

CAISO WHITE PAPER

Ranking Criteria for Proposed Market Design Changes

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Policy Issue Ranking Criteria

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1. Introduction & Executive Summary

In response to a request by the CAISO board of governors and a significant number of identified potential market design enhancement post MRTU Release 1, the CAISO is proposing to implement a formalized ranking process of potential market design modifications. The implementation of a ranking process will enable to CAISO in conjunction with its stakeholders to prioritize projects so that CAISO resources can be used as effectively and efficiently as possible to implement those projects determined to be the most beneficial to the CAISO's customers and the market as a whole. The methodology should also facilitate a more targeted discussion of stakeholder disagreements on the prioritization of issues based on the ranking criteria. The methodology will provide the CAISO Governing Board with a more detailed description of the potential costs, benefits, and risks of specific projects in the specific areas targeted through the ranking criteria process.

2. Proposal

The CAISO's proposal is based off of a ranking methodology developed and used by the New York ISO. The CAISO proposal was developed by starting with the NYISO methodology and modifying it to meet the structure of the CAISO corporate objectives and ensure responsiveness to CAISO market participant preferences. The proposal includes a set of criteria that are grouped into two areas, benefits and implementation feasibility. The proposal includes 11 benefit criteria and 5 feasibility criteria to be evaluated as listed and summarized below.

Benefit Criteria:

1. Grid Reliability – does the proposed change increase grid reliability?
2. Improving Market Efficiency – does the proposed change improve market efficiency?
3. Correct Market Design Flaws – does the proposed change correct an identified market flaw?
4. Promote Infrastructure Development – does the proposed change promote infrastructure development?
5. Enhance the Goal of Stable Market Rules – does the proposed change ultimately lead to more stable market rules?
6. Reputation – does the proposed change enhance the CAISO's reputation as an effective ISO? This would include following through on commitments, remaining consistent with established policy, and maintaining independence.
7. Annual GMC Cost Reduction – would the proposed change result in lowering the CAISO's GMC?
8. Addresses Corporate Risk Inventory – would the proposed change mitigate any risks identified by the CAISO?
9. Mandate – was the proposed change mandated by FERC, universally desired by stakeholders, and/or facilitate state policy?

10. Expanding CAISO Participation – would the proposed change be likely to increase participation in the CAISO?
11. Process Improvement (CAISO and Stakeholders) – would the proposed change result in better processes for the CAISO and/or its customers?

Feasibility Criteria:

1. Implementation Impact to Stakeholders – how much business impact would the proposed change have on CAISO market participants in terms of cost and complexity?
2. Complexity (CAISO) – how many CAISO departments would need to be involved in implementing the proposed change?
3. Implementation Cost – how high is the implementation cost?
4. Amount of Project Resources Required – how much of the CAISO’s resources would be required to implement the proposed change?
5. Ongoing Operating Costs – what impact would the proposed change have on the CAISO’s going forward operating costs?

Each of the criteria are assigned a weight between 1 and 10, determined by their importance to the CAISO’s overall strategic objectives with a view to stakeholder preferences, where applicable. For example, grid reliability is given a weight of 10 as it is critical to the CAISO’s mission whereas expanding ISO participation was given a weight of 5 due to the fact that although it is important, it is not imperative to the CAISO’s mission. The projects are evaluated using the benefit prioritization criteria by assigning a score from 10 to zero to the project for each criterion. The evaluation based on different criteria will be performed in consultation with those most familiar with the implications of the project with respect to the relevant criterion. For example, Grid Reliability impacts will be assessed and scored based on CAISO Operations input, market efficiency impacts will be scored primarily via input from by CAISO DMM. Market Participants would provide input on ease or difficulty of implementation, etc. To reduce the variability in scoring, only discrete scores (0, 3, 7, and 10) are contemplated at this time, representing High, Medium, Low, and No impact. Projects that have a high benefit for a given criteria would be scored a ten while projects that have no benefit towards a particular criteria would be given a score of zero. Projects are similarly scored for the feasibility criteria the only difference being that projects that are easily implemented are provided with a high score and projects that present implementation difficulties or high implementation costs are given a low score. The final prioritization score is calculated as the weighted average of the benefit and feasibility criteria. The matrix at the end of this paper illustrates how the prioritization criteria are applied in the methodology.

