

Stakeholder Process: Pricing Enhancements

Summary of Submitted Comments

Stakeholders submitted three rounds of written comments to the ISO on the following dates:

- Round One, 7/22/14
- Round Two, 10/10/14
- Round Three, 11/13/14

Stakeholder comments were received from: Brookfield Energy Marketing LP, California Department of Water Resources, Calpine Corporation, Morgan Stanley Capital Group, Pacific Gas & Electric Company, Powerex Corp., Six Cities, San Diego Gas and Electric, Shell Energy North America, Southern California Edison, Western Area Power Authority and Western Power Trading Forum.

Stakeholder comments are posted at: <http://www.caiso.com/informed/Pages/StakeholderProcesses/PricingEnhancements.aspx>

Other stakeholder efforts include:

- Stakeholder call, 7/10/14
- Stakeholder call, 10/03/14
- Stakeholder call, 11/06/14

Stakeholder	Management proposal: Administrative Pricing Rules. Use two tiers for setting administrative pricing in the real time market for non-market suspension conditions	Management response
Pacific Gas & Electric Company	Final proposal strikes an acceptable balance between price certainty and assurance of cost recovery, and flexibility for the ISO to manage the grid under adverse conditions.	<p>During this stakeholder process, staff and stakeholders discussed and explored the advantages and disadvantages of the various alternatives to determine the administrative pricing rules. The conclusion was to pursue the tiered approach. The proposal strikes a balance between preserving price signals, providing price certainty, and practicality. The tiered approach accounts for the length of the disruption.</p> <p>The ISO provided further clarifications and numerical examples through the process as needed.</p> <p>The option of calculating an administrative price based on last available information may not work in instances where the software fails to find a solution; also, if the failure is for a long enough period of time, recreating the conditions for each market interval that failed would require multiple assumptions of conditions. The last available information may also not be representative of what the market solution and system conditions, like outages, should have been if a long period of time has passed.</p>
Six Cities	Supports	
San Diego Gas and Electric	Supports - would like to see monitoring of methods employed to ensure best practices are implemented.	
Southern California Edison	No position - requested scenarios for the proposed tiers.	
Powerex Corp	No comments	
Morgan Stanley Capital Group	Prefers to use current logic of last available price instead of day-ahead prices.	
Western Power Trading Forum	Appreciates the firm rules specified by the ISO with respect to which prices to use during brief periods when the ISO's systems fail to produce prices.	
Brookfield Energy Marketing LP	Support a tier approach to account for length of the disruption. Suggests to calculate price on last available information; if not possible, then resorting to day-ahead prices.	
Calpine Corporation	Prefers re-calculation of prices using the best information available in absence of prices for longer than one hour.	
California Department of Water Resources	The last price is appropriate for a short period of missing prices. For longer periods suggests to have an adjustment factor based on conditions.	
Shell Energy North America	Certainty is very helpful to market participants; it may be an improvement to have a tariff based administrative price rather than the last valid price set in the market prior to intervention.	
Western Area Power Authority	No position	

Stakeholder	Management proposal: Administrative Pricing Rules. Use the day-ahead market prices for a real-time market suspension	Management response
Pacific Gas & Electric Company	Final proposal strikes an acceptable balance between price certainty and assurance of cost recovery, and flexibility for the ISO to manage the grid under adverse conditions.	<p>Management proposes to use prices from the day-ahead market cleared for the same trade hours. This option provides various benefits. First, it is a knowable and defined price that provides certainty to the market place. Second and most importantly, use of the day-ahead prices minimizes the settlements implications since any deviation of resources between the day-ahead and the real-time markets will be neutralized, including the settlements for convergence bids. This with the use of the standard bid cost recovery mechanism to compensate for uncovered cost will provide the certainty for settling resources affected during a market suspension.</p> <p>The option of calculating an administrative price manually and then accounting for a premium was originally explored. Based on the nature of the event, a higher price will not always be the right price and resources may be required under some scenarios to decrease generation or shutdown. These factors will result in unintended imbalance charges that would require another mechanism to correct. Similar problems may result in using a set price.</p>
Six Cities	Supports	
San Diego Gas and Electric	Supports - would like to see monitoring of methods employed to ensure best practices are implemented	
Southern California Edison	Requested to provide scenarios for the proposed tiers.	
Powerex Corp	No position	
Morgan Stanley Capital Group	Prefers to calculate an administrative price manually and then adding a risk and uncertainty price	
Western Power Trading Forum	Prefers to calculate an administrative price based on prevailing conditions, but if not then request to describe how resources will be compensated	
Brookfield Energy Marketing LP	Supports a tier approach to account for length of the disruption. Suggests to calculate price on last available information; if not possible, then resorting to day-ahead prices.	
Calpine Corporation	Supports administrative pricing rules with known or knowable prices as opposed to the last "good" price for "major collapses".	
California Department of Water Resources	The last price is appropriate for a short period of missing prices. For longer periods suggests to have an adjustment factor based on conditions.	
Shell Energy North America	Suggests establishing a set price	
Western Area Power Authority	No position	

