

**Southern California Edison's (SCE's) Comments on  
Market Initiatives (MRTU Post Release 1 Issues)  
July 28, 2006**

Pursuant to the CAISO's July 24, 2006 "Market Initiatives Stakeholder Meeting - Request for Comments" market notice, SCE hereby submits comments on MRTU post release 1 issues. As background, on July 18 and 19, 2006, the California ISO (CAISO) conducted market participant workshops to discuss upcoming Market Initiatives, as well as the methodology for ranking them. As a result of this workshop, SCE is providing written comments on the following items:

- I. Market Initiatives Ranking Process***
- II. Convergence/Virtual Bidding (separate transmittal)***
- III. Multiple SCs for One Meter (MSCS)***
- IV. CAISO Marginal Loss Surplus Study***

Per the CAISO's market notice, comments on items I, III and IV are included below and have been sent to Cynthia Hinman (chinman@caiso.com). Also per the CAISO's market notice, comments on item II (Convergence/Virtual bidding) are being transmitted separately to convergencebidding@caiso.com.

**I. Market Initiatives Ranking Process**

**A. Additional Market Issues**

SCE requests that the following market issues be added to the CAISO's master list of market initiatives:

**1) CAISO Run Capacity Markets**

SCE believes that Capacity Markets will be a necessary addition to the MRTU design. Implementing a Capacity Market as quickly as possible should be a top priority for the CAISO. Stakeholder processes in the East have taken years to develop "second generation" capacity market designs and the CAISO should be prepared for a major undertaking. SCE hopes to accelerate the process here in

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California and, along with SDG&E, IEP, Mirant, Constellation, Williams and NRG is participating in the Capacity Market Advocacy group whose members all agree that California should have a centralized Capacity market as soon as possible. In addition, representatives from PG&E, the CPUC, and the CAISO regularly attend the meetings.

SCE appreciates the CAISO's early involvement in the working group, but we expect a more robust, formal process will commence shortly. Since a Capacity Market will be a significant enhancement to MRTU, the CAISO must be prepared to commit a significant amount of resources to this effort.

**2) Payment Acceleration**

The CAISO has undertaken several attempts to implement payment acceleration. The latest effort was SAMC, however this process was recently cancelled. Upon canceling SAMC the CAISO indicated that payment acceleration would be implemented six months after MRTU go-live. Since that time, SCE has not seen a CAISO process to actually implement payment acceleration assuming an MRTU implementation of November 2007. If payment acceleration is still expected to be implemented six months after Release 1, the CAISO must refocus attention on this issue.

**3) Functional UDP/Outage/Derate Reporting System**

While functional for limited reporting activities, the CAISO's current system to report unit outages and derates (SLIC) is simply inadequate for participants with large generation portfolios.

This issue originally surfaced when the CAISO proposed Uninstructed Deviation Penalties based on tight tolerance bands. It recently resurfaced during discussions related to reporting unit outages, and more importantly unit derates, related to reporting process required by Amendment 55 (Enforcement Protocols). The current reporting system is unworkable in both instances.

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In their July 12, 2006 filing at FERC requesting temporary waiver of sanctions related to unit derate reporting, the CAISO noted:

“Second, Market Participants have contended that the current design of the SLIC application is not adequate to report Outages at the frequency require to report small variation in unit capacity. This issue was not raised in the original Amendment No. 55 filing, because SLIC was only a concept at that time, and it was assumed that the SLIC tool would be able to adequately accommodate all outage report in a timely manner. It is important to note that the adequacy of SLIC as a roll for Market Participants to report change in generation availability depend to a large extent on the frequency of reporting and, thus, is inextricably linked to the first issue concerning the level of granularity in reporting.”

Simply put, the current outage reporting systems are insufficient to implement settlement functions related to either UDP or for unit derate reporting. Thus, prior to the CAISO implementing settlements or penalties for UDP or unit derate reporting, the current SLIC reporting systems must be enhanced or replaced.

**4) Station Power Initiative**

FERC allows generation to “self-supply” their system power. As we transition to MRTU, LMP will produce a host of different prices throughout the grid. If generation is allowed to self-supply station power, they must do so based on the LMP at their generating facility. That is, they must not simply be allowed to net MWh, rather the generation must net total dollars (the MWh need for station power at the LMP of the station.) Further, the CAISO may need to address this issue as part of Release 1, rather than delay implementation.

