Comments of Citigroup Energy Inc.
On Parameter Tuning for Uneconomic Adjustments in the MRTU Market Optimizations
October 6, 2008

Citigroup Energy Inc. ("Citigroup") appreciates the opportunity to provide additional comments on the CAISO Parameter Tuning for Uneconomic Adjustments in the MRTU Market Optimizations (the "Tuning Proposal"). As the CAISO moves towards finalizing its MRTU plans, Citigroup urges the CAISO to provide guidance on the issues and questions presented below.

Mitigation of Prices Upon Curtailment of Generic Self-Schedules

Imports:

It appears that the CAISO may be misapplying the -$30 soft bid floor as a mitigation tool for generic import self-schedules. Citigroup has observed that once the scheduling run price is less than -$549.99 (which indicates curtailment of generic import self-schedules), CAISO mitigates the pricing run price back to -$30. However, when generic import self-schedules are not curtailed and the scheduling run price clears between -$30 and -$549.99, the pricing run price clears at or near the scheduling run price. This results is less extreme prices during extreme (high congestion) conditions and more extreme prices during less extreme (no or little congestion) conditions. Citigroup believes that competitive market circumstances would dictate less extreme prices when an intertie is not congested – the opposite of what the CAISO's model seems to suggest. To illustrate its concern, Citigroup provides an example it observed in the market simulation on 9/22 where the price was lower when the self-schedule was not cut.

Hour	Self-Scheduled Quantity	Cleared Quantity	Price
7	100	100	(446.32)
8	100	100	(483.02)
9	100	100	(202.90)
10	100	100	(357.49)
11	100	90.161146	(30.00)
12	100	88.709575	(30.00)
13	100	90.319549	(30.00)
14	100	87.304003	(30.00)
15	100	86.87481	(30.00)
16	100	88.43788	(30.00)

Citigroup proposes two options it would like CAISO to consider for resolving this issue:

Option 1: If the scheduling run price is less than -$549.99, the pricing run price should be mitigated back to -$549.99, not -$30. This would send the appropriate price signals by allowing the pricing run price to be less (more negative) when an intertie is becoming congested and generic self-schedules are in danger of being curtailed.

Option 2: Allow market participants to economically bid to the scheduling run penalty price of -$550 without restrictions. Given what Citigroup has observed in the market simulation environment, prices often clear between -$30 and -$549.99. At those prices, market participants might be willing to reduce imports or export to relieve congestion. However, market participants currently cannot bid lower than -$30 without having to justify the bid to FERC, which may discourage market participants from taking actions that could benefit the market.

In addition, representatives from the CAISO have explained that with network effectiveness, as well as economic linked resources like blocks, there can be economic solutions that are below -$30 and can approach -$550. Citigroup requests that the CAISO set out the potential scenarios and explain why these solutions would allow for "economic" prices below the bid floor of -30 and why economic bids would be treated differently.

Exports:

Citigroup has observed similar price mitigation on generic export self-schedules in the market simulation environment. It appears that price mitigation to $500 occurs once the scheduling run hits $800 for LPT exports or $1600 for PT exports. Like imports, this leaves a great deal of price uncertainty between $500 and $800/$1600. Since $500 is a hard bid cap, Citigroup proposes that the pricing run price be mitigated to $800 if LPT exports are curtailed or $1600 if PT exports are curtailed.

Priority Treatment of Final IFM Schedules in HASP

Citigroup has an open question with CAISO regarding the supposed priority treatment of final IFM schedules in HASP. Per the 7/23/08 parameter tuning document on page 17, the final IFM supply schedules should have a penalty price of -$650 whereas new HASP supply bids have a penalty price of -$550. Citigroup would like to know if this has been validated to work in the market simulation environment. Whenever there has been a curtailment in HASP, Citigroup has seen day ahead schedules cut pro rata, as also occurs with new HASP self-schedules. Also, the parameters document does not show any priority for final IFM demand schedules. Do final IFM demand schedules have a priority in HASP over new demand schedules? Citigroup believes that CAISO should provide day ahead schedules with priority over new HASP schedules, as contemplated by the tariff.

Full and Transparent Testing of Parameters

Although Citigroup applauds the CAISO's efforts to use the stakeholder process to help market participants understand the parameter tuning process, the mechanism in its entirety remains fairly non-transparent, at least to Citigroup. Consequently, Citigroup recommends that the CAISO thoroughly test the parameter tuning mechanism prior to the 3-month testing period and make all results available to market participants so that they can independently review and verify them. CAISO acknowledged in the 9/19/08 draft final proposal that certain parameters can have "unintended consequences" that can "exacerbate inconsistencies between scheduling and pricing." CAISO has not determined when final parameter values will be entered in the market simulation environment. Citigroup strongly believes there should be adequate time to test the final parameter values in the market simulation environment.

Like CAISO, Citigroup is concerned that a decision to lower the pricing parameter for transmission constraints from $1500 to $500 may mute the signals sent to the market. Thus, Citigroup urges CAISO to consider whether such a change is warranted.

Citigroup has observed cleared prices above $500 for exports. Do prices that exceed the $500 cap include congestion costs or are such prices only for the energy component? If the energy component of the LMP is greater than $500, CAISO should clarify how it plans on allowing such a price while also being consistent with the applicable WECC hard price cap.