

**Stakeholder Comments on:  
CAISO Mitigation and Allocation of Real-Time Imbalance Energy  
offset Costs (CC6477)**

Submitted by	Company	Submitted Date
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Southern California Edison "SCE" appreciates the opportunity to participate in the real-Time Imbalance Energy Offset Costs stakeholder process and to submit comments on the CAISO's straw proposal, dated September 23, 2009. SCE appreciates the CAISO's additional analysis of the trade months May, June, and July as well as the detailed root cause analysis provided on the causes of price divergence between RTD and HASP. As noted in our previous comments, we continue to believe the key issue for this uplift is the performance of the real-time market. The CAISO has made improvements here and we believe the bulk of efforts at this time should continue to focus on improving real-time market performance.

SCE provides the following comments on the CAISO's latest straw proposal.

**RT Imbalance Energy Offset Costs Should Not be Viewed in Isolation**

SCE supports the allocation of "uplift" costs based on cost causation principles. SCE has requested that the CAISO move to an uplift allocation methodology similar to what the Mid West ISO (MISO) implemented to support virtual bidding, which performs multiple market passes (after the fact) to determine proper cost causation and allocation. We envision a MISO type allocation methodology to encompass all existing cost allocation charge codes, include CC6477, as well as numerous other market initiatives identified below.

We believe the CAISO should not modify the cost allocation methodology for the Real-Time Imbalance Energy Offset cost charge code in isolation but rather take a more holistic view of cost allocation. In particular the CASIO has numerous market enhancement initiatives underway that impact cost allocation. Such initiatives include:

- Allocation of IFM and RUC BCR Costs to Virtual Bidders – CAISO's draft virtual bidding proposal will not only allocate IFM and RUC costs to virtual bidders it will also modify to

some extent the rules for allocation RUC and certain Real-Time BCR costs to measured demand.

We question the impacts virtual bids can have on the Real-Time Energy imbalance Offset charges and if virtual bid should pay a portion of those costs.

- RUC Uplift Costs – CASO has implemented various software charges in RUC to enforce capacity nomograms to reduce the level of Exceptional Dispatches. These additional constraints have the potential to increase the total commitment costs in RUC.
- Two-Tier Real-Time BCR - FERC has ordered the CAISO to modify its settlement rules to implement a two-tier BCR allocation in Real-Time within 3 years of market start-up.

We feel it would be a better use of resources to address all these cost allocation issues at once rather than the piece mail approach that it appears the CAISO is taking. SCE recognizes migrating to a MISO type cost allocation methodology is not trivial but in the long run appears to be the best approach to date to get to true cost causation. SCE encourages the CAISO to make a commitment to implementing a MSIO type cost allocation methodology shortly after the implementation of virtual bidding.

### **Cost Allocation Impact of CAISO's Two-Tier Methodology**

Based on analysis conducted by the CAISO on the root causes of large price divergence between RTD and HASP it is unclear how much effect a two-tier allocation methodology will have on the overall allocation of Real-Time Imbalance Energy costs. Especially when you consider that the high cost are event driven and largely occur in only a small subset of the hours within the month. For example, the CAISO stated that \$7 million dollars of the total CC 6477 charge occurred in 3 hours on the 19<sup>th</sup> of May due to major transmission derating. It is our understanding that costs from this event would be allocated primarily to metered demand regardless of whether the CAISO implements a two-tiered allocation approach or stays with the status quo.

To help support stakeholders in their assessment of whether a two-tier allocation approach is worth while SCE request the CAISO conduct further analysis to show stakeholders the market wide impacts of a two-tier versus single tier allocation methodology. SCE recommends the CAISO recalculate the Real-Time Imbalance Energy Offset charges for the month of April –August 2009 based on the two-tier allocation methodology and provide stakeholder with the monthly system wide breakdown of costs to be recovered under tier –one and tier-two. This data will be very helpful in determining whether it is beneficial to move to a two-tier approach or stay with the current allocation methodology.