



California ISO  
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California Independent  
System Operator Corporation

# Market Initiatives Ranking Methodology

**Greg Cook**

**Manager, Tariff and Regulatory Policy Development**

**March 7, 2007**

## Why implement a formal process for ranking proposed market design initiatives?

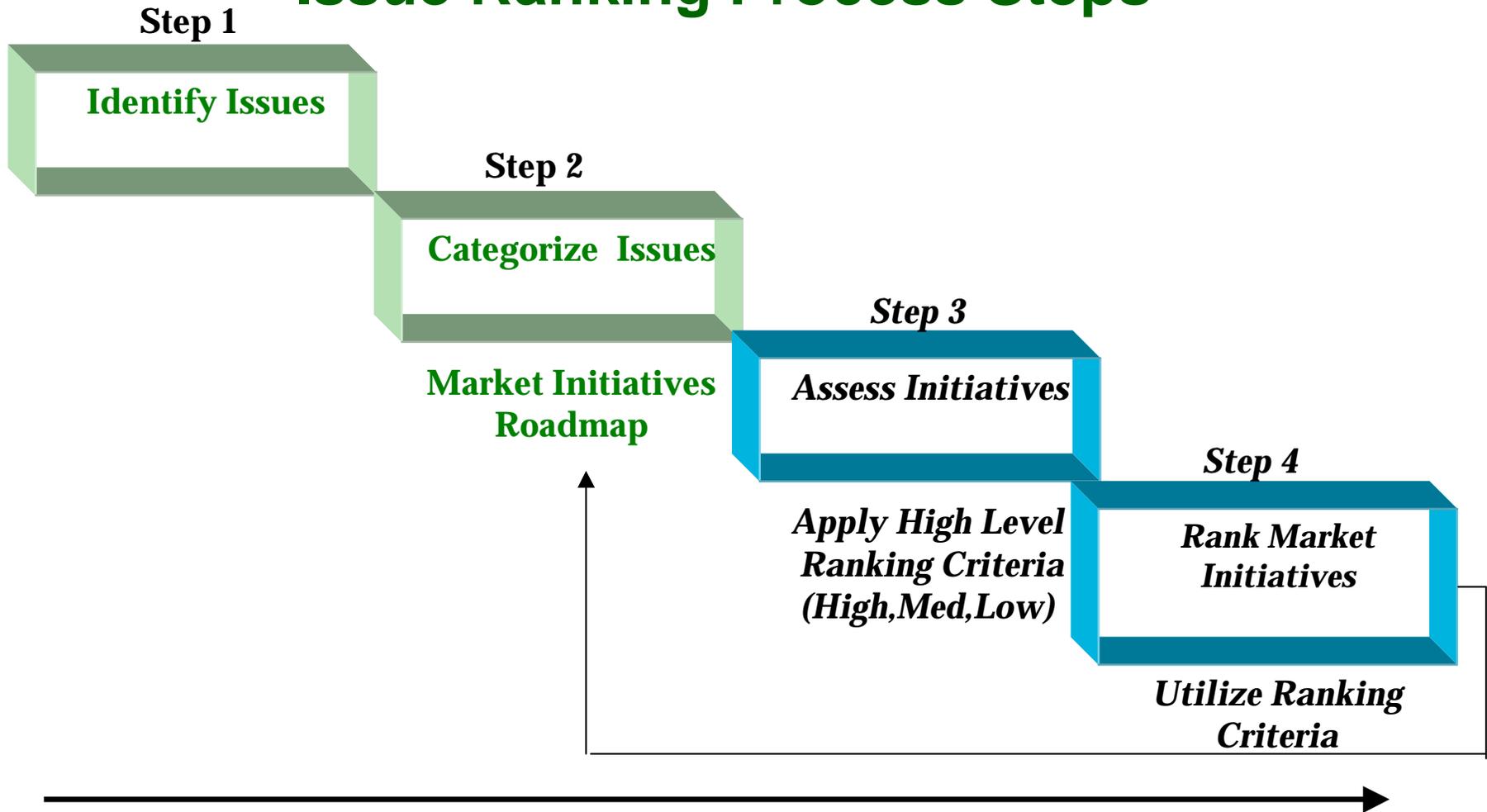
- **The CAISO often receives requests from market participants for market design enhancements**
  - In the past, each project evaluated internally based on a number of factors to develop an informal “ranking”.
- **Last year the Board requested a more formal process incorporating a benefit/cost/risk analysis**
- **Transparent process developed, with stakeholder input, that applies a high-level cost benefit analysis using a standard set of criteria to “rank” initiatives**
  - Benefits include:
    - standardized formal process to determine the relative importance of each potential market enhancement
    - Clarity in decision process

## Stakeholder Engagement and Input

- **July 18, 2006 stakeholder meeting to discuss initial ranking criteria proposal.**
  - The CAISO received valuable input that was incorporated to both simplify and improve the methodology
  
- **Revised proposal posted and presented at a stakeholder meeting held on August 17, 2006.**
  - Additional stakeholder comments gathered and incorporated into final proposal.



