

## Stakeholder Comments Template

### Subject: Ex Post Price Correction Make-Whole Payments for Accepted Demand Bids

Submitted by (name and phone number)	Company or Entity	Date Submitted
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As a follow-up to the discussion during the November 4 stakeholder conference call, the ISO is requesting written comments on the Issue Paper and Straw Proposal for Ex Post Price Correction Make-Whole Payments for Accepted Demand Bids (“Issue Paper/Straw Proposal”) dated October 28, 2009. This template is offered as a guide for formulating stakeholder comments and for any additional comments that participants may have based on the discussion during the call. Documents related to this meeting are posted at: <http://caiso.com/2453/2453ab8e10ff0.html>.

Written comments should be submitted by close of business on Wednesday, November 11, 2009 to: [dliu@caiso.com](mailto:dliu@caiso.com).

Based on the discussion during the November 4 stakeholder conference call, the ISO will extend the stakeholder process to allow more time to incorporate stakeholder input to develop the proposal and present it to the ISO Board of Governors for approval in **February, 2010**. An updated straw proposal incorporating stakeholders’ written comments will be posted for additional stakeholder input and discussion.

Please comment on the following design issues and the proposed solutions discussed in the Issue Paper/Straw Proposal.

[Powerex appreciates the opportunity to provide these comments in relation to Ex-Post Price Corrections that impact exports.](#)

1. What is your entity’s view on the make-whole calculation methods discussed in Scenario 1 and Scenario 2 when 1) price is corrected upward to be outside of the bid curve, or 2) price is corrected upward but is still within the range of the bid curve. Please also submit any other calculation method your entity would like to propose.

[Powerex believes that the CAISO’s current bid-cost recovery, BCR, mechanism across the day does not adequately address the concerns of suppliers and exporters. Powerex believes that the correct BCR mechanism is to make suppliers/exporters whole per-interval to preserve confidence in the CAISO’s ‘market clearing price’ markets. If there is reliance on daily make whole payments \(based on](#)

bids across an entire day), this may lead to market participants increasingly bidding not on marginal costs but on an expectation of 'pay as bid' pricing in order to protect themselves due to the risk from Ex-Post Price Corrections.

Powerex believes the CAISO has not recognized an important fact in its Ex-Post Price Correction Make-Whole Payments for Accepted Demand Bids proposal. The fact is that market participants bid based on marginal costs with the expectation of being paid the market clearing price, not "pay as bid" expectations. Therefore, participants often rely on the posted OASIS prices when making bidding decisions for future hours and often base their transaction decisions outside of the CAISO markets on these posted OASIS prices. For example, a market participant may have an export bid to buy 100 MW at \$25/MWh. Let's assume that the participant is dispatched the full 100 MW and OASIS shows a price of \$5/MWh. The participant thinks that they have procured inexpensive energy and relying on the fact that on OASIS the LMP is \$5/MWh, goes to a neighboring control area and sells the energy for \$20/MWh (to cover out charges etc. and a small profit). Now, if on an ex-post basis the CAISO "corrects" the price to \$30/MWh the market participant will be at a loss over the entire transaction. Even if the CAISO resets the price to the original bid price of \$25/MWh, or makes a make-whole payment, the participant is still at a loss. Powerex understands the CAISO has no way of knowing what transactional prices outside of CAISO markets are and Powerex is not suggesting that participants be kept whole on these transactions. Powerex's point is that making participants whole based on bid prices is imperfect to begin with and choosing to make the participant whole on a daily basis rather than a per-interval basis just compounds the injustice. There is no reason why a market participant should have payments in prior (or future) hours that clear economically on a particular resource ID, be subject to claw back due to ex-post price correction in a different hour.

2. What is your entity's view on making participants whole on a per-interval basis versus a daily basis?

Powerex believes the correct BCR is per-interval "make whole" payments. For example, an importer/exporter bidding into HASP puts at risk any profits it may have accrued previously over the day if the BCR mechanism is on a daily basis. This risk has the potential to reduce the liquidity of the HASP market or incent exporters to bid on a "pay as bid" basis.

3. Does your entity have other proposals to make participants whole other than those discussed in the Issue Paper/Straw Proposal?

The make-whole payment should not be limited to times when the CAISO makes ex-post price corrections but should be applied anytime LMP's and associated schedules cleared in the market are not consistent with the market participant's bid curve.

4. What is your entity's view on the appropriate approach to allocate the revenue imbalance caused by make-whole payments?

Powerex believes that the costs for any make-whole payments should be allocated to load not load and exports. Allocating make-whole payments to load and exports would "claw back" the make-whole payment to exports and render the make-whole payment ineffective.

5. Other comments:

Powerex has no other comments at this time.