

EPIC Merchant Energy Comments on CAISO Uneconomic Adjustment Policy October 3, 2008

EPIC Merchant Energy appreciates the opportunity to comment on CAISO's Uneconomic Adjustment Policy. EPIC submits these comments on the "Uneconomic Adjustments in the MRTU Market Optimizations Proposal" as requested by the CAISO at the September 19, 2008 Market Surveillance Committee (MSC) / Stakeholder Meeting.

Beginning with MRTU, the CAISO will operate a wholesale electricity market that relies on a LMP methodology. Inherent in this methodology is the possibility of both positive and negative prices of varying magnitude. This variation in LMP is normal and exists in all LMP markets. When a constraint occurs, the receiving side of the constraint will often see highly positive RT LMPs due to a positive RT congestion component. Conversely, the sending side of some constraint will often see highly negative RT LMPs due to negative RT congestion components. In an efficient market where convergence bidding is allowed to have the maximum effect, the symmetry observed in RT prices should be matched by an equal symmetry in DA prices. EPIC argues that the -\$30 bid floor makes the full realization of this efficiency impossible.

The MRTU Tariff includes an initial maximum price for energy bids of \$500 per MWh, which will be increased to \$750 after the first year and to \$1000 after the second year of operation of the LMP markets. The minimum price for energy bids is currently set to -\$30, with no provision to change this limit. This asymmetry creates an obvious inefficiency in the market. A consequence of the offer floor is that the supply offers of convergence bidders, a key check against market power, are often severely restricted. In order for CAISO to utilize convergence bidding to its full potential, EPIC would like to see the minimum price for energy bids inversely mirror the schedule for the bid ceiling. The following example demonstrates the importance of this structure in a market that includes convergence bidding:

On 9/19/08, the node CLAP_SUTTER-APND had an LMP of -\$714.99 during HE11 in the market simulation environment. Clearly, this LMP demonstrates the potential for extremely negative prices in the CAISO market. As a convergence bidding participant, EPIC would like to place the following bids in the DA market for the CLAP_SUTTER-APND node:

DEC Bid to buy at -\$600
INC Offer to sell at -\$100

These trades would be beneficial to the market because they would help converge RT and DA prices and in turn increase dispatch efficiency. However, the current -\$30 bid floor prevents participants from entering these bids. EPIC proposes to move the -\$30 bid floor in lock-step with the bid ceiling. At the beginning of MRTU, the floor would be set at -\$500. After one year of market operations, the floor would move to -\$750 and finally, after two years, to -\$1000. This new bid floor will allow the CAISO market to realize the same level of efficiency on the sending side of constraints as it will experience on the receiving side of constraints.

Lowering the -\$30 bid floor would allow for an additional level of mitigation in CAISO markets. In the previous example with the -\$30 bid floor, convergence bidding participants are not in a position to competitively place trades on nodes where RT prices drop below -\$30. A lower floor would permit greater flexibility for entities seeking to submit convergence bids and offers. This greater flexibility will benefit the CAISO as a whole by facilitating the convergence of prices between the Day-Ahead and Real-Time Energy Markets, which is a key measure of efficiency in power markets.

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