to govern over any post-five day changes.

As discussed in the stakeholder conference calls on February 12 and March 11, it is difficult, if not impossible, to provide a bright line test that would apply to all potential price corrections beyond the five day rule. As a result, the ISO offers this *Straw Proposal Addendum* with an alternative to the proposed 60-day look-back period. We ask that Stakeholders consider this *Addendum* as well as the originally posted *Straw Proposal*, and that written feedback be provided to the ISO. To accommodate full review and comment by Stakeholders, as well as another round of *Proposal* review before the May Board meeting, the ISO is requesting formal comments be submitted no later than Friday, March 26, 2010.

Addendum

The “pros” of making changes outside the time horizon is that market participants receive corrected settlement statements. One “con” is that market participants are therefore constantly leery of prices changing after the five-day period, and this risk is reflected in all manner of financial arrangements outside the ISO markets. Another important “con” is that having the authority to make price changes after the five-day window burdens the ISO with determining whether or not a price correction is warranted. In the absence of hard and fast criteria, which are elusive given the unique nature of every price correction situation, the determination of the need for a price correction will necessarily be difficult and contentious. As noted above, in order to balance price certainty against price accuracy, the ISO’s *Straw Proposal* has been to take on the burden of making such determinations, though over a limited look-back period of 60 days.

Ongoing feedback has conveyed to the ISO that the importance of price finality, in addition to the inherent uncertainty in the process of evaluating the extent to which a post-five day price correction may be warranted (even if only for a limited look-back period) is technically problematic and financially burdensome. For these important reasons the ISO offers the following modification to the March 4 *Straw Proposal* for Stakeholder consideration:

The ISO proposes to revise its Tariff to clarify that price corrections are only permissible within the five-day price correction time horizon.

In the event that the ISO becomes aware outside the 5-day price correction time horizon that prices were calculated in a manner inconsistent with our Tariff and there is good cause to consider correcting such prices, the ISO proposes to follow the process outlined in the steps below:

- The ISO will perform an analysis of the impact of the potential price correction. To the extent feasible and practicable, this analysis will be based on the number of impacted intervals, the number of impacted market participants, and – as feasible – the dollar value impact to market participants, and the skewness of the impact by sector and/or participant. It is important to stress that any analysis and subsequent recommendation will be guided and informed by the degree to which the analysis is feasible (and therefore the extent to which it is accurate as opposed to an estimate), and upon the administrative burden of the analysis and price correction. As such, the ISO will explain any limitations of the analysis and also provide an assessment of the feasibility and administrative burden of making the price correction; and
- The ISO will prepare and post a Technical Bulletin providing the market with the results of this analysis and support for any recommendation **to seek a waiver to make the price correction from FERC**. The Technical Bulletin and the ISO’s recommendation will be discussed on the Market Issues call or in a similar forum. If the analysis or recommendation is revised after the discussion with Stakeholders, the ISO will post a revised Technical Bulletin.
- The ISO proposes to establish a look-back period limited to **5 days**. In other words, the ISO will not change prices that are older than **5 days, i.e. that are outside the price correction time horizon**;
- **Clarification:** Through the dispute process, the ISO may agree that there is a need to make a resource-level price adjustment. Note that resource-level price adjustments are the majority of dispute cases. Despite the fact that they are referred to as “price adjustments,” these are not changes to the financially binding prices that come out of the market run. Rather, the disputes are generally around how much the resource was paid – based on its individual dispatch – given the binding prices. Since this is not a change to prices, the ISO reserves the authority to make such adjustments if the review of a dispute deems it to be necessary. Additionally, to the extent that the ISO can identify other parties that may be impacted by the same calculation issue, we will endeavor to apply the adjustment to those other parties based on impact and feasibility.
- **Clarification:** The reposting of prices due to processing issues is not considered a price correction. In the event that the need to repost prices is discovered, the ISO will prepare an addendum to the weekly price correction report. This addendum will provide an explanation of the processing issue. More detailed OASIS message logs are being developed and are planned for implementation in Q2 or Q3 of 2010. Until that time, the weekly price correction report will be enhanced to include detail such as the intervals impacted by a processing issue.

Next Steps

The purpose of the present *Straw Proposal Addendum* is to provide Stakeholders with the ISO's recommended policy given the written comments submitted by Stakeholders, extensive informal comments, ISO outreach to Stakeholders, and on our own internal analysis. The proposed timeline for the Stakeholder initiative culminates in taking a policy recommendation to the CAISO Board of Governors in May, 2010. The table below summarizes the key steps in the stakeholder process on refinements to processes relative to post-five day price corrections.

February 5, 2010	<i>Issue Paper</i> posted
February 12	Conference call
February 19	Comments due *
March 4	<i>Straw Proposal</i> posted
March 11	Conference call
March 19	<i>Straw Proposal Addendum</i> posted
March 26	Comments due *
April 2	<i>Draft Final Proposal</i> posted
April 12	Conference call
April 16	Final comments due
May 17	Presentation to the ISO Board of Governors

* Please e-mail comments to post5pc@caiso.com

The ISO appreciates stakeholder comments and discussion on the issues raised within this paper as well as other issues that should be examined. Please send your comments by close of business on March 25, 2010 to post5pc@caiso.com.