

WESTERN'S COMMENTS ON THE UNECONOMIC ADJUSTMENT POLICY DRAFT PROPOSAL PRESENTED AT THE CALIFORNIA ISO'S SEPTEMBER 25, 2008 MSC MEETING

Western appreciates the opportunity to comment on the CAISO issue paper "CAISO Draft Final Proposal on Uneconomic Adjustments in the MRTU Market Optimizations", dated September 19, 2008, and presented at the MSC meeting on Sept 25, 2008.

Western is pleased to submit the following three comments:

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

"The CAISO now proposes that the \$500 Energy Bid Cap apply to this pricing run parameter"

Western supports this proposal.

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

"the CAISO proposes to adopt a price cap at \$2500 and price floor at - \$2500 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."

Western supports this proposal.

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

The CAISO proposal is explained through the use of a simple example. In the issue paper, CAISO uses examples including schedules beyond the ETC quantity. In the presentation made in the meeting, further simplifications were made without schedules beyond the ETC quantity.

The CAISO claims that "this proposal enables existing rights holders whose submitted IFM self-schedules have been unbalanced by the IFM to receive Perfect Hedge settlement treatment for up to the full

amount of their valid ETC or TOR metered demand, provided they utilize the HASP to submit new or re-submit previously accepted valid supply self-schedules.”

Western believes that the proposal lacks sufficient details and specificity when explained using the examples. In fact, **Western found that the proposed financial “firmness” method does not provide financial firmness to holders of existing rights under most common market scenarios.**

Western uses the same examples from the CAISO presentation (slides 62). Western added detailed price components, assumed for DA and RT markets. The financial results of the transactions were computed for the two cases. The spreadsheet of calculations is attached.

The result of case 1 shows the net settlement (congestion costs) will be \$3000 with the proposed firmness proposal, \$1100 without the proposed firmness proposal, and \$0 if the schedules belong to the same market (ie. DA).

The result of case 2 shows the net settlement (congestion costs) will be -\$3000 with the proposed firmness proposal, \$900 without the proposed firmness proposal, and \$0 if the schedules belong to the same market (ie. DA).

Thus, Western has concerns about the proposed financial “firmness” method. Western encourages CAISO to further develop the methods with the objective to fully protect ETC/TOR rights holders for the congestion charges associated with their schedules.