Stakeholder Comments Template

Subject: Setting Parameter Values for Uneconomic Adjustments

Submitted by	Company	Date Submitted
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Pacific Gas & Electric Company (PG&E) appreciates the opportunity to participate in the Uneconomic Adjustments stakeholder process and to submit comments regarding the September 19, 2008 Draft Final Proposal and the September 25, 2008 CAISO presentation. We are supportive of the CAISO's effort to make this issue transparent and to involve the stakeholders in the development of the appropriate parameter values.

1. Setting real-time 5-minute interval prices based on the Energy Bid Cap when there is supply shortfall

Support CAISO's proposal to use Energy Bid Cap as pricing parameter on energy balance slack variable. This reduces the pricing-run penalty price for a violation of market energy imbalance from the proposed $1,500 to the energy bid cap.

Support CAISO's limited scarcity proposal for MRTU Release 1 consisting of:

- **Limited Energy Scarcity Pricing** (including the use Energy Bid Cap as pricing parameter on energy balance slack variable), and

- **No Reserve Scarcity Pricing** (price is set at last economic bid or the slack variable is priced at $0).

The more limited scarcity approach for reserves is supported by two economic arguments. First, there is currently no market power mitigation protection for the ancillary services (AS) market other than the AS bid cap. The CAISO is considering a rule to provide some protection for the Markets and Performance (MAP) release (i.e., a day-ahead AS must-offer obligation for RA resources), but that will not be in effect for MRTU's initial release. Second, PG&E believes there should be no administratively-set AS scarcity pricing until Demand Response programs that can directly mitigate AS scarcity are commercially ready for the market (i.e., Participating Load or Dispatchable Demand Response). Again, these programs will not be commercially ready for MRTU.

PG&E would like to see a clearer, written definition of what constitutes a contingency situation. When a contingency is declared by an operator, the market has access to contingency-only reserves, and limited energy scarcity pricing is activated. Based on the discussions at the last stakeholder session, it is PG&E's understanding that operators have complete discretion in when to declare a contingency. PG&E is uncomfortable that operators have such unlimited discretion to acquire contingency-only reserves and trigger a scarcity situation.

2. Using the Energy Bid Cap as the pricing run parameter on transmission constraints that are relaxed in the scheduling run

Support the CAISO proposes that the $500 Energy Bid Cap be used as the pricing run parameter to be used in association with internal transmission constraints (not inter-tie constraints) that are relaxed in the Real Time markets.

PG&E supports this change for the same reasons identified by the CAISO:

- This is consistent with the commonly-held expectation that CAISO would not set pricing parameter values in such a way as to trigger what might be construed as “scarcity prices”, and

- In cases where the last economic signal before relaxing the constraint is relatively low, say in the range of the Bid Cap, the pricing run parameter will not artificially inflate the shadow price of the constraint.

Support making a similar change for the IFM --- $500 Energy Bid Cap used as the pricing run parameter to be used in association with internal transmission constraints.

PG&E supports this changes for the same reasons mentioned above. We understand CAISO's concern regarding the potential for the $500 value to produce pricing run LMPs that are lower during dispatch intervals when transmission constraints are relaxed, than in hours when the constraints are enforced at their original limits. However, based on the analysis presented to stakeholders, the frequency of this occurrence is unclear. PG&E suggests the CAISO implement the $500 value, and, if the aforementioned irregularity becomes a persistent issue, the CAISO can revisit the $500 parameter value at that time.

Finally, it is unclear to PG&E if the CAISO is proposing a change to the $7,000 pricing-run penalty value for the relaxation of an intertie constraint. PG&E asks the CAISO for clarification.

3. Adopting an energy price cap and price floor to limit potentially extreme LMPs that can arise due to the interaction of multiple constraints

Support a Price Cap backstop but also support addressing the underlying issues that might lead to price spikes or present market vulnerabilities that could be manipulated.

The CAISO is proposing to adopt a price cap at $2,500 and price floor at -$2,500 for the hourly Energy LMPs in the IFM, the hourly inter-tie LMPs in the HASP, and the five-minute interval LMPs in the RTD. These cap and floor values would apply to Ancillary Services Marginal Prices (ASMPs) as well as to Energy LMPs.

PG&E supports the energy price backstop as a prudent protection for market participants from both known and unknown software issues and market flaws. We agree with the position expressed by the DMM in the stakeholder session that the Price Cap allows the market to send strong price signals while at the same time providing a sanity check on prices by not relying blindly on the optimization.

