

Southern California Edison (SCE) Comments on the CAISO's Update to Draft Final Proposal on Uneconomic Adjustment Policy and Parameter Values Dated October 16, 2008

SCE appreciates the opportunity to comment on the CAISO update to its draft final proposal on Uneconomic Adjustment Policy and Parameter Values, dated October 16, 2008. The update to the draft final proposal describes revisions to two of the items included in the September 19, 2008 proposal and also includes updated parameter values for the IFM, RUC, and Real-Time market. SCE respectfully provides comments on the following three items included in the CAISO's updated proposal:

1. Pricing parameter value to be used when there is insufficient supply of ancillary services to meet the procurement requirements;
2. Treatment of existing rights self-schedules (TOR, ETC, CVR) under the CAISO uneconomic adjustment policy; and
3. Updated uneconomic adjustment parameter values for the IFM, RUC, and Real-Time markets.

Request for Additional Stakeholder Process on Price Cap/Floor Proposal

The CAISO will be requesting approval at the October 28th board to introduce into the MRTU software a \$2,500 price cap and a -\$2,500 price floor. It is of utmost importance that the market function properly and produce just and reasonable rates. We cannot assume FERC will approve the cap and floor levels being proposed by the CAISO.

SCE is not opposed to price caps and floors as a means to protect consumers against spurious prices, however, we do not support the levels being proposed by the CAISO, especially a price floor level of -\$2,500. While having a price cap of 5X the bid cap may be reasonable in a well function market, the current negative bid cap is only -\$30 and thus we do not see a justification for price floor below 5X-\$30, that is , -\$150/MWh.

Given the pricing results we are seeing in market simulation we are not convinced that the proposed price cap/floor levels, even if the floor is changed to -\$150/MWh offer sufficient protection to rate-payers against unjust and unreasonable prices. We reiterate that the CAISO must determine the fundamental causes of the extreme prices and not rely upon price caps and floors to mask the underlying flaws. SCE agrees with the Market Surveillance Committees opinion that this issue would benefit from further stakeholder input, specifically discussions on the rationale for, and level of, the price cap and floors. As such, SCE urges the CAISO to conduct an additional round of stakeholder discussions on this topic.

Item 1: Pricing parameter value to be used when there is insufficient supply of ancillary services to meet procurement requirements

Based on comments from stakeholders and the Market Surveillance Committee (MSC) the CAISO has modified its proposal for pricing ancillary services under shortage conditions. The revised proposal will set the pricing run ancillary service penalty price equal to the ancillary service bid cap of \$250. Under the revised proposal the penalty parameter will act as a price floor in that if, under shortage conditions, the ancillary service marginal clearing price based on the last economic bid (including opportunity costs) is less than the penalty parameter of \$250 then the

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software will raise the clearing price to the \$250 level. If however, the marginal clearing price of using the last economic bid (including opportunity cost) is greater than \$250 then the marginal clearing price continues to be set based on the last economic bid.

SCE supports the CAISO's revised proposal. This approach is consistent with how energy will be priced under shortage conditions and eliminates the possibility of the ancillary service marginal clearing price not reflecting supply shortage conditions. It also removes any justification for hockey stick bidding in the ancillary service market.

Items 2: Treatment of existing rights self-schedules (TOR, ETC, CVR) under the CAISO uneconomic adjustment policy

The CAISO's revised proposal for the treatment of existing rights under its uneconomic adjustment policy is to set the values of the scheduling parameters associated with self-schedules submitted under existing rights (ETC, TOR, CVR) to a higher level than the scheduling run parameter associated with the internal transmission constraints to ensure that existing rights self-schedules will not be curtailed in the IFM. Specifically, the CAISO is proposing to leave the scheduling run parameter for internal transmission constraints unchanged at \$5,000 but raise the scheduling run parameter for TOR schedules to \$5,900, for ETC schedules to \$5,100 - \$5,900, and CVR schedules to \$5,500.

SCE is encouraged that the CAISO believes its revised proposal eliminates the need for supplemental payments to rights holders who are incorrectly curtailed in the IFM. However, without additional detail on the impacts to specific rights and the overall market SCE does not have enough information at this time to provide specific comments. One of the major discussion points at the September 25th joint MSC/stakeholder meeting was the conflict between the scheduling run parameter values and the relative effectiveness of the TOR/ETC load compared to LAP level load. The CAISO's revised proposal does not address this issue and it is unclear whether the conflict still exists under the new proposal. SCE requests the CAISO provide stakeholders with an analysis using the new scheduling run parameter values similar to what was conducted and presented by Jim Price at the September 25th joint MSC/stakeholder meeting. The analysis should provide stakeholders with a side-by-side comparison of market results using the original scheduling run parameter values and the revised values. The analysis should address the specific conflict between TOR/ETC effectiveness and the scheduling run parameter values of TOR/ETC and LAP level load.

Item 3: Updated uneconomic adjustment parameter values for the IFM, RUC, and Real-Time markets

SCE appreciates the CAISO providing stakeholders with the current list of recommended scheduling and pricing run parameter values for the IFM, RUC, and Real-Time markets. It is critical that these parameter values be included in the current version of the market software being used for market simulation testing. SCE encourages the CAISO to continue to notify stakeholders when parameters values change so that the effect of those changes can be seen through the ongoing market simulation process.