**5) Limits on Market-Based Startup/ Min-load Costs**

Currently, the MRTU tariff is silent on what generation can submit under the election of Market Based startup/min-load costs. Early version of the BPMs

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stated generation could bid "infinity". Unbounded prices present the risk of an unacceptable outcome in which a single generation dispatch causes irreparable harm to California customers. This issue must be addressed, and again this is a Release 1 issue.

At a minimum, the CAISO should clarify that market based min-load costs are subject to the bid caps in place for energy. In addition, the CAISO must cap the allowed market-based startup cost.

**6) Honor RA System Resource Block Bids in RUC**

Section 31.5.1.1 of the MRTU Tariff states that "System Resources eligible to participate in RUC will be considered on an hourly basis; that is, RUC will not observe any multi-hour block constraints that may have been submitted in conjunction with Energy Bids to the IFM." SCE is concerned that by not honoring the bid constraints of a System Resource, the CAISO may commit the System Resource in RUC for a time period that is inconsistent with the SC's offer for the resource. SCE's preference would be for the RUC process to honor all bid parameters of a resource, including a System Resource. However, if there is a Release 1 software limitation driving the inability to honor bid parameters, SCE requests that the CAISO revise its software to honor multi-hour block constraints in RUC for Release 2.

**7) Treatment of Non-Firm Energy Sales to the IFM**

Sections 11.10.3.2 and 11.10.4.2 require SC's to carry 100% Operating Reserve Requirements for load served by Interruptible Imports. Thus Interruptible Imports increase the CAISO's Operating Reserve requirements. It is SCE's understanding that Release 1 will not allow sales of Interruptible Imports in its market. That is, imported power bid into the CAISO market must be firm.

If instead the CAISO intends to allow Interruptible Imports to be bid into the market, the sellers of such imports must be charged for the additional Operating

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Reserve burden they place on the CAISO. That is, sellers of Interruptible Imports must be charged for Operating Reserve based on 100% of the amount of the Interruptible Import sale.

Again this issue is a Release 1 issue, but prior to allowing non-firm import sales in any future Release, the CAISO must, at a minimum, have systems in place, which charge the non-firm imports for their associated A/S.

**8) Tracking and reallocation of CRRs as Load Migrates**

Section 36.8.5 of the MRTU Tariff, effectively requires all LSE's to track the load migration of all other LSEs. As load departs from an SC, that SC must track how much load departs, and to whom the load migrates. Then, the SC must either reallocate rights or the revenue associated with the rights allocated on a seasonal basis to all SCs that received the migrating load. The transfer would be based on a pro-rata slice of the CRRs allocated to the load losing entity.

The proposal is technically infeasible and, in SCE's opinion, will result in endless and irresolvable disputes among SCs. It basically requires SC's to bilaterally (or even multi-laterally) agree to precisely how much load departed and to whom. Since the load losing party has a financial incentive to understate the amount of load lost and the load gaining entity has an incentive to overstate the amount of load gained - and since there is no formal mechanism to arrive at a correct answer - the current system is unworkable. Instead, the CAISO's should have the responsibility of tracking load migration and reallocating CRR holdings if necessary. SCE understands that central CRR reallocation is the standard method of operation in other ISOs.

The CAISO at present does not have any systems in place to track the amount of loads that migrate between load serving entities. Since it is unlikely that the load losing entity and the load gaining entity will agree as to the amount of load that is migrating, an independent party will need to resolve such conflict. This is made

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more problematic because the load will not only need to be tracked customer by customer (of which there are in excess of 10 million state wide), but there will also need to be tracking of the load in each month of the year and in the on-peak and off-peak periods. To SCE's knowledge, the CAISO has no plans to implement any systems that would enable it to track these vital statistics to make the load migration section of the MRTU Tariff feasible.

Again, this is a Release 1 issue and should be addressed as soon as possible.

**9) Uniform Treatment of all Transmission**

MRTU will continue to have "Phantom Congestion" because of disparate treatment of transmission. SCE views uniform treatment of transmission as an import goal for the CAISO and encourages the CAISO to strive for that result.

