

Comments of The Western Power Trading Forum

**California ISO  
IFM Supply Pool Alternatives Discussion  
Of August 14, 2009**

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Submitted to chinman@caiso.com**

The Western Power Trading Forum (“WPTF”) appreciates the opportunity to participate in the discussion on modifying the IFM supply pool. WPTF believes that the day ahead dispatch should make use of the widest possibly array of available resources in order to minimize the need for out-of-merit dispatch and to ensure maximum transparency with respect to the day ahead market outcomes. For the reasons outlined below, WPTF submits that the only two choices that the CAISO should consider are (i) make no changes to the existing pre-IFM operations, instead forging ahead with convergence bidding and the ultimate solution of using full bid-in demand or (ii) Approach 1 – use all bids in the IFM. If the CAISO remains convinced that the run time issues are of paramount concern in the implementation of Approach 1, then WPTF would recommend making no changes to the current pre-IFM practices.

WPTF’s recommendation is based on the following:

1. WPTF is concerned that the CAISO is considering modifications to the IFM supply pool primarily because of the pricing consequences that have occurred when bid-in demand is higher than the CAISO forecast. When this occurs, the limitations on the IFM supply pool to resources that have been dispatched in the local market power mitigation process has created a form of resource scarcity that caused prices to escalate, at least on July 26, 2009, when there was little (if any) price responsive bid-in demand, and the bid-in demand was approximately 7% higher than the CAISO forecast.
2. The CAISO’s willingness to review the circumstances that created the scarcity that occurred on July 26 should not lead it to request authority that results in operator discretion or thresholds that allow different load forecast to be used for the pre-IFM runs under different scenarios. Such discretion will seriously erode price transparency, create market uncertainty, and damage the ability for market participants to predict and model CAISO market outcomes. In addition, such dispatch discretion represents practices that are aimed at managing market outcomes, rather than providing objective market administration. Moreover, vesting this discretion with CAISO staff responsible for economic dispatch insulates

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market participants from the consequences of their bidding behavior. For these reasons, WPTF strongly opposes both Approach 2 and Approach 3 that were described in the straw proposal presentation used on the August 14 stakeholder call. For the same reasons, WPTF strong opposes the SCE proposal.

3. The CAISO's August 14 presentation also suggests that a vertical demand curve would be used for Approach 3. Using a vertical demand bid for the LMPM would tend to over mitigate relative to the actual price sensitive demand. As such, only bid-in demand solutions that use the actual bid curve would produce a representative – and therefore reasonable – mitigation solution.
4. Approach 4 – use bid-in demand in the Local Market Power Mitigation process– is the most consistent with existing FERC directives that require the CAISO to use bid-in demand for the pre-IFM runs no later than Release 2. However, WPTF understands the concerns that implementation of this approach creates in the absence of convergence bidding, and agrees that in order to avoid unintended consequences, the use of bid-in demand for the pre-IFM runs should occur at the same time that convergence bidding is implemented.
5. The remaining Approach described by the CAISO is Approach 1, which would create the broadest possible supply set for day ahead dispatch, but would prolong the IFM run time, reducing the time necessary for re-runs when those are necessary.
6. The CAISO acknowledged on the stakeholder call that it could continue current practices and make no changes at all, and instead focus CAISO staff and vendor time toward implementation of convergence bidding.
7. If the CAISO determines that the software run time issues associated with Approach 1 are of paramount concern, it should make no change to the pre-IFM practices at this time. Instead, it should strive to accelerate the simultaneous implementation of convergence bidding and the use of bid-in demand in the pre-IFM runs.

WPTF appreciates the opportunity to submit these comments.