

Stakeholder Comments on Parameter Tuning for Uneconomic Adjustments in the MRTU Market Optimization

Submitted by (name and phone number):	Company or entity:	Date Submitted:
Kurt Hansen 415-973-2948	Pacific Gas & Electric	June 23, 2008
Brian Hitson 415-973-7720		

Pacific Gas & Electric appreciates the opportunity to participate in the Parameter Tuning stakeholder process and to submit comments regarding the June 9, 2008 Draft Final proposal and the June 13, 2008 CAISO presentation. We are also supportive of the CAISO's effort to make this issue transparent and to involve the stakeholders in the tuning process.

Incorporate Both Sets of Parameters in the BPM

The CAISO has indicated its plan to publish the scheduling run penalty prices in an operating procedure and incorporate the pricing run parameters into the BPM, subject to the BPM change management process post MRTU start-up.

PG&E supports incorporating both sets of parameters in the BPM, subject to the BPM change management process post start-up. This approach provides the proper balance of needed CAISO flexibility, especially in the first year, and appropriate stakeholder involvement through the BPM change management process.

The CAISO indicated that it desired to place the scheduling run parameters in an operating procedure because the BPM change management process was too cumbersome. PG&E disagrees. As pointed out in our May 23, 2008 comments, the BPM for BPM Change Management empowers the CAISO to make unilateral BPM Revisions in emergency circumstances without stakeholder involvement. It is true that subsequent to any emergency the BPM change management process requires the CAISO to seek stakeholder input. However, PG&E views that as appropriate stakeholder involvement and not a cumbersome impediment.

The CAISO was asked directly during the June 13th conference call why the BPM process was more cumbersome and what would need to be changed for the BPM process to be less cumbersome. The CAISO's response has not convinced PG&E that application of the BPM change management process would be unduly cumbersome. Until a compelling rationale can be well articulated, PG&E cannot support the placement of these important parameters in an operating procedure.

Scheduling Run Parameters Need Robust Testing

The scheduling run parameters presented on page 9 of June 13th presentation appear reasonable based on the limited data the CAISO has shared with stakeholders. The

cascade of penalty prices associated to the various types of self schedules is keyed to the \$5,000 penalty prices associated with the relaxation of a transmission constraint. This price was developed using the \$500 bid cap for energy divided by a 10% effectiveness factor. CAISO indicated that the 10% threshold is roughly the minimum unit effectiveness their operations staff would consider using in relieving a constraint.

These proposed parameters need very robust testing to determine their reasonableness. The true test of the parameters will be measured through the performance of the scheduling algorithms during the market simulations this summer and the parallel processing before MRTU go-live. If testing shows unreasonable curtailment of self schedules, then PG&E will ask the CAISO to revisit these parameters and perhaps reconsider a further differentiation of penalty prices associated use-limited resources. It is very importance to ensure these parameters are adequately tested and that the stakeholders are well informed of their performance throughout the market simulations.

Pricing Run Parameters Should Not Exceed Energy Bid Cap

PG&E understands there will be times that energy prices will exceed the bid caps as a result of managing congestion. However, PG&E cannot support market clearing prices that are an order of magnitude, or more, greater than the bid caps. The CAISO proposes three pricing run parameters that greatly exceed the \$500 bid cap.

- Market Energy Balance of \$5,000
- Transmission Constraint - Intertie of \$30,000
- Transmission Constraint - Other of \$5,000

These extreme, administratively-set values appear to be scarcity prices and should not be determined in the parameter tuning forum. Instead, the pricing run penalty prices should be limited to the bid cap. If the CAISO sees a need to implement administratively-set prices during shortages, then this should be deliberated in an appropriate scarcity pricing stakeholder process.

The CAISO Needs To Keep Stakeholders Informed

The appropriateness of the penalty prices is critical to the operation of the market, and stakeholders need to be keep well informed about both the performance of and changes to the penalty prices. To that end, the CAISO should release a Parameter Tuning communication plan that outlines how the CAISO will communicate with stakeholders during the simulation and parallel processing regarding:

- Updates on CAISO's continued parameter tuning analysis.
- Routine measurements of the effects of penalty prices (e.g., how many schedules are cut or how many LMPs are administratively set.)
- Any change in the penalty prices used in the simulations and the reasons for the change.

Lastly, PG&E supports SCE's suggestion that the CAISO develop a method by which a market participant is able to distinguish between prices set by economic bids and prices

set administratively through penalty prices. This type of information would be useful during the simulation process and once the market goes live.

Ancillary Service Pricing Under Deficiency Conditions Needs More Discussion

The proposed tariff changes related to ancillary services under deficiency conditions is newly added from what was presented on May 13th to the stakeholders. PG&E has a number questions related to the proposed changes, including:

- Is the proposal only temporary in so far it will be replaced by the proposed rules being developed in the Scarcity Pricing stakeholder process?
- What would the ancillary services pricing be under deficiency conditions without any tariff changes, and what problems would be created without these changes?

PG&E would like an additional opportunity to discuss this issue and the proposed tariff changes with CAISO to better understand the implications of a market with or without the proposed tariff changes.