

SMUD Comments on the CAISO's May 6, 2008 Issue Paper, entitled "Parameter Tuning for Uneconomic Adjustments in the MRTU Market Optimization"

I. Introduction

As requested by the California Independent System Operator Corporation (CAISO), the Sacramento Municipal Utility District (SMUD) provides the following comments to the CAISO's "Parameter Tuning for Uneconomic Adjustments in the MRTU Market Optimization" (Issue Paper). SMUD generally understands the CAISO's purpose and concerns outlined in its Issue Paper, as well as its motivation to resolve what it views as tariff flaws "that could lead to solutions that vary severely from both sound operational practice and reasonable economic outcomes."¹ Issue Paper at 5. As an entity which largely transacts with the CAISO through the use of Self Schedules, SMUD's primary concern is to ensure that the proper deference to Self Schedules is maintained. More specifically, to ensure that Self Scheduled exports from the CAISO, resources that SMUD depends upon to serve its load, are not unreasonably curtailed. Thus, any proposal must include reasonable processes (including adequate market testing) and safeguards on both the selection and updating of the associated parameter values.

II. General Comments

The CAISO summarizes its overall objectives as follows:

1. Observe the desired priorities for self-scheduling and constraint relaxation in the scheduling runs of each market process, consistent with the fundamental MRTU design principles;
2. Provide efficient economic signals in the form of large magnitude (positive or negative) prices when warranted, in particular to link settlement charges to cost causation and avoid creating incentives for participants to schedule and operate in a manner that undermines the operational and efficiency objectives of the MRTU design;
3. Prevent "unreasonable" price outcomes in the pricing runs, which may occur if curtailment priorities are enforced inflexibly even under the most extreme circumstances; and
4. Achieve scheduling and pricing outcomes that are consistent with good operational practice and support reliable operation of the CAISO transmission system.

¹ The "economically unreasonable" solution by current priorities was not specifically raised in the April 16, 2008 "Preliminary Analysis Track Testing of CAISO MRTU Pricing and Dispatch" results by LECG. (See <http://www.caiso.com/1fcc/1fccc59b53030.pdf>.) SMUD questions why this is the case and requests that LECG analyze market results in the market participant parallel testing phase and reports to market participants the CAISO's adjustment of schedules out of priority and why, for purposes of updating parameter values.

SMUD is generally supportive of the CAISO's noted objectives, however, the reasonableness of its approach depends upon how the CAISO defines some of the more subjective elements associated with the proposal. For example, if "unreasonable" price outcomes are not properly defined, then their prevention could lead to the improper curtailment of Self Schedules. Thus, while SMUD agrees that the CAISO should, in some limited circumstances, be able to use uneconomic adjustments before exhausting *all* of the economic bids, this ability to do so must be properly constrained.

The best way to ensure that the parameter values are properly adopted and managed is through sufficient market simulation testing and a change management process,² since it is inevitable that changes will need to be made.

The CAISO should commit to allowing for sufficient time for simulation testing to give stakeholders relative comfort that the initial MRTU Go Live parameter values are yielding rational results. Although the CAISO indicates that it will provide updates to information "in a timely fashion whenever parameter values are changed in the market simulation software," (Issue Paper at 23) there does not appear to be anything contemplated other than a one-way communication of the CAISO's decision(s). There needs to be an appropriate feedback mechanism that allows stakeholders' concerns to be addressed if the CAISO plans changes in parameter values.

As to post-MRTU Go Live change management, the CAISO is initially proposing to adopt the parameters through an Operating Procedure, then after 12 months of operation, to incorporate parameter values into a Business Practice Manual (BPM) and utilize the BPM Change Management process for subsequent updates. The question was raised at the recent stakeholder meeting as to why not put these into the BPMs from the outset. This seems both reasonable and appropriate and the CAISO committed to looking into this, so long as there is a process for expedited changes within the BPM Change Management process. SMUD notes that such a process does in fact exist in Section 2.6 of its BPM for BPM Change Management:

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

² SMUD takes note that the parameter values described in the Issue Paper for both the IFM (sec. 5.2) and Real Time (sec. 5.5) markets are difficult to assess in the abstract. In other words, why is a TOR self-schedule set at 4500 and a self-scheduled export using identified non-RA supply resource at 1600? This is not to dispute the priority of the TOR versus the latter, or to challenge the hierarchy established in the MRTU tariff, only to better understand how the relative values are chosen. This is why sufficient market simulation and explanation is necessary.

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.

SMUD therefore urges the CAISO to provide greater formality and structure by integrating the parameter values into a BPM and not in an Operating Procedure.

Finally, Section 7 of the Issue Paper discusses the related practices of other ISOs. From its discussion of ISO-NE, it appears that this revolves more around a core reliability concern (i.e., operating reserves and voltage support). This is not to invalidate the CAISO's concerns, but rather to note that the CAISO's rationale is more economic in nature than reliability-based. The CAISO indicates that its proposal is intended to address exceptional circumstances, and that appears to be what prompted similar measures in other regions. But, although the CAISO's intent is also to address exceptional circumstances, the magnitude of the potential problem simply may not be the same in California as it is elsewhere. The CAISO has no control over the amount of economic bids versus Self Schedules, the latter of which might be much higher in California. Another unique aspect of the CAISO proposal is that it is being introduced without the benefit of real market data. For these reasons, it is difficult to validate this proposal based on the practices in other regions.

Respectfully Submitted, May 23, 2008