Comments of Citigroup Energy Inc.
On the CAISO's Issue Paper on Parameter Tuning for Uneconomic Adjustments in the MRTU Market Optimizations

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Citigroup Energy Inc. ("Citigroup") appreciates the opportunity to provide its initial comments on the CAISO Department of Market and Product Development Parameter Tuning for Uneconomic Adjustments in the MRTU Market Optimizations (the "Tuning Proposal").

In the Tuning Proposal, the CAISO announced its intent to amend the MRTU Tariff so that, when solving for congestion and other constraints, it will not be required to use all Economic Bids submitted to the market before it adjusts Self Schedules. The CAISO wants flexibility to adjust Self Schedules or to relax other constraints before exhausting all Economic Bids in order to avoid undesirable market outcomes. Based on the information available to us at this time, Citigroup believes that some aspects of CAISO's Tuning Proposal are extraneous and potentially harmful to the efficient operation of a reliable wholesale energy market in California, while other factors and/or tools have been ignored within this proposal. Moreover, it is unclear whether the Tuning Proposal will solve the core problems that the CAISO appears to want to address. Inadvertently this proposal could actually trade one set of unpleasant outcomes for a different set of equally unpleasant outcomes. Decreased transparency will be a result of the complexity of the proposal, thereby causing the new issues to be more difficult to understand and solve. Rather than adopt the complex and potentially ineffective fixes set out in the Tuning Proposal, CAISO should focus on solutions that are likely to create more Economic Bids.

- CAISO appears to propose that it needs discretion to determine when Self-Schedules are uneconomical and to adjust such Self Schedules using proxy prices that reflect the $500/MWh bid cap and -$30/MWh bid floor rather than clearing the market using Economic Bids. CAISO's proposal is problematic.

    - The CAISO's definition of economical and uneconomical bids and offers, as proposed, does not coincide with the external market's (outside of the CAISO) definition of economical and uneconomical bids and offers.

    - The use of set parameters in the Pricing Run to curtail Self Schedules is effectively the same as requiring self schedules to bid at the limits (*e.g.*, $500/-30) and also is premised on the assumption that every Self Schedule is ultimately willing to take $500/MWh to increment and -$30/MWh to decrement. While it might seem "fair" initially to treat all bidders in the same way, in reality, there would be many market participants willing to decrement at prices that are different from and perhaps below -$30/MWh. By restricting Economic Bids to a floor of-$30/MWh, and setting an implied proxy price of -$30/MWh for all Self Schedules, CAISO strips the market of the ability to express preferences and prioritize decrements. Furthermore, the rule discourages offering an Economic Bid for decrement and puts greater pressure on the need to resort to uneconomic adjustments since the Economic Bid depth is reduced.

- The above problem is exacerbated by the level of the bid floor. Reference to the NYISO practices cited in the Tuning Proposal indicates that the -$30/MWh benchmark is by no means an indicative threshold for identifying bids that are economically unreasonable because they are lower than the benchmark and thus should be curtailed when solving for congestion. Indeed, PJM, NYISO and ISO New England have established bid caps and floors that equally value incremental and decremental bids in those markets (*e.g.*, by setting them at +1000/MWh and -1000/MWh). Decreasing the CAISO decremental bid floor to -$500/MWh could materially improve the situation by inviting a greater number of Economic Bids.

- Finally, competition flourishes when market rules are transparent. The proposed "tuning" would create market uncertainty that could chill the willingness of participation for both supply and demand if the CAISO has the discretion for "price mitigation" in defaulting proxy bids on Self Schedules. This chilling effect could be long and short-term in nature, while potentially driving increased uncertainty in long-term investment of generation and transmission, along with other products and services offered in the California energy markets.

- The CAISO should look to extend its narrow view on the bid floor, when defining economic bids verses uneconomic bids. A more symmetric view of the bid floor to bid cap would allow for increased economic schedules, therefore, decreasing the CAISO's need to curtail Self Schedules. Secondly, the CAISO should look to lower its factors from 10% to 5% or 6%, more in line with other markets.

Citigroup appreciates that CAISO may intend to apply the Tuning Proposals only during the transition to MRTU. However, Citigroup's recommendations will create a market design that, from the beginning of MRTU, will send the price signals needed to encourage market liquidity and investment throughout California's energy market.