

November 1, 2013

CAISO Board of Governors
P.O. Box 639014
Folsom, CA 95763-9014

Southern California Edison (SCE) has long supported efficient and competitive markets because they provide significant benefits to our customers and other market participants. Accordingly, SCE supports expanding the California Independent System Operator's (CAISO) markets to access additional resources and to benefit from inter-regional resource diversity. I would, however, like to take this opportunity to share our concerns with certain aspects of the proposed Energy Imbalance Market (EIM) with PacifiCorp.

CAISO management and staff deserve recognition for their significant progress on the proposed EIM design and for their constructive engagement with stakeholders. CAISO has an opportunity to start its broadening of the market smoothly and effectively, but we are concerned that any significant problems could delay further expansion for years. We believe that there must be confidence that EIM will function properly, and we have concerns that the EIM proposal has several material problems and lacks appropriate safeguards. Our experience has taught us that it is more important to get the market design right than to get it done quickly.

SCE believes the following four areas have not yet been adequately addressed: (1) mitigation of potential for market power in the EIM footprint; (2) insulating California load from potential excessive costs related to convergence bidding; (3) additional controls on the "GHG bid adder"; and (4) tariff authority to suspend the EIM market if actual performance results in detrimental outcomes.

(1) Mitigation of Market Power in the EIM footprint: A core design that includes comprehensive and effective mitigation will help ensure a successful EIM roll-out. Both the Market Surveillance Committee (MSC) and the Department of Market Monitoring (DMM) recognize that limited transmission coupled with significant generation concentration raises market power concerns. **We request that the Board include the three-pivotal supplier EIM regional mitigation described by the DMM in their most recent opinion.**

(2) Convergence bidding: The CAISO proposal includes convergence bidding. Convergence bidding was never designed to converge the prices of two different market footprints (CAISO only in day-ahead and CAISO+EIM in real-time). Both the MSC and DMM opinions recognize the proposed convergence bidding/EIM structure can create unwarranted costs to California load. While the proposal attempts to shield PacifiCorp from resulting uplift costs, it lacks comparable safeguards to protect California load. **We request that the Board require the proposal to similarly protect California load from convergence bidding uplift costs resulting from the EIM design.**

(3) GHG Bid Adders: Resources imported to California that have GHG emissions will be subject to California's Cap and Trade program and will incur compliance costs. The CAISO proposes a new bid adder with values up to \$1000/MWh regardless of whether the resource is subject to GHG compliance. This unnecessarily exposes the market to gaming risks. **We request that the Board require the proposal to include the bid adder caps proposed in the DMM opinion to ensure bids reasonably reflect expected GHG compliance costs.**

(4) EIM Circuit Breaker: SCE does not believe it is prudent to enter into a new market without standing ready to immediately address detrimental results. We appreciate that the CAISO plans to monitor and mitigate market abuses as quickly as possible if problems arise. **We request the Board require the proposal include tariff provisions that allow the CAISO to suspend the EIM in real-time if necessary to prevent detrimental market impacts.**

Although we initially expect only a few hundred megawatts of transmission between the two markets, the financial harm caused by the combined EIM weaknesses (e.g., limited market power mitigation, convergence bidding, uplift cost allocation to California load, and GHG bid adders at \$1000/MWh), which are more economic in nature than physical, could be substantial.

In conclusion, SCE continues to support an expanded market footprint for the CAISO. To achieve this end, we believe it is important for the CAISO to successfully implement an EIM free from material controversy that can serve as the template for future expansion. Otherwise, efforts to expand the CAISO footprint could be set back and prevent future progress. For these reasons, SCE asks that the Board instruct CAISO management to modify the proposal by implementing the elements highlighted above before moving forward with the EIM.

Thank you for the opportunity to express our views.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Berberich". The signature is written in a cursive, flowing style.

cc: **Steve Berberich**, President and Chief Executive Officer
Mark Rothleder, Vice President, Market Quality and Renewable Integration
Nancy Saracino, Vice President, General Counsel and Chief Administrative Officer
Karen Edson, Vice President, Policy and Client Services