

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



June 24, 2008

To: California Independent System Operator

Re: CPUC Staff Comments on the Draft Final Proposal on Parameter Tuning for Uneconomic Adjustments in the MRTU Market Optimizations

The CPUC staff appreciate the opportunity to comment on the draft final proposal on Parameter Tuning for Uneconomic Adjustments in the MRTU Market Optimizations. Any questions regarding these comments should be directed to Chris Clay (415-703-1123) or Karl Meeusen (415-703-1567).

As the CAISO noted in the June 9, 2008 draft final proposal, "there are no 'correct' parameter values in any absolute sense."¹ CPUC staff appreciate the complexity of the issues involved in parameter tuning and honors the various priorities of the CAISO's scheduling procedures. Although the CAISO staff have done an excellent job conveying the issues and proposed solutions, the CPUC staff have a few concerns about the most recent proposal.

1. Tariff modifications

CAISO staff seek support to modify tariff language in sections 31.4 and 34.10. The tariff change proposed is designed to provide CAISO with additional flexibility to adjust self-schedules when doing so would allow for superior operational and/or economic relief of congestion or other adverse system conditions. CPUC staff do not oppose providing CAISO with this added flexibility as long the conditions under which this flexibility will be utilized are fully explained. The proposal suggests the criterion for scheduling modifications is that a unit must be 10 percent effective in relieving the binding constraint. CPUC staff do not oppose this criterion.

2. LAP Demand Clearing Problem

The CPUC staff understand that the LAP demand clearing problem is a difficult issue to resolve. When an SC submits a price responsive demand curve he does so for the entire LAP (there is no locational information). In other words, when non-participating load is reduced in a LAP, the reduction is credited proportionally to all of the Pnodes within the LAP, creating problems when load pockets arise. This raises two issues: First, when load reduction in the pocket would be most valuable, price responsive bid in demand it [?] is not being focused in the load pocket because the value of DR within a load pocket is suppressed. Second, the LMPs elsewhere are likely to be skewed as well. The first issue is far more problematic than the second because the magnitude of the error could be far greater within the congested area. CPUC staff encourage CAISO to establish guidelines by which Load Distribution Factors can be altered to help resolve this problem. Alternatively, the CAISO could allow SCs to submit some of their self scheduled bid in demand with more granular information, which would allow CAISO to accurately shift LDFs when appropriate.

3. Penalty Prices in the Scheduling Run

¹ Draft Final Proposal on Parameter Tuning for Uneconomic Adjustments in the MRTU Market Optimizations, at p 6.

The currently proposed penalty prices in the scheduling run appear reasonable to CPUC staff. It seems like they will bolster the CAISOs scheduling priorities. Because these penalty prices are not setting the LMP, but merely determining feasible schedules and sound operational practices, the CPUC staff do not object to the extremely high prices that might result in the scheduling run.

4. Penalty Prices in the Pricing Run

As noted in the Draft Proposal section for Proposal 4.3,² FERC required CAISO to “clearly indicate[]that the penalty is not a financial penalty in the traditional sense.” However, there is no indication in the most recent CAISO proposal that the penalty is not a “financial penalty in the traditional sense.” CPUC staff are concerned that these penalty prices (which are administratively set much higher than the bid caps by several orders of magnitude) will determine the LMP for energy, and/or the opportunity costs and ASMP for A/S, and will in fact become a “financial penalty in the traditional sense” to market participants, paid at the expense of the California ratepayers.

The CPUC staff are concerned that the administratively determined penalty prices could set the LMP. The CPUC staff supported MRTU implementation with the idea that bid caps would prevent exorbitant prices. However, the current draft proposal shows penalty prices of \$5,000 (Market Energy Balance), \$30,000 (Transmission Constraints), and \$5,000 (Transmission Constraints: Branch, Corridor, Nomogram). Though the CPUC staff understand the need to maintain the scheduling priorities by utilizing penalty prices,³ it is unreasonable to allow these arbitrarily determined penalty prices to set the LMP at levels as much as 60 times the bid caps.

The CPUC staff suggest two options to address this problem:

A. When a penalty price sets the LMP in the Pricing Run, this price should be truncated at no more than three times the energy bid cap as per tariff section 31.3.1.3.

B. When the penalty prices trigger operational requirements in the scheduling run, these requirements should be moved into the pricing run as additional operational constraints. Also, when a penalty price sets the LMP in the Pricing Run, this price should be truncated at three times the energy bid cap as per tariff section 31.3.1.3. For example, if the penalty prices are needed to call a generator to supply energy in the scheduling run, then the output of that generator would be used as an additional requirement in the pricing run.

Finally, the CPUC staff realize that development of these parameters is ongoing and additional stakeholder input will be requested. In any event, if these penalty prices will be setting the LMP, the penalty prices should be subject to full stakeholder input as in the Scarcity Pricing stakeholder process.

² Id. at p 12.

³ Id. at p 14-15.