

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.

Pursuant to the policy decision in the MRTU stakeholder process, prices in the Real Time Dispatch (and also in the Day Ahead Integrated Forward Market) should be set by bids (or uneconomic parameter values) that do not exceed the applicable bid cap (i.e., no more than \$500/MWh for demand and no less than -\$30/MWh for generation).

This question goes to the heart of the policy trade-offs and final decisions addressed in years of stakeholder meetings and in the FERC proceeding leading to the approval of the CAISO's MRTU tariff. It is not appropriate to revisit this issue in this context. The appropriate route for revisiting all the issues implied is a proposed MRTU tariff amendment with a stakeholder process based on sufficient notice for meaningful participation to all the market participants. These issues include the definition of scarcity pricing and how it can be distinguished from reliability, out of market dispatch and pricing, appropriate market power mitigation and its implementation in the CAISO's markets. Until such a process is initiated and completed, the current tariff treatment and related FERC orders govern the answer to this question.

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.

Section 16.4.5(8) makes it clear that the CAISO intended to establish priorities *within* each of the firm and conditional firm transmission service types. If the intent were merely to establish priorities *across* the three service types (firm, conditional firm, non-firm), the Tariff would not have referred to priorities for each of firm and conditional firm service, and would not have excluded non-firm service.

MRTU Tariff Section 16.4.5(8) lists information to be included in the TRTC instructions:

“Type(s) of service rights by the holder of the Existing Rights, by type of service (firm, conditional firm, or non-firm), with priorities for firm and conditional firm transmission services and maximum amounts of service rights in MW;”

Further, CAISO’s Transmission Rights and Transmission Curtailments Instructions Implementation Guidelines (available via a link in the following market notice <http://www.caiso.com/1ca4/1ca4d46b27280.html> dated November 28, 2007) clearly indicate that CAISO contemplates using more than 2 (or even 3) priority levels for each transmission right. Section 6 is excerpted below (*emphasis added*):

6. The PTO and Non-PTO must provide the type of TR agreement. The allowable submissions are: Point to Point, Network Service/Integration or Other. If “Other” is selected, the PTO and Non-PTO must describe how the agreement is different from a Point-to-Point and Network Service/Integration agreements. *The firmness of the transmission service must also be described in detail. If applicable, in cases where a PTO and Non-PTO provides information for more than one TR the PTO and Non-PTO must indicate the relative priority for each TR for possible curtailment under abnormal conditions. This relative priority will be handled by the values of 1, 2, 3, etc, with 1 given the highest priority. Thus, a TR given a relative priority of 1 will be given a priority over a TR with a relative priority of 2.* This information is needed in the event there are no additional instructions provided by the PTOs and Non-PTOs for modifying scheduling entitlements under changing system conditions (see #8 below). If the system conditions as reflected in the FNM are such that not all TR Self-Schedules can be accommodated simultaneously, the CAISO must know the relative priorities for reducing the TR Self-Schedules. All ETC/CVR self-schedules will be reduced first before any TOR self-schedule is reduced. Within the same priority level of ETC/CVR contracts, self-schedules will be reduced pro-data (*sic*). Within the same priority level of TOR contracts, self-schedules will be reduced pro-data (*sic*).

Data to be inserted into the tab “TRTC Instructions Part 1” of the accompanying spreadsheet.

Unless the PTOs/Non-PTOs and ETC/TOR holders agree that within a given level of service (e.g., firm vs. conditional firm) that all ETC/TOR rights have the same priority level, then CAISO will need to respect those differences in its modeling.

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.

