

**Stakeholder Comments on:
Draft Catalogue of Market Design Initiatives September 2010**

Submitted by (Name and phone number)	Company or Entity	Date Submitted
Michael Kramek 626-302-7455	Southern California Edison	October 4, 2010

Southern California Edison ("SCE") appreciates this opportunity to provide comments on the CAISO's draft Catalogue of Market Design Initiatives September 2010. SCE views the effort of cataloguing market design issues as an important step in communicating to stakeholders the potential design initiatives that the ISO markets will undertake in the next few years. SCE looks forward to working with the ISO to finalize the 2010 catalogue with the intention of using the 2010 catalogue as the starting point for the spring 2011 market design initiative ranking process.

Consistent Naming Convention between Market Initiatives Catalogue and Market Initiatives Release Plan

SCE requests the ISO be consistent in its naming convention for market initiatives between the catalogue and the public release plan. Currently, certain market initiatives are not easily mapped back to the market initiatives catalogue. For example, the most recent release plan has a market initiative entitled "Standard Capacity Phase 3"; however, there is no market initiative under that name in the catalogue. The market initiatives catalogue is often used as a reference document for stakeholders to get a high-level understanding of future market initiatives. Without a consistent naming convention between the catalogue and the release plan it is often challenging to cross reference the two documents.

Catalogue Updates Needed to Reflect Recent ISO Proposals

- The introduction to section 8 should be updated to reflect the ISO's current CPM proposal. For example, section 8 talks about the CPUC considering a capacity market and the need to start a process to replace ICPM. Both of these topics are addressed in the CPM proposal and should be reflected in the introductory section. Furthermore, the introduction to section 8 should reference the Renewable Integration Market and Product Review section (10.1) since that initiative is intended to review the relationship of wholesale market revenues, CPUC LTPP, and the CPUC's RA program in supporting needed investments.

- Section 8.5 (SCP Outage Reporting Exemption for Grandfathered Qualifying Facilities) may want to be expanded to consider options to address outage reporting issues associated with SCP 2.

Additional Market Design Initiatives

SCE requests the ISO add the following design initiatives to the 2010 catalogue:

- **Improvements to Imbalance Energy Market Neutrality Allocation** – Given the recent spike in imbalance energy offset charges (June 2010) and DMM’s continued recommendations for improvements in this area, SCE requests this issue be added to the catalogue and eligible for ranking in 2011. The ISO has conducted analysis and concluded there are three key drivers that contribute to the “imbalance” in real-time: (1) HASP and RTM price divergence, (2) hourly averaging effect on charging load for deviations in real-time, and (3) load forecast differences between HASP and RDT. In addition to identifying the three primary causes, the ISO has also proposed a revised allocation methodology, which would allocate imbalance energy offset costs, to the extent possible, based on cost causation principles.
- **Modifications to Market Timelines to better Align with Neighboring Balancing Authorities (BA)** – In an effort to eliminate seams issues between the CAISO and other western balancing authority areas the ISO should consider modifying its market timelines to better aligned with other BA’s. For example, BPA releases transmission at T-50 minutes before the delivery hour; however, HASP closes at T-75, making this transmission inaccessible to the ISO. In conjunction with aligning market timelines, the ISO should also consider allowing 30-minute scheduling of inter-tie transaction.
- **Enhancements to Start-Up Bidding to Recognize Fixed per Start Costs** – SCE has requested in various stakeholder forums the ability to present the ISO market optimization a two part start-up cost bid. SCE recommends the ISO implement a two-part start-up cost bid which would allow an SC to eliminate its exposure to fuel price volatility. The two-part start-up bid would contain a proxy value, to remove fuel price risk, and a fixed component to recover any per start fixed costs.
- **Unit Commitment and Price Formation Improvements** – According to the ISO tariff, the objective function of the optimization is to minimize total bid costs. Currently, however,

the optimization minimizes cost based solely on point estimates of key input variables. For example, cost minimization is done on a point forecast of load in various regions, with point assumptions of generation availability and performance, point assumptions on loop flow, transmission availability and ratings. However, in reality, none of these values are known with certainty, rather the best that can be expected is an estimated distribution of possible outcomes, each with associated probabilities they will materialize.

For a given set of fixed inputs, the optimization might very well produce a cost-minimized result, but actual costs are within a distribution of potential outcomes other than those assumed in the point estimate. Therefore, without taking into consideration the distribution of outcomes the robustness of the solution selected by the optimization is an unknown. To address this level of uncertainty the ISO's should consider modifications to recognize uncertainty and minimize costs on an expected basis rather than a point forecast basis.

- **Outage Management Project** – ISO staff has discussed in various forums a project to replacement its current outage management system (SLIC). Such a project has significant impacts on stakeholder external systems and process and therefore should be added to the market design catalogue.