**10) CAISO Proposal to Preserve RA Resources**

In its reply comments to the FERC, the CAISO acknowledged a concern raised by both SCE and PG&E that the current market design did not ensure the power from RA units could be dedicated to serve California load during critical periods. In their May 16, 2006 reply comments the CAISO stated the following:

In reconsidering this matter, however, in the course of preparing this Reply the CAISO has concluded that the inability of sufficiently-resourced LSEs to ensure they can fully utilize their resource adequacy resources in the IFM during times of supply shortage is too important to defer for resolution to Release 2. The CAISO therefore proposes to implement the preferred solution described above, which consists of two elements. First, in the IFM self-scheduled CAISO Demand will have higher scheduling priority than self scheduled exports that are not otherwise being supported by a corresponding amount Energy scheduled from non-RA generation resources. Second, the CAISO will work to develop a manual procedure to enable exports, in both the IFM and the HASP, to self schedule energy for

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exports that are served by generation from non-RA capacity (IFM), or by non-RA/non-RUC capacity (HASP). Such Self-Schedules would have the same scheduling priority as self-scheduled internal Demand in the IFM, and as the CAISO demand forecast in the HASP. The CAISO believes that a manual procedure will be the only way to implement this feature in Release 1, but will still include this item in the Release 2 agenda to develop an integrated software solution.

SCE continues to believe this is crucial issue and deserves immediate attention at the CAISO. Again, at least for the manual work-around, this is a Release 1 issue.

**B. Methodology for Ranking**

*What is the appropriate methodology for a first cut high level ranking of the issues in order to find the high priority initiatives that should be further evaluated by applying the ranking criteria?*

SCE believes that the CAISO should request stakeholders to rank the final list of market initiatives issues into three categories: High Priority, Medium Priority, and Low Priority. Each category would be required to contain one third of the total number of market issues, to the extent the total number of issues is evenly divisible by three. For example, if there were 45 issues, 15 issues would be required to be in the High Priority category, 15 in the Medium Priority, and 15 in the Low Priority. If the total of number of issues were not evenly divisible by three, then the stakeholders would be permitted to have a different amount of issues in some categories provided that no category had two or more fewer issues than any other category. For example, if there were 47 issues, a ranking of 16 High Priority, 16 Medium Priority, and 15 Low Priority would be acceptable. A ranking of 17 High Priority, 15 Medium Priority, and 15 Low Priority would not be acceptable. If the CAISO receives a ranking that does not comply with the above rules, the CAISO should contact the stakeholder and provide one

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opportunity to make a compliance correction within a short period of time (1 or 2 days). If the ranking is not corrected, then the CAISO should not consider the stakeholders rank list in its analysis.

After the CAISO has received the High/Medium/Low priority lists from stakeholders, the CAISO would then aggregate the results and review with stakeholders. One way to aggregate the results would be for the CAISO to assign High Priority items 5 points, a Medium Priority Items 3 points, and Low Priority items 1 point. The CAISO would then publish a ranking of all issues based on the aggregated results and review with stakeholders. Further cost/benefit analysis should then be applied to the top issues (e.g. "top 10" issues, subject to stakeholder discussion). The CAISO should also provide its opinion as to the feasibility and cost of the top issues.

**II. Convergence/Virtual Bidding**

SCE's comments on the Convergence/Virtual Bidding white paper are being transmitted separately to convergencebidding@caiso.com per the CAISO's request.

**III. Multiple Scheduling Coordinators at One Meter (MSCS)**

Given that the CAISO has stated that it does not have sufficient resources to implement all market issues, and given the relative importance of the MSCS today (vs. 1999), the CAISO should considering redirecting its limited staff to focus on other issues such as MRTU (Release 1) implementation, honoring block import commitments in RUC, and the development of capacity markets.



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**IV. CAISO Marginal Loss Surplus Study**

SCE recognizes that, in its June 2, 2006 "ANSWER TO (MRTU) REPLY COMMENTS OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION", the CAISO stated that it intended to study the marginal loss surplus allocation issue raised by PG&E and to make the results of its study available to all stakeholders. Without prejudice as to whether or not the CAISO should have agreed to perform such a study in its answer to MRTU reply comments, the CAISO's "White Paper Framework for Study of Marginal Loss Surplus Allocation Impact" represents a reasonable approach for the CAISO to honor the commitment it made in its answer to MRTU reply comments. SCE urges the CAISO to keep stakeholders informed of the results of the study, to review the study results with stakeholders prior to submitting those results to FERC, and to limit the scope of the study to the minimum required to honor the commitment made by the CAISO in its answer to MRTU reply comments.