

WPTF Comments on Uneconomic Adjustments and Parameter Tuning

October 23, 2008

WPTF is pleased to offer the following comments on the design elements related to uneconomic adjustments and parameter tuning. Our comments reflect both changes that were made in the CAISO's October 16, 2008 Update and issues we raised in our comments on October 6 that were not included in the Update.

Although the CAISO did revise its September 19 proposal for pricing ancillary Services in accordance with the Market Surveillance Committee's recommendations, it did not change its proposals regarding price caps, price floors, and the penalty parameters used in the pricing run. Accordingly, WPTF remains concerned about the impact on price signals that will result from elements of the CAISO's recent proposals. As we stated earlier, a key benefit of MRTU is its ability to put prices on system constraints, thereby providing market participants and policymakers with an objective assessments of their costs that can serve as the basis for evaluating the cost-effectiveness of constraint relief.

WPTF repeats the concerns, explained at length in its October 6 comments, that to the extent the CAISO's uneconomic adjustment proposals act as an additional layer of market mitigation, they defeat state and federal policy objectives by discouraging hedging, diminishing the cost-effectiveness of demand response, limiting incentives for forward contracting, and increasing the need for regulatory intervention. Moreover, they appear to shift the cost of resolving system constraints caused by self-scheduling away from parties that self-schedule and on to parties that offer flexibility, which is neither fair nor acceptable.

Finally, WPTF wishes to emphasize that software parameters should not be employed to manage price excursions caused by software anomalies. Instead, software anomalies should be rectified. WPTF realizes that the CAISO's market software is complex and that it breaks some new ground, but software limitations should not be driving policies and prices.

WPTF provides more specific feedback in the topical areas that follow.

MRTU AS Pricing under Scarcity Supply:

WPTF commends the CAISO for adopting the MSC's recommendation on AS Pricing under scarcity conditions by setting the pricing run parameter of the AS service to the service bid cap if the AS procurement targets cannot be met. This provides a clear indication, reflected in prices, that supplies were insufficient.

Pricing run parameters on Transmission Constraints

WPTF repeats the concerns about adopting a pricing run parameter of \$500 for transmission constraint violations that were raised in its October 6 comments. Sharp, clearly defined locational prices not only identify constraints and help justify expenditures for constraint relief, they also help prioritize constraint relief projects. Setting penalty parameters in the pricing run too low in the interest of avoiding price excursions will tend to minimize the variation in prices among constraints, which in turn will make it more difficult to determine which constraints need attention more urgently than others.

Price Caps and Price Floor

The CAISO's Update does not include any further discussion of price caps and price floors. Accordingly, WPTF repeats its concerns on this topic and refers the CAISO to its October 6 comments.