However, the Price Cap should not be a band-aid fix to mitigate underlying issues with the algorithm or market design. The CAISO needs to fully investigate and address the issues that have been identified such as the impacts from inter-temporal constraints before starting the market. As the MSC correctly noted, implementing a Price Cap without fully understanding the problem is suboptimal. PG&E is specifically concerned about how the inter-temporal constraints may leave the market open to manipulation through the setting of ramp rates. This needs to be more fully investigated to determine if additional market rules are needed to address the potential for manipulation via ramp rates.

The CAISO did not provide any hard analysis supporting the $2,500 Cap Price. Instead they indicated that the price was supported by their general experience with the simulations. It is not clear to us that $2,500 is the "correct" value, and we wonder why that value is superior to a lower value, such as $1,500, which is still great enough to send a strong price signal. Additional justification for the proposed price cap is needed.

Finally, we are not supportive of making the Price Cap a fixed multiple of the bid cap (e.g., 5x) particularly since so little empirical evidence has been provided on this approach. Doing so implies the relationship between the Price Cap and the bid cap is static even as the bid cap is increased. It is not apparent to us that a fixed relationship exists. Instead, we support that the CAISO specify a single Price Cap level in the tariff which would be updated as needed.

4. Enforcing the reliability procurement mechanism provided by Residual Unit Commitment (RUC) any Energy Limits submitted in the DAM for use-limited resources

The CAISO intends to correct this tariff section to indicate that Energy Limits for use-limited resources will be enforced in RUC, so that the total of a resource's IFM energy schedule and its RUC designation do not exceed the limit.

Support enforcement of Energy Limits that may have been submitted in conjunction with Energy Bids to the IFM. PG&E's support of this change is subject to verification of its successful implementation in the simulation.

The CAISO indicated that the parameter value being used in the RUC Scheduling Run is $1,000, which has not led to any inappropriate results to date. Furthermore, the CAISO stated it will continue to assess the performance of this parameter value and will include it in subsequent discussions of the parameter values with stakeholders. PG&E requests more information on the performance of this parameter value and a clearer understanding of what the CAISO means by inappropriate results. We will be looking for this information in the November Parameter Analysis Paper.

5. Providing financial "firmness" to holders of existing rights if their submitted, valid IFM self-schedules are unbalanced by Uneconomic Adjustment in the IFM

PG&E requests that the CAISO provide additional information on how the proposed financial mechanism will be funded. PG&E has concerns about the possibility of funding through the CRR balancing account. The use of this account to provide financial firmness does not strike us as appropriate, and we are concerned about the effect on CRR funding sufficiency since it appears this mechanism would only create an outflow from the balancing account. Perhaps, a better approach would be to create a separate account to fund the mechanism. This approach would promote greater transparency of the cost of this solution.

PG&E is unable to provide a detailed reaction to the presentation provided by Flynn RCI to schedule and settle ETC/TOR CLAP loads using DLAP load distribution factors. We share the concerns stated by the CAISO regarding the possibility of unintended consequences such as settlement impacts. Before such an approach can be considered, both the CAISO and stakeholders would need adequate time to fully vet such a fundamental market change.

6. Maintaining the Uneconomic Adjustment parameter values in the BPMs, and the process whereby the parameter values may be revised.

Support the CAISO's proposal that the BPMs be the primary vehicle for maintaining the Uneconomic Adjustment parameter values. PG&E's is on record as supporting this approach.

Support the CAISO's proposal for using the BPM Change Management process as the vehicle to revise Uneconomic Adjustment parameter values, including the "fast track" version of the process. PG&E's is on record as supporting this approach.

7. Other Comments

In its August 8, 2008 comments template, the CAISO solicited stakeholder suggestions on specific test cases to run to analyze the parameter tuning effort. PG&E suggested four different types of scenarios. We remain unclear about the CAISO's plan to test the proposed parameters, how our suggested scenarios might be included, and how market participants will participate in the testing. Moreover, in our previous comments, we talked at length about the need for transparency in identifying what prices are impacted by uneconomic adjustments and made some suggestions about how the CAISO might address. PG&E also discussed this issue with CAISO staff on September 12th, and the CAISO indicated it would review the possible solutions and report back. We continue to look forward to that response and an action plan to address our concerns.