# Issue Ranking Process Steps



## High Level Prioritization

- **Simplified ranking process used for high level prioritization**
  - Utilizes subset of ranking criteria
  - Categorize proposed initiatives as High, Medium, and Low priority
  - High priority initiatives then evaluated more thoroughly by applying ranking criteria methodology

## High Level Prioritization Criteria

### ■ Benefit Criteria

- Grid Reliability
- Improving Market Efficiency  
*(Combines an evaluation of both short-term and long-term market efficiency)*
- Desired by Stakeholders

### ■ Feasibility Criteria

- Market Participant Implementation Impact  
*(combines cost and resource impact feasibility criteria)*
- CAISO Implementation Impact  
*(combines cost and resource impact feasibility criteria)*

# High Level Prioritization Matrix

ATTACHMENT C: CAISO HIGH LEVEL PRIORITIZATION CRITERIA							
#		Criteria	Strategic Objective	HIGH	MEDIUM	LOW	NONE
				10	7	3	0
1	Benefit	Grid Reliability	Reliability	Significant Improvement	Moderate Improvement	Minimal Improvement	No Improvement
2		Improving Overall Market Efficiency	Market Efficiency	Significant improvement	Moderate improvement	Minimal improvement	No impact
3		Desired by Stakeholders	Customer Care/Regulatory	Universally desired by stakeholders	Desired by majority of stakeholders	Desired by a small subset of stakeholders	No apparent desire
4	Feasibility	Market Participant Implementation Impact (\$ and resources)		Significant Impact	Moderate Impact	Minimal Impact	No impact
5		ISO Implementation Impact (\$ and resources)		Significant Impact	Moderate Impact	Minimal Impact	No impact

## Detailed Ranking Benefit Criteria

- **Grid Reliability – Assigned weight of 10.**
  - Core function of the CAISO
- **Improving CAISO Market Efficiency – Assigned weight of 10.**
  - Core function of the CAISO
- **Promote Efficient Infrastructure Development – Assigned weight of 10.**
  - Critical for reliable operation of the grid as well as efficient market outcomes
- **Desired by Stakeholders – Assigned weight of 10.**
  - Market initiatives with a wide range of support should be given a high priority
- **Process Improvement (CAISO and Market Participants) – Assigned weight of 5.**
  - Less critical than other benefit criteria
  - Related cost reductions captured in feasibility criteria

## Detailed Ranking Feasibility Criteria

- **All feasibility criteria assigned weight of 7 except for CAISO implementation costs which was assigned a weight of 10.**
  - CAISO and Market Participant implementation impacts weighted equally—except for CAISO implementation costs.
  - CAISO implementation costs weighted higher due to its impact on all market participants.

## Ranking Criteria Matrix

ATTACHMENT B: REVISED CAISO PRIORITIZATION CRITERIA								
#		Criteria	Strategic Objective	Weight	HIGH	MEDIUM	LOW	NONE
					10	7	3	0
1	Benefit	Grid Reliability	Reliability	10	Significant Improvement	Moderate Improvement	Minimal Improvement	No Improvement
2		Improving CAISO Market Efficiency	Market Efficiency	10	Significant improvement	Moderate improvement	Minimal improvement	No impact
3		Promote Efficient Infrastructure Development	Infrastructure Development	10	Significant improvement	Moderate improvement	Minimal improvement	No improvement
5		Desired by Stakeholders	Customer Care/Regulatory	10	Universally desired by stakeholders	Desired by majority of stakeholders	Desired by a small subset of stakeholders	No apparent desire
6		Process Improvement (ISO & MP)	Customer Care, Financial & Enterprise Risk Management	5	Significant improvement	Moderate improvement	Minimal improvement	No impact
7	Feasibility	Market Participant Implementation Cost		7	No Cost	Minimal Cost	Moderate Cost	Significant Cost
8		Market Participant Implementation impact on systems and resources		7	No Impact	Minimal Impact	Moderate Impact	Significant Impact
9		Impact on Market Participant ongoing operating costs		7	No ongoing operating costs	Minimal ongoing operating costs	Moderate ongoing operating costs	Major ongoing operating costs
10		ISO Implementation Cost		10	< \$1M	>\$1M, <\$5M	>\$5M, <\$10M	>\$10M
11		ISO Implementation impact on systems and resources		7	No Impact	Minimal Impact	Moderate Impact	Significant Impact
12		Impact on ISO Ongoing Operating Costs		7	No ongoing operating costs	Minimal ongoing operating costs	Moderate ongoing operating costs	Major ongoing operating costs



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# Questions?