

Comments of Southern California Edison on the CAISO's Issue Paper on Parameter Tuning for Uneconomic Adjustments in the MRTU Market Optimizations

May 23, 2008

Southern California Edison (SCE) appreciates the opportunity to provide comments and suggestions regarding the issue paper on Parameter Tuning for Uneconomic Adjustments in the MRTU Market Optimizations dated on May 6, 2008 and following up with a stakeholder meeting that took place on May 13, 2008.

SCE is encouraged to see the progress made by the CAISO in the development of the penalty parameters for uneconomic adjustments in the MRTU market optimizations. SCE also supports the CAISO's effort to develop just and reasonable parameters in the situation of uneconomic adjustment. Further, we feel the CAISO should discuss ways to provide transparency to participants so they can understand if a price has been set economically or administratively.

SCE fully understands the difficulties of setting these parameters to achieve reasonable results for both preserving scheduling priorities and implementing pricing policies in California. We are encouraged that the CASIO also recognizes this effort must be consistent with the tariff and other policy decisions, especially the bid-cap policy, which was key to allowing MRTU to move forward. We also appreciate the technical challenges, and the issues that can results if the optimization faces a significant amount of self-schedules, be it from generation, load, ETCs, or TORs. We note that, self-schedules will not be the only trigger of these penalty prices; the CAISO must also be concerned with the accuracy of their model, the reasonableness of their LDFs and other factors that could create infeasibility issues in the model that do not physically materialize.

SCE's initial comments on the CAISO's issue paper are summarized as follows:

- In general, SCE supports the proposed price settings in the pricing run for most cases, which are consistent with the CAISO's price cap policies. However, SCE has concerns that the prices can be set administratively at \$5,000 when market energy balance constraints are violated and at \$30,000 when intertie scheduling constraints are violated in the pricing run of the optimization. These prices are at least ten times higher than the CAISO's bid caps. SCE urges the CAISO to set these prices consistent with its current bid cap policies, and let the higher cap issues during a shortage time to be discussed in the development of Scarcity Pricing. In sum, if administrative pricing is used, we believe the pricing run should set prices near the bid caps and floors, and in no instance is an administrative price anywhere near an order of magnitude greater than the bid caps/floors justified.
- SCE encourages the CAISO to perform more testing for the magnitude of these parameters in the scheduling runs, and assess the impacts on the total minimized bid cost of the optimization. We believe the goal is to find appropriate levels of

- parameters that preserve the scheduling priorities, adhere to policy related to bid caps, and produce the least total cost (i.e. minimize the objective function) in the pricing run. The CAISO should compare different parameters to observe their impact on the objective function in the pricing run and should favor parameters that lower the total costs of solving the objective function. SCE encourages the CAISO to release additional information concerning the results of their tests.
- SCE understands the CAISO's concerns on the practice of maintaining self-schedule priority in the current MRTU tariff and agrees with the CAISO that it is not reasonable to utilize *all economic bids* before curtailing self-schedules, irrespective of the effectiveness of the economic bids. SCE also believes that it is reasonable to use 10% effectiveness or higher (up to 30%) criteria to curtail self-schedules before exhausting all economic bids, as this reflects what would actually be done in practice if operators performed a redispatch after observing a problem.
 - In instances where penalty prices are evoked, the CAISO should provide this information to market participants so they can distinguish between prices set by economic bids and prices set administratively. This information should be released during the market simulation process so parties can evaluate the effectiveness of the penalty prices in use. Further, the CAISO should make it clear what penalty prices are in place during the simulation. We believe this same information should be released once MRTU goes-live.
 - The CAISO should avoid penalty prices that result in nonsensical prices. For example, we have observed negative ancillary service and RUC prices in some simulation runs. Since bids for both products cannot be below \$0, we object to any form of administrative pricing that would establish negative values for these products.

We appreciate the opportunity to provide comments and look forward to working with the CAISO as we move forward in determining proper parameter values.