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

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Pacific Gas & Electric appreciates the opportunity to participate in the Parameter Tuning stakeholder process and to submit comments regarding the May 6, 2008 Issue Paper and the May 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.

Criteria for Parameter Tuning

PG&E believes synchronization of the penalty price levels with the current tariffs (e.g., protection of self schedules and enforcement of the hierarchy of the different types of self schedules) should be a key touchstone throughout the tuning process. And, in general, it appears that the CAISO's approach to setting the penalty prices is supportive of the underlying tariff objectives. Moreover, we are supportive of the four criteria enumerated by the CAISO for determining the parameter values. Those criteria are:

1. Fulfill MRTU design principle of protecting self-schedules according to the priority order specified in the tariff
2. Provide appropriate economic signals in the form of large magnitude (positive or negative) prices when Uneconomic Adjustments must be utilized.
3. Prevent unreasonable price outcomes, which can occur if there is no flexibility in the hierarchy structure of priorities among the various types of Self Schedule and constraints
4. Achieve scheduling and pricing outcomes that are consistent with good operational practice and support reliable grid operation.

However, although we are supportive, we do not see the criteria as having equal importance. PG&E wants to stress criteria three (preventing unreasonable price outcomes) as critical for protecting the California electric customer. In cases of uneconomic adjustments, PG&E's expectation is that prices should not dramatically exceed the bid caps. For instance, we would view prices of $5,000 per MWh to reduce LAP demand (i.e., the example presented by J. Price) as unacceptable and a failure of the market. Given, some of these prices, it may be time to revisit the need for market price caps in order to safeguard against unreasonable price outcomes.

Modifying Tariffs based on Tuning Results

PG&E is hesitant to change important tariff provisions except as a last resort, especially as it relates to the protection of self schedules. Self schedule protection is particularly important for units with limited ability to change dispatch levels such as hydroelectric generating facilities. PG&E recommends that further differentiation of penalty prices associated with resource self schedules should be considered; specifically, penalty prices for use-limited resources should be set higher than those set for otherwise unrestricted resources. Any proposed tariff changes that the CAISO might suggest must be well understood, thoroughly tested with simulation data, and result in only infrequent adjustments of self schedules.

Parameter Tuning Process

PG&E supports a parameter tuning process that is thorough and will likely result in few price surprises after the new market goes live. At this point we cannot suggest additional tests cases other than the ones identified by the CAISO. However, it is unclear whether the 16 cases specified in the paper will be sufficient. The true test of the thoroughness of the tuning process will be evidenced by the pricing in both this summer's simulations and the parallel processing done before going live. Because of concerns regarding the penalty prices as well as other software concerns, it is imperative that the CAISO meet the current roll-out plan objective of a four-week parallel process with market-ready software before going live. There can be no flexibility with respect to this aspect of the roll-out plan.

Change Management during the First Year

The CAISO has suggested that during the first twelve months of operation, the CAISO will update the operating procedure that specifies the penalty prices as needed outside of the BPM Change Management Process. The CAISO stated in the Stakeholder process that they desire additional BPM flexibility because "real money will be on the line" and that the Change Management Process will not allow the CAISO to react quickly.

PG&E makes two observations regarding this request. First, the expectation by the CAISO that it may need to change the penalty prices throughout the first year does not give us comfort regarding the CAISO's understanding of the various consequences of the penalty prices, the robustness of its tuning plan, and the testing of the software. This request begs the question of whether the tuning plan and software testing need to be augmented to reduce the likelihood that the penalty prices will need to be changed.

Second, PG&E does not believe this additional power is needed. The BPM for BPM Change Management empowers the CAISO to make unilateral BPM Revisions in emergency circumstances. Section 2.6 states:

> The CAISO may unilaterally make and implement revisions to the BPMs in emergency circumstances, as set forth in Sections 22.4.3 and 22.11 of the CAISO Tariff. In addition to the circumstances identified in Section 22.4.3 of the CAISO Tariff, emergency circumstances are circumstances such that the CAISO determines in good faith that:

> (i) Failure to implement a change or clarification to a BPM on an expedited basis would substantially and adversely affect System Reliability or security or the competitiveness or efficiency of the CAISO Market, and
>
> (ii) There is insufficient time to comply with the BPM PRR procedures set forth in Section 2.4.

We believe that critical changes to the penalty prices would qualify under this provision. The Section goes on to enumerate actions the CAISO must take:

> If the CAISO requires such expedited changes in emergency circumstances, the CAISO shall promptly:
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> (i) Solicit Market Participant input prior to evoking an emergency change if practicable,
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> (ii) Issue a Market Notice concerning such revisions, and
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> (iii) Submit a BPM PRR initiating the process described in Section 2.4.
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> At the next BPM Change Management meeting the BPM Change Management Coordinator shall:
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> (i) Examine the necessity and nature of the emergency circumstances,
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> (ii) Obtain stakeholder input on the revisions,
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> (iii) Consider whether continued implementation of the revisions is appropriate,
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> (iv) Examine other alternatives,
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> (v) Make an initial recommendation,
>
> (vi) Determine a process going forward and timeline, and
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> (vii) Make other recommendations as necessary.

Therefore, since the BPM Change Management process already accommodates emergency circumstances, PG&E does not support the CAISO implementing changes to the operating procedure outside of this process.