# Comments on August 29, 2011 Renewable Integration Market Vision and Roadmap Revised Straw Proposal

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SDG&E appreciates the approach outlined in the August 29, 2011 Revised Straw Proposal. The revised approach more narrowly tailors market modifications necessary to enable renewable integration into discrete, identifiable short, mid, and long-term goals. In particular, SDG&E supports the CAISO's decision to add cost causation/cost allocation as a guiding principle in this effort. As previously stated, SDG&E strongly believes that each market participant should be assigned costs imposed on the grid due to that participant's performance. Such a cost-causation paradigm places the incentive to mitigate variability squarely on the entity responsible for that variability.

SDG&E, however, continues to have serious concerns about the lack of a concrete proposal to address Real-Time Imbalance Energy Offset (RTIEO) uplift charges that the 15-minute Real-Time market would have achieved. Both the Issue Paper and Initial Straw Proposal proposed the 15 minute RT market which, enabled by the West moving to 15 minute scheduling for interties, would have eliminated $100M per year in recurring RTIEO uplift costs allocated to load.

Unfortunately, the CAISO views the 15 minute market approach as "a ways off," and not immediately implementable. The CAISO does propose two short-term solutions that may provide some relief from RTIEO costs. The NYISO approach would settle imports and exports at the real-time price, with a bid cost guarantee for imports but not exports. While an improvement, this bid cost guarantee would continue to contribute to the current uplift issues, in particular as the market optimizes its bids around this bid cost recovery element.

Another CAISO proposal is to price the interties on the same basis as internal nodes in the real-time market, but only for off-peak hours to minimize risks to imports during peak hours. The CAISO points out that most RTIEO costs occur during off-peak periods.

Further, if the approach is implemented, the CAISO maintains that it may be possible to reinstate convergence bidding at the interties in the off peak hours, since interties and internal nodes would be priced consistently.

Both approaches take a significant step toward eliminating RTIEO costs. Of the two, SDG&E more strongly supports the second option of settling intertie transactions at the real-time price because it more closely aligns with a permanent solution for the duel settlement issue, with two improvements. First, rather than excluding on-peak hours, the CAISO should initiate this market change after the summer load season and apply real-time pricing to *all* hours, both on- and off-peak. Then, prior to the next summer, the CAISO can decide with stakeholder input whether to revert back to a HASP-based settlement for on-peak summer hours. Even so, CAISO could then install the NYISO settlement principle of real-time pricing with bid cost guarantee for on-peak imports only. SDG&E believes the market will quickly adapt by fixing hourly prices at the trading hubs outside the CAISO so that suppliers avoid the risk of accepting uneconomic real-time pricing from the CAISO. Load-serving entities within the CAISO could then directly mitigate its load exposure to real-time prices via transactions for import and export at the market hubs outside the CAISO.

SDG&E appreciates the CAISO's efforts to find a solution to managing the RTIEO problem and strongly recommends the CAISO to vigorously pursue implementation of such a solution as quickly as possible. The stated priority of this initiative as a mid-term goal, with resolution occurring in the 2013-2015 timeframe, is blind to the magnitude and urgency of the problem, which burdens load with millions of dollars of allocated charges each month.