

Stakeholder Comments Template

Subject: Setting Parameter Values for Uneconomic Adjustments

Submitted by	Company	Date Submitted
Ellen Wolfe (916) 791-4533	Resero Consulting for Western Power Trading Forum	August 6, 2008

This template has been created for submission of stakeholder comments on the following topics covered in the July 31 Market Notice regarding Setting Parameter Values for Uneconomic Adjustments. Upon completion of this template please submit (in MS Word) to chinman@caiso.com. Submissions are requested by close of business on August 6, 2008.

Please submit your comments to the following questions for each topic in the spaces indicated.

1. Please propose or comment on the appropriate principles or rules for setting prices in the Real Time Dispatch when supply is insufficient to meet the CAISO demand forecast.

When real-time supply is insufficient to meet real-time demand, the price of reserves and energy should be set to the bid cap. Consistent with the current “limited” form of scarcity pricing in MRTU, the price of real-time ancillary services and energy should be set to the bid cap when the CAISO must convert ancillary services capacity to energy to serve load when no contingency has occurred.

2. Multiple priority levels for ETCs. The CAISO believes that MRTU Tariff Section 16.4.5 (8) adequately covers possible priority differences for ETCs, i.e., that the service types identified in this section are the only relevant basis for establishing different priority levels in the MRTU software for ETCs. Parties are asked to comment on whether they agree with this assessment, or if not, to specify any further needs that must be addressed.

WPTF does not have any comments on this issue.

3. Parties are asked to describe any specific types of test cases they would like the CAISO to run and analyze in relation to the parameter tuning effort. Please explain the proposed case in enough detail to make it clear what question or issue is being addressed. In addition, please identify any particular Market Simulation cases you have encountered in the Market Simulation process and believe are important to examine for parameter tuning issues, and explain the relevance of such cases.

WPTF would like to see cases where all the parameters are exercised, including conversion of self-scheduled energy to ancillary services, including export self-schedules, and conversion of self-scheduled ancillary services to energy.

WPTF would also like to see test cases whereby schedules cleared in the IFM are subsequently adjusted in the RTM and would like to see the resulting clearing prices and settlement for the adjusted schedules. For example, could an energy schedule clear the DA and then be converted via an uneconomic adjustment in the HASP to AS? And if so, would the resource be paid the DA IFM clearing energy price and then the HASP AS price, or...?

For each of the scenarios, WPTF would like to know the LMPs, ASMPs and whether or not scarcity pricing would be triggered under the CAISO's current scarcity pricing design.

Also, as noted above, WPTF also requests that there be further evaluation of the sequencing of uneconomic adjustments and scarcity pricing triggers.

4. Other

As an initial matter, WPTF notes that the following three principles should apply to the implementation of uneconomic adjustments.

- The implementation of uneconomic adjustments must recognize that such adjustments represent scarcity of market based bids, and therefore the pricing that results when uneconomic adjustments should reflect scarcity conditions.
- Uneconomic adjustments should not be invoked until all economic bids that have non-trivial effectiveness have been accepted.
- Uneconomic adjustments should not be used to circumvent or avoid triggering scarcity pricing provisions.

With these principles as the backdrop, WPTF is concerned that the CAISO's penalty price for adjustments of ancillary services self-schedules is too low, given that the resulting clearing prices seem to have the potential of being lower than the bid prices of effective economic units. Further, if the CAISO converts AS self schedules to energy at penalty prices less than \$500 then the IFM may convert AS self schedules to energy even when sufficient energy economic bids exist. The CAISO should not set penalty prices that would cause an uneconomic adjustment before economic bids that have non-trivial effectiveness factors have been adjusted. WPTF urges that the CAISO adopt a five percent (5%) effectiveness threshold for accepting economic bids.

Similarly, the pricing run parameters for adjustment of self-scheduled ancillary services should be at least at the bid cap. The example and results shown on page 9 of the CAISO's white paper shows this result where the pricing run prices seem to be lower than the bid price of the economically bid unit. In summary, WPTF believes it is more economically rational to have pricing run prices equal to the bid cap. In no instance

should it be less than the value of the marginal effective economic bidder. WPTF would like further dialog about whether such a pricing mechanism could be used, especially given that the CAISO seems to have proposed something similar for the RUC product.

WPTF questions why the CAISO plans to (1) reduce the AS and RUC requirements and (2) set the market clearing price at the price of the last economic bid, rather than at the bid cap, when it cannot obtain sufficient RUC or AS through its market in the first 12 months after MRTU implementation. Merely deeming these requirements to be satisfied when they are not satisfied is neither sound operational nor sound economic practice. It is apparent that there is a nexus between scarcity pricing and uneconomic adjustments; in the case in which operational requirements cannot be satisfied, the pricing run parameters should price the scarce product at the bid cap when the RUC or AS constraints must be relaxed. This is analogous to setting administrative prices if the power balance constraint or transmission constraints must be relaxed to obtain a solution.

Information in the white papers, Tariff and BPMs seem to be ambiguous regarding parameters that are used for schedules that are set in a prior market. More information is needed about parameters used in the HASP for schedules from the DA IFM (e.g., what are parameters used for DA IFM results such as export schedule priority relative to HASP submitted schedules) and what parameters are used in RT for HASP cleared schedules relative to non HASP cleared self-schedules, including whether parameters vary for RUC-committed capacity.

Penalty prices for self-schedules cleared in the DA market should be a larger number than -650, relative to the HASP self-schedule adjustment priority of -550. Otherwise it would seem that the CAISO would reduce cleared self-supply schedules over submitted HASP self-supply schedules relatively frequently even if the IFM-cleared self-schedules have only slightly higher effectiveness factors. WPTF request further clarification if our understanding of the impact of these parameters as described herein is incorrect.

At the Joint Stakeholder/Market Surveillance Committee meeting held on July 30, 2008, it was acknowledged that there needs to be further evaluation to gain a better understanding of the relationship between uneconomic adjustments and scarcity pricing, especially with respect to how the sequencing of uneconomic adjustments will occur with respect to scarcity pricing triggers. Specifically, more information is needed about how parameters are set for converting self-scheduled energy schedules to ancillary services. It is unclear from this document how those parameters are set and how the prices from such conversions are set, especially given that the CAISO seems to not reflect uneconomic adjustments for AS in the ASMPs.