CCSF describes in more detail in Section 4, below, its concerns that the CAISO's current proposed parameter values are far too compressed to provide any reasonable assurance that the relative priorities will be maintained. CCSF therefore would like the CAISO to test alternative parameter values for several contingency cases, including those being studied in the MRTU Market Simulation process. For example, the alternative scheduling run parameters in the table below should make it much more likely that the ETC and TOR scheduling priorities will be met. These example ETC values are set such that an ETC would have to be more than 100 times as effective as a generic self-schedule for the ETC to be curtailed in favor of the generic self-schedule. The example TOR values are set such that a TOR would have to be 40 times as effective as an ETC self-schedule to be curtailed in favor of the ETC self-schedule. The table below shows selected CAISO-proposed parameter values, along with alternative values to be tested for the same contingency scenarios. For each of the Scheduling Run parameter values used, CCSF suggests that the CAISO apply the Alternative Pricing Run parameter values, since those are consistent with the currently-approved MRTU Tariff. CCSF requests that the CAISO identify any differences in the amount of ETC/TOR load curtailed or generation dispatched and the impact on LMPs when the CAISO proposed scheduling run parameter values are used as compared to the example Alternative scheduling run parameter values.

Penalty Price Description	CAISO Proposed Scheduling Run Value	Alternative Scheduling Run Value	CAISO Proposed Pricing Run Value	Alternative Pricing Run Value
Market energy balance	6500	6,201,500	1500	500
Transmission Constraints: Intertie Scheduling	7000	6,202,000	7000	500
RMR pre-dispatch curtailment	-6000	-6,201,000	-30	-30
Transmission constraints: Branch, Corridor, Nomogram	5000	6,200,500	1500, 5000	500
TOR self schedule	4500, -4500	6,200,000, -6,200,000	500, -30	500, -30

ETC self schedule	3200, -3200	155,000, -155,000	500, -30	500, -30
Generic Demand self schedule	1600	1,550	500	500
Price taker supply bids	-550	-550	-30	-30

4. Other

MRTU Tariff Section 31.4 clearly indicates that schedules with higher priorities are to be adjusted only after schedules having a lower priority have been adjusted. If CAISO uses default parameter values, in conjunction with resource effectiveness factors, CAISO cannot ensure that it will always adjust all lower priority schedules prior to adjusting any schedules having a higher priority. The potential for this outcome is particularly acute given the extremely compressed parameter values the CAISO is using for TOR, ETC and Generic Self Schedules. For example, using the currently proposed parameter values of \$1600/MWh for CAISO generic Self-Schedule demand and \$3200/MWh for ETC demand, if an ETC is slightly more than twice as effective at relieving a given constraint, the ETC would be curtailed prior to the generic Self-Schedule.¹ This approach suffers from two flaws. First, it violates the MRTU Tariff Section 31.4 (IFM) and 34.10 (Real Time Market) requirements to maintain scheduling priorities. Second, there is no mechanism in place to keep ETC and TOR holders whole if their Self-Schedules are cut. Adding insult to injury, if an ETC/TOR is curtailed prior to lower priority resources to obtain a more efficient dispatch and benefit the entire market, the ETC/TOR holder is not even afforded the Default LAP settlement benefit available to all other CAISO customers (other than Participating Load). Instead, having been curtailed in favor of lower priority schedules that would have been less effective at relieving the constraint, the ETC/TOR would be subjected to the full nodal congestion exposure for any of its load that was no longer protected by the Perfect Hedge. CCSF suggests that a mechanism needs to be developed to keep the ETC/TOR holder whole in the event that an otherwise balanced ETC or TOR Self Schedule is curtailed. In order to discourage such curtailments, while also recognizing that the market as a whole benefits from such curtailments, the ETC/TOR holder should be compensated by receiving a multiple of the “keep whole” amount.

Excerpt from MRTU Tariff Section 31.4 (*emphasis added*):

The scheduling priorities for the IFM from highest priority (*last to be adjusted*) to lowest priority (*first to be adjusted*) are as follows:

- (a) Reliability Must Run (RMR) Generation pre-dispatch reduction;
 - (b) Day-Ahead TOR Self-Schedules (balanced demand and supply reduction);
 - (c) Day-Ahead ETC Self-Schedules (balanced demand and supply reduction);
- different ETC priority levels will be observed based upon global ETC priorities

¹ It does not matter whether the effectiveness of the generic demand Self-Schedule is 2% vs. 4.01%, or if it is 20% vs. 40.01%, for the ETC. In either instance, the ETC would be curtailed before the generic demand Self-Schedule.