Stakeholder	Management proposal: Administrative Pricing Rules. For a day-ahead market suspension use either the previous day of the day-ahead market or rely fully on the real-time market results.	Management response
Pacific Gas & Electric Company	Final proposal strikes an acceptable balance between price certainty and assurance of cost recovery, and flexibility for the ISO to manage the grid under adverse conditions.	<p>Management proposes to use either day-ahead results for both awards and prices from the previous day, or rely fully on the results of the real-time market to operate and price the energy transactions. The ISO will make its decision to use one of these two options by 6:00 PM based on the evaluation of the actual and expected system conditions. If system conditions are not reasonably similar to the previous day, the ISO will rely on the real-time market.</p> <p>Management believes that having the option to choose either the previous day-ahead solution or the real-time market results does not deteriorate the certainty aimed for this process because the decision and option will be made by the time the ISO has to declare a day-ahead market suspension, in advance of the trading date. This decision will be made once all the conditions are known for this event.</p> <p>In the final proposal, it was clarified that the bids from the day-ahead market will also be used for the bid recovery settlement.</p>
Six Cities	Opposes to use either/or approach; prefers the option of always using previous day of the day-ahead market.	
San Diego Gas and Electric	Supports - would like to see monitoring of methods employed to ensure best practices are implemented.	
Southern California Edison	Requested clarification of what bids would be used for bid cost recovery.	
Powerex Corp	No position	
Morgan Stanley Capital Group	No position	
Western Power Trading Forum	No position	
Brookfield Energy Marketing LP	No position	
Calpine Corporation	No position	
California Department of Water Resources	No position	
Shell Energy North America	No position	
Western Area Power Authority	No position	

Stakeholder	Management proposal: Preserve the current policy for settlements provisions related to events outside the control of market participants.	Management response
Pacific Gas & Electric Company	Supports	<p>The settlements implications for force majeure events was considered in this stakeholder process as part of the revision for the administrative pricing rules in light of the discussion associated with the September 2011 outage. Management considered it necessary to take this opportunity to explore and clarify the settlements implications.</p> <p>Management proposal is to preserve the current imbalance energy settlement rules that apply under Force Majeure events but proposes to add statements in the ISO tariff that explicitly mention that force majeure does not alter the rules for settling deviations from day-ahead schedules and awards.</p> <p>By market principle, this existing provision provides a framework for allocating price risk between the day-ahead and real-time markets. If a participant does not deliver its day-ahead award, it has the financial obligation to pay for the uninstructed deviation. When a market participant submits bids into the day-ahead market based on its location, economic strategy and risk premium, among other factors, participants are taking on the risk and consequences of participating in the market under such settlement terms. This rationale is important to consider for the efficient economical operation of a market.</p>
Six Cities	No comments	
San Diego Gas and Electric	No comments	
Southern California Edison	Force Majeure as defined in the ISO tariff is not for this discussion	
Powerex Corp	Opposes - proposes that intertie resources should have settlements provisions for conditions beyond the intertie resources	
Morgan Stanley Capital Group	No comments	
Western Power Trading Forum	Has no particular objection to holding all parties to day-ahead positions.	
Brookfield Energy Marketing LP	Supports to further clarify the implications as part of this stakeholder process	
Calpine Corporation	Believes that risks of delivering energy to load centers should not be eliminated by ISO market rules, and that benefits of locational marginal pricing will only be captured if ISO market rules preserve locational delivery risk	
California Department of Water Resources	Believes that there is a need for more clarity regarding the settlements associated with force majeure	
Shell Energy North America	Supports an approach in which market participants are settled out at their day-ahead schedules at day-ahead prices.	
Western Area Power Authority	No comments	

Stakeholder	Management proposal: Modify bid validation rules for bids associated with contract transmission rights	Management response
Pacific Gas & Electric Company	Supports	Clarifications were added to the revised proposal
Six Cities	Supports	
San Diego Gas and Electric	Supports	
Southern California Edison	Supports	
Powerex Corp	No comments	
Morgan Stanley Capital Group	No comments	
Western Power Trading Forum	Supports	
Brookfield Energy Marketing LP	Supports	
Calpine Corporation	No comments	
California Department of Water Resources	Supports	
Shell Energy North America	No comments	
Western Area Power Authority	No position - asked for clarifications to the description in the straw proposal round	

Stakeholder	Management proposal: Enhance the modelling of contingencies to handle compounding pricing of relaxed contingencies	Management response
Pacific Gas & Electric Company	Supports	Data related to the frequency of historical instances was provided in the revised proposal.
Six Cities	Supports	
San Diego Gas and Electric	Supports	
Southern California Edison	Supports	
Powerex Corp	No comments	
Morgan Stanley Capital Group	No comments	
Western Power Trading Forum	Is open to the ISO's exploration of modifying the pricing effects when multiple contingencies affect a single constraint.	
Brookfield Energy Marketing LP	The proposal seems to be the best solution as it will only be utilized in the event that there are insufficient economic bids to settle the contingencies. Requires to provide data of historical instances.	
Calpine Corporation	No comments	
California Department of Water Resources	Requested more information about historical instances, details of the proposal and examples	
Shell Energy North America	No comments	
Western Area Power Authority	No comments	

Stakeholder	Management proposal: Enhance the market modelling of constraints to ensure uniqueness of prices related constraints	Management response
Pacific Gas & Electric Company	Supports	The revised proposal included more details of the proposal as well as examples.
Six Cities	No position	
San Diego Gas and Electric	Supports	
Southern California Edison	Does not oppose	
Powerex Corp	No position	
Morgan Stanley Capital Group	No position	
Western Power Trading Forum	Strongly supports - encourages the ISO to publish further information about its proposed methods.	
Brookfield Energy Marketing LP	Supports the ISO's further evaluation of solutions to address multiplicity of prices. Requires examples to better understand.	
Calpine Corporation	No position	
California Department of Water Resources	Supports	
Shell Energy North America	No position	
Western Area Power Authority	No position - asked for more details and examples.	