Western Power Trading Forum Contingency Modeling Enhancements Paper Comments

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WPTF appreciates the opportunity to provide comments on the ISO's Contingency Modeling Enhancements (CME) paper, dated March 11, 2013.   Our comments are presented below.

Locational Marginal Capacity Price (LMCP) should be used to compensate resources contributing to the preventative network needs.

The ISO has posed in its CME paper the choice between using opportunity cost pricing and marginal pricing to compensation resources that contribute to the satisfaction of the ISO's new preventative needs. WPTF strongly supports the application of the marginal value as the ISO defines as the LMCP in its March 11, 2013 CME paper. As the ISO identifies, paying only opportunity cost would fail to provide a price signal to those resources that are also satisfying the preventative contingency and system operating limit (SOL) needs, and paying only bid cost recovery may fail to compensate at all for the service.

Such a pricing approach is consistent with the fundamental economic underpinning of LMP markets that providing a marginal price signal provides the correct incentives for market participants. WPTF also believes the MSC strongly supports the application of a locational, marginal price signal for resources providing this capacity.

Secondly, WPTF sees parallels between this contingency capacity the ISO is contemplating for the flexible capacity product (FCP), and WPTF asks that the ISO consider adding the ability for participants to consider bidding the capacity into the market.

Lastly, the ISO raised the question about the applicable compensation when multiple SOL or contingency constraints are applicable. Although we do not present the mathematics herein, it seems the application of a capacity shadow prices and shift factors should result in overall LMCPs at any particular location and that thereby multiple constraints could be handled collectively.

More Information Should be Provided about the Contingency Limits and the SOLs.

The ISO in its technical paper discusses several types of limits, including N-1 contingencies, pre-contingency operating limits, and SOLs. WPTF requests additional discussion about these constraints and asks the ISO to consider how it can provide more information about each constraint the ISO plans to consider in its model. As part of this discussion the ISO should include consideration of whether the information release needs to be protected.

<u>The Policy Process Should Include Consideration of Transparency and Processes for Setting and Changing Limits.</u>

WPTF requests that the ISO include in its policy discussions consideration of how transparency will be provided about the constraints being invoked, including how participants will be aware of and understand the implications of the constraints being modeled, the outages or other contingency events that might affect the constraint, and the resulting shadow prices and LMCPs.