Stakeholder Comments Template

Subject: Setting Parameter Values for Uneconomic Adjustments

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the following topics covered in the July 31 Market Notice regarding Setting Parameter Values for Uneconomic Adjustments. Upon completion of this template please submit (in MS Word) to chinman@caiso.com. Submissions are requested by close of business on August 6, 2008.

Please submit your comments to the following questions for each topic in the spaces indicated.

1. Please propose or comment on the appropriate principles or rules for setting prices in the Real Time Dispatch when supply is insufficient to meet the CAISO demand forecast.

SCE appreciates the opportunity to provide additional comments on the CAISO's proposal on parameter tuning for uneconomic adjustments in the MRTU market optimizations. We appreciate the work the CAISO has done with stakeholders on this issue and are encourage to see the new and constructive proposal that clearly demonstrates the CAISO's depth of understanding and an appreciation of the policy implications of this discussion. We thank the CAISO staff for all of the good work and progress they have made on this issue.

SCE continues to remain generally supportive of the progress made by the CAISO in the development and refinement 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.

Of note, SCE remains concerned that, in some cases, the parameters may have the effect of setting administrative scarcity prices. In particular, we disagree with the current straw proposal for when the supply and demand constraint is relaxed in real-time. In these cases, we do not feel the prices should be set at some administrative level that is at least $1,500/MWh, as is the case in the current proposal. We feel that this approach contradicts stakeholder expectations, State policy, and importantly, it would be inconsistent with what the CAISO represented, and what FERC approved for MRTU.

SCE notes Lorenzo Kristov's 2006 testimony to FERC which describes the pricing policy the CAISO will follow when supply is insufficient to meet the CAISO demand forecast:

> "[T]he RTED in general will not utilize Contingency Only Operating Reserves, except when there is a shortage of energy bids to meet Real-Time Demand and the CAISO is facing imminent system emergency but there is no transmission or generation contingency, no significant outage or derate of a facility. In such cases the Contingency Only Operating reserves will be included in the RTED with Energy Bid prices at the system bid cap rather than their submitted Bid prices, to reflect the scarcity conditions. These Bid-cap Bid prices will be eligible to set Real-Time LMP's and thus provide a mechanism for scarcity pricing of Energy."

Based on the testimony of Dr. Kristov SCE believes that during supply insufficiency conditions the CAISO should set real-time prices based on the LMPs that result from the dispatch of economic bids from the contingency reserve providers ($500). Under this approach real-time prices remain consistent with what the market software was producing just prior to running out of supply instead of being set arbitrarily based a penalty value that could be at a minimum 3 times higher than the last economically calculated price. We believe this can be accomplished by relaxing the demand constraint, similarly to the current proposal for A/S and RUC pricing during periods of insufficiency.

During the first year of MRTU setting energy prices when supply insufficiency conditions arise based on the last economic bid is consistent with the 2006 testimony provided to FERC and also with the tariff and bid cap policy adopted by the CAISO. SCE has stated on numerous occasions that we understand that LMP prices, based on economic bids, can be above the $500 bid cap. SCE does not object to prices that naturally rise above the bid cap, but we are concerned with using administrative pricing values under supply insufficiency conditions.

In addition, SCE requests the CAISO provide additional detail as to how it is defining supply insufficiency. It is unclear if the CAISO software will trigger supply insufficiency pricing rules before or after the CAISO activates contingency reserve suppliers. Also, it remains unclear if the CAISO software will trigger supply insufficiency pricing rules only when the CAISO is unable meet both its energy and operating reserve obligations.

2. Multiple priority levels for ETCs. The CAISO believes that MRTU Tariff Section 16.4.5 (8) adequately covers possible priority differences for ETCs, i.e., that the service types identified in this section are the only relevant basis for establishing different priority levels in the MRTU software for ETCs. Parties are asked to comment on whether they agree with this assessment, or if not, to specify any further needs that must be addressed.

SCE appreciates the ISO's presentation at the MSC meeting on Day-Ahead parameter settings and analytic results for ETC/TOR. SCE understands that the CAISO will be holding further discussions on this issue in the future. SCE looks forward to participate in future discussions on priority levels for ETCs.

3. Parties are asked to describe any specific types of test cases they would like the CAISO to run and analyze in relation to the parameter tuning effort. Please explain the proposed case in enough detail to make it clear what question or issue is being addressed. In addition, please identify any particular Market Simulation cases you have encountered in the Market Simulation process and believe are important to examine for parameter tuning issues, and explain the relevance of such cases.

In addition to the scenarios already developed for the simulation, SCE would like to see scenarios that trigger both real-time supply insufficiency as well as Contingency Reserves. We also would like to see scenarios that independently trigger insufficiency of each of the A/S products, and then a separate case that triggers insufficiency in RUC.

For all the scenarios, we need to be very clear on the details of parameters and pricing mechanism. That is, we need to understand if parameters will be used to set prices, or if the demand constraints will be relaxed to prevent the insufficiency and instead allow economic bids to set prices.

4. Other

MRTU Ancillary Service Pricing Under Deficiency Conditions

SCE appreciated the additional examples presented by the CAISO on how Ancillary Services will be priced under deficiency condition year one of MRTU. SCE would like clarification from the CAISO on exactly when, in the uneconomic adjustment process, relaxing of the ancillary service minimum requirement will occur. Under the proposed uneconomic adjustment proposal the CAISO has defined a scheduling run parameter of $1,600 and a pricing run parameter of $500 for the adjusting of self scheduled bids (Generation and Load). It is unclear if the CAISO intends to adjust all self schedules in a region prior to relaxing the minimum ancillary service requirement or after all self- schedules have been adjusted. In other words, is the parameter value for adjusting self-schedules given a higher priority than the relaxation of ancillary service minimum requirements?

Implications of Economic Adjustments Made to Self-Scheduled Demand

On July 17th FERC issued an order to address LSE's who persistently under schedule in the Day-Ahead market. The order applies hourly charges whenever an LSE's day-ahead cleared demand is less than 85% of its total realized demand for the given hour. The order subjects LSE's to a graduated charge equal to $150/MWh of the difference between cleared and realized demand when realized demand is between 15 and 20 percent greater than its cleared demand and $250/MWh for when realized demand is 20 percent or more than cleared demand. SCE is very concerned with the implications that this rule has on the CAISO's proposal to perform uneconomic adjustments on self-scheduled demand. In addition to the difficulties large amounts of self-scheduled load can create for the optimization, the potential exists for the CAISO to adjust demand self-schedules in the day-ahead market to a level which triggers an LSE to be subject to under scheduling charges due to no fault of there own.

Under these conditions SCE feels that applying under scheduling charges to an LSE's is not just and reasonable. We believe that the CAISO should inform FERC of the potential impact the new rules may have on the efficiency of the optimization's solutions, and of the risk that, due to administrative curtailments, load may be unable to serve 85% of its actual demand in the day-ahead market.