

Comments of Southern California Edison on the CAISO's Draft Final Proposal on
Parameter Tuning for Uneconomic Adjustments in the MRTU Market Optimizations

June 20, 2008

Southern California Edison (SCE) would like to thank the CAISO for the opportunity to provide comments regarding the draft final proposal on Parameter Tuning for Uneconomic Adjustments in the MRTU Market Optimizations dated June 9, 2008 and followed up with a stakeholder meeting that took place on June 13, 2008.

SCE remains generally supportive of the progress made by the CAISO in the development of penalty parameters and recognizes the difficulties of setting these parameters to achieve reasonable results for both preserving scheduling priorities and implementing pricing policies in California. SCE remains steadfast in its belief that penalty parameters which impact LMP's need to be consistent with the tariff and other policy decisions, especially the bid-cap policy, which was critical to allowing MRTU to move forward.

SCE's comments on the CAISO's Draft Final Proposal follow.

Objection to Pricing Run Parameter Levels that Greatly Exceed the Bid Caps

In general, SCE continues to support the proposed penalty parameters in the pricing run to the extent they are consistent with the CAISO's bid cap policies. However, SCE has raised its objection to CAISO staff on numerous occasions concerning penalty parameters that are 10 & 60 times the bid caps. Specifically, SCE objects to the following pricing run parameters:

- Market Energy Balance (\$5,000)
- Transmission Constraints (\$5,000)
- Intertie Transmission Constraints (\$30,000)

SCE continues to urge the CAISO to revise these penalty run parameters to be more inline with the bid cap policies. Higher prices during a shortage should be discussed in the development of the CAISO's Scarcity Pricing program.

When the MRTU market is functioning properly SCE understands that prices can rise above the bid caps and does not oppose these high prices. However, when the market is not functioning properly and the CAISO needs to take administrative action to resolve a situation, SCE feels that ideally, prices under administrative conditions should be reflective of what the price was just prior to the need for administrative action, rather than administrative prices that greatly exceed the bid caps as proposed by the CAISO.

For example, assume the MRTU market is functioning properly and producing prices around \$700. Under the CAISO's proposal if a shortage condition or a transmission infeasibility of 1 MW occurs prices could jump to \$5,000 or \$30,000 per MW. Ideally, instead of implementing an arbitrary administrative price, the CAISO should set prices at \$700 or just slightly above this level. We realize this would be technically challenging to implement in practice, but the alternative proposed by the CAISO of administratively setting price at \$5,000 or \$30,000 is simply inappropriate. As a workable compromise, it is SCE's position that prices could be administratively set at levels much more reflective of the bid caps, and this administrative level should not exceed 2 or at the extreme, 3-times the bid cap.

Administratively set prices at levels 10 & 60 times the bid cap is a major policy leap that the CAISO should not take. Moreover, the CAISO has not educated State policy makers on its rationale for proposing such levels. If the CAISO believes these levels are justified, we feel it has the obligation to fully educate its Board or Directors, State policy makers, and FERC of its intent. It is hard to envision the ramifications if MRTU produces \$30,000 prices. Failing to educate and seek approval of those setting California policy, and instead simply moving forward with a decision that has such significant policy implications, is clearly imprudent.

In sum, the CAISO's administrative pricing policy is effectively a back door scarcity pricing program that has the potential to set prices at levels 10 and 60 times the bid caps. SCE understands determining prices just before the onset of an administrative condition is difficult. However, to remain true to key policy decisions that served as the foundation of MRTU, the CAISO should implement administrative pricing levels that do not exceed 2, or at most, 3 times the bid cap.¹

Pricing Run Parameters Should be Included in the MRTU Tariff

SCE is supportive of the CAISO timeline for publishing both the final scheduling and pricing run parameters 30- days prior to MRTU startup as well as publishing the scheduling run pricing parameters in an operating manual. However, SCE does not support the CAISO's proposal to publish the pricing run parameters in a Business Process Manual (BPM). Under administrative conditions the pricing run penalty parameters have a direct impact on setting LMP prices for energy and ancillary services. It is SCE's belief that all parameters that have an impact on rates, terms, and conditions should be included in the CAISO tariff and approved by FERC. Therefore, SCE requests the CAISO to incorporate the pricing run parameters into the Tariff instead of publishing them in a Business Process Manual. Further, we feel the CAISO should discuss ways to provide transparency to participants so participants can understand if a price has been set economically or administratively.

¹ The CAISO has much greater flexibility in administrative prices used in the Scheduling Run. These prices do not produce financially binding settlements and thus SCE does not object to the use of administrative values used in the Scheduling Run that exceed 3X the bid cap.

Finally, SCE asks the CAISO to communicate more clearly to stakeholders the current parameter values for both the scheduling and pricing runs that are being used for MRTU market simulation, and also notify stakeholders on a timely basis when parameters are changed during simulation testing.

Request for Additional Ancillary Service Pricing Rule Examples

In support of comments from stakeholders on the June 13th conference call SCE suggests the CAISO provide additional detailed examples on how the ancillary service pricing rules work under deficiency conditions. While SCE understands conceptually what the CAISO is proposing it remains unclear, in some cases, how ancillary service prices will be set when a deficiency of one or more services occurs in multiple regions or sub-region.

We appreciate the opportunity to provide comments on these important issues.