- provided to the CAISO by the Responsible PTOs;
- (d) Other Self-Schedules of CAISO Demand reduction subject to Section 31.3.1.3, exports explicitly identified in a Resource Adequacy Plan to be served by Resource Adequacy Capacity explicitly identified and linked in a Supply Plan to the exports, and Self-Schedules of exports at Scheduling Points explicitly sourced by non-Resource Adequacy Capacity;
- (e) Self-Schedules of exports at Scheduling Points not explicitly sourced by non-Resource Adequacy Capacity, except those exports explicitly identified in a Resource Adequacy Plan to be served by Resource Adequacy Capacity explicitly identified and linked in a Supply Plan to the exports as set forth in Section 31.4(d);
- (f) Day-Ahead Regulatory Must-Run Generation and Regulatory Must-Take Generation reduction;
- (g) Other Self-Schedules of Supply reduction; and
- (h) Economic Bids of Demand and Supply.

Section 6 of CAISO's TRTC Instruction Implementation Guidelines quoted above provides further guidance on this point. Specifically, it includes the statement (*emphasis added*) that "*All ETC/CVR self-schedules will be reduced first before any TOR self-schedule is reduced. Within the same priority level of ETC/CVR contracts, self-schedules will be reduced pro-data (sic). Within the same priority level of TOR contracts, self-schedules will be reduced pro-data (sic).*" CAISO's use of default parameter bid values, in conjunction with effectiveness factors, cannot ensure the above result.

CCSF has two further observations regarding the default parameter values. First, the intent of the prioritization was to ensure that ETC's and TORs would only be curtailed in abnormal conditions, when all other options had been exhausted. This is consistent with the historical level of service provided to the ETC/TOR holders, in which the only times in which they have been curtailed is during emergency conditions. ETC/TORs historically have not been curtailed for economic reasons. While the CAISO is calling the current process "uneconomic adjustments," the parameter values being developed would result in ETC/TORs being curtailed for economic reasons. This would be a significant departure from historical practices and is an important policy issue that has previously been resolved in favor of honoring the ETC/TOR rights.

The CAISO has stated that it does not intend to alter Sections 16 and 17 of the adopted MRTU Tariff. However, the discretion to curtail balanced ETC/TOR schedules submitted in the CAISO's day ahead markets for economic reasons, that is, because of an inadequate supply of economic bids, is not authorized in those sections. This question goes to the heart of the policy trade-offs and final decisions addressed in years of stakeholder meetings and in the FERC proceeding leading to the approval of the CAISO's MRTU tariff. It is not appropriate to revisit this issue in this context. The appropriate route for revisiting the balance of give and take on ETC/TOR treatment under MRTU is a proposed MRTU tariff amendment with a stakeholder process based on sufficient notice for meaningful participation to all the market participants. Until such a process is initiated and completed, the current tariff treatment and related FERC orders govern the answer to this question.

Lastly, CAISO's July 23rd Parameter Tuning Draft Final Proposal paper contains the following statement regarding the choice of \$5,000/MWH for Transmission Constraints in the scheduling run:

“In the scheduling run, the guideline applied to transmission constraints is that an Economic Bid should be accepted if it is priced at the bid cap and is at least 10% effective in relieving a transmission constraint.”

The CAISO stated in the stakeholder process that this guideline is based on internal CAISO discussions with CAISO transmission operators indicating that they will dispatch a resource to relieve a constraint if it is at least 10% effective.² CCSF observes that while the 10% (or 5%) rule-of-thumb being used might be appropriate when making generation dispatch decisions, the same rule of thumb might not be appropriate when making decisions about load curtailments or ETC/TOR curtailments. While we are not now proposing an alternative decision rule, we are suggesting that the CAISO and market participants should consider the appropriateness of having the generation dispatch rule of thumb dictate the procedures to be applied to load, ETC and TOR Self-Schedules.

² In some circumstances CAISO operators might even dispatch a resource that is only 5% effective, if necessary.