

**California Department of Water Resources State Water Project
Comments to CAISO on the Calculation of the Make Whole Payment
December 21, 2009**

For the Make Whole Payment stakeholder process, California Department of Water Resources State Water Project (SWP) submitted comments on December 7, 2009. In responding to CAISO comments solicitation, SWP further submits the following comments:

1. Make Whole Payment should be Settled on Hourly Basis.

SWP supports CAISO proposal of the Make Whole Payment settlement on hourly basis. Because the Day Ahead Market and Hour Ahead Scheduling Process transactions are on hourly basis, the hourly approach for Make Whole Payment settlement is appropriate.

2. 100% of the Over-Charged Amount should be Refunded.

To make sure CAISO tariff does not discriminate against Demand Bids, SWP suggests the Make Whole Payment to Demand Bids be calculated similar to the Bid Cost Recovery (BCR) payment to Supply Bids. SWP understands that when CAISO uses the BCR mechanism to honor the Supply Bids, Suppliers are paid the whole amount of their bid including Start Up Cost, Minimum Load Cost, and Energy Bid. Similarly, the Make Whole Payment should honor the Demand Bids by charging them based on the Bid price. If due to Ex Post Locational Marginal Price (LMP) correction the Bid in Demands are over-charged based on the LMP settlement; the Make Whole Payment should equal to 100% of the over-charged amount. Otherwise, the Make Whole Payment does not make the Bid in Demand whole.

However in the CAISO's proposal under the two scenarios, the Bid in Demands are not made whole; instead the Bid in Demand only refunded part of the over-charged amount. SWP suggests CAISO to modify the proposal so that the 100% of the over-charged amount are refunded to the Bid in Demand.

In CAISO's example, the Demand Bid is cleared at 500 MWh, which corresponding to \$25/MWh of Bid price on the Demand Bid curve. Accordingly, CAISO should charge this Demand Bid: $25 * 500 = \$12,500$ or less. Under any increased Ex Post LMP scenario, the refund should be equal to the charged amount that is calculated based on the Ex Post LMP minus the should-be-charged amount, which was \$12,500. For example, if the Ex Post LMP changed to \$80/MWh, the Make Whole Payment should be $80 * 500 - 25 * 500 = \$27,500$. Otherwise, any less refund will not make the Bid in Demand whole.

Also, CAISO should not rely on the shape of the bid curve when determining the refund amount for the cleared Demand Bid; doing so discourages the Demands to submit multi-segment bid curves. When Demands are discouraged to submit multi-segment bid curves, they are discouraged to participate in the markets. To encourage Demands participation in CAISO markets, 100% of the over-charged amount should be refunded.