2.1 CAISO Application of the Prioritization Criteria

Once the CAISO has incorporated feedback from stakeholders on the prioritization criteria methodology, the CAISO will apply the methodology to the identified post MRTU Release 1 market design enhancements. Those new market features that score the highest rankings will be targeted for the earliest implementation. The CAISO will develop a timeline for future market design releases based on packages of the desired market design enhancements. Once conceptual market designs have been developed, the CAISO, using more specific information based on specific design characteristics, will again apply the ranking criteria and present this

information to the Board of Governors when they are asked to approve the implementation of market design enhancements.

2.2 Stakeholder Input

The CAISO is looking for stakeholder feedback on its proposed ranking criteria methodology. Specifically the CAISO would like input at the July 18th stakeholder meeting on:

- Whether the proposed criteria effectively capture the import benefit and implementation characteristics of new design initiatives?
- Has the CAISO assigned the appropriate weights to the prioritization criteria?
- Is this an effective way to prioritize proposed new market design initiatives?
- Do you agree with the CAISO's proposed application of the prioritization criteria?

CAISO PRIORITIZATION CRITERIA

#	Criteria	Strategic Objective	Weight	HIGH		MEDIUM		LOW		NONE	
				10	7	3	0				
Benefit	1	Grid Reliability	10	Significant Improvement	Moderate Improvement	Minimal Improvement	No Improvement				
	2	Improving Market Efficiency	6	Significant Improvement	Moderate Improvement	Minimal Improvement	No Impact				
		Corrects Design Flaws	10	High Impact (design flaw currently exists)	High Impact, Medium Probability or Medium Impact, High Probability	Medium Impact, Low Probability or Low Impact, Medium Probability	Does not reduce any Flaws				
	4	Promote Infrastructure Development	10	High Impact	High Impact, Medium Probability or Medium Impact, High Probability	Medium Impact, Low Probability or Low Impact, Medium Probability	No Impact				
		Enhances the Goal of Stable Market Rules	7	Significant Enhancement	Moderate Enhancement	Minimal Enhancement	No Enhancement				
	6	Reputation <small>- Follow through on commitments - Consistency with established policy - Maintains independence</small>	7	All three sub-bulletts affected	Two sub-bulletts	one sub-bullet	None				
		Annual Cost Reduction GMC	5	Above \$500,000 savings	\$500,000 - \$100,000	\$100,000-\$10,000	0 - \$10,000				
	8	Addresses Corporate Risk Inventory	7	Significant Impact	Moderate Impact	Minimal Impact	No Impact				
		Mandate	10	Ordered by FERC, facilitate state policy or universally desired	Ordered by FERC, facilitate state policy, controversial issue	Potential order identified by FERC or desired by a small subset	No apparent mandate or desire				
	10	Expanding ISO Participation	5	Significant Impact	Moderate Impact	Minimal Impact	No Impact				
		Process Improvement (ISO & MP)	4	Significant improvement	Moderate improvement	Minimal improvement	No impact				
Feasibility	12	MP Implementation Impact	7	No Impact	Minimal Impact	Moderate Impact	Significant Impact				
	13	Complexity (ISO)	4	One department	Cross-functional < 3 depts	Highly Cross-functional/ Re-engineering	Complex solution and impact unknown				
		Implementation Cost:	6	< \$100K	<\$500K	>\$500, <\$1M	>\$1M				
	15	Project Resources Required	8	Minimal Resources Required	Low Resources Required	Moderate Resources Required	Major Resource Requirement				
16	Ongoing Operating Costs	8	No ongoing operating costs	Minimal ongoing operating costs	Moderate ongoing operating costs	Major ongoing operating costs					

