

2012 Stakeholder Initiatives Catalog Comments on Top Priority Initiatives

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Southern California Edison (“SCE”) offers the following comments on the California Independent System Operator’s (“CAISO”) Draft Stakeholder Initiatives Catalog.

I. Introduction

As SCE discussed in its October 10th comments, the inappropriate weighting of the different evaluation categories in CAISO’s provided initiatives ranking matrix renders the matrix ineffective. Thus, SCE has chosen not to evaluate initiatives using CAISO’s matrix, but rather to evaluate on a more qualitative basis short-listing the most important CAISO initiatives.

II. Discussion of specific initiatives

A. Ranking of discretionary initiatives

1. 3.11 Mitigating Transient Price Spikes, RTIEO / RTCO

Since the beginning of MRTU in 2009, there has been over half a billion dollars in uplift costs in the form of RTIEO and RTCO¹, which are largely attributable to economically disconnected price spikes. An initiative to reduce the frequency and magnitude of these transient price spikes must begin immediately, as it should be the single highest priority of CAISO.

2. 8.3 Multi-Year Forward Reliability Capacity Pricing Mechanism (D)

The existing Flexible Capacity Procurement (“FCP”) mechanism, approved by the Board in September 2012, is incomplete in design thus requiring a more robust mechanism to take its place. Given the numerous weaknesses in the current FCP mechanism, its successor should be implemented soon, hopefully by mid-2013.

3. 8.6 Standard Capacity Product Enhancements (D)

Various issues concerning substitution requirements, incentive payments, and rule clarifications have persisted since the implementation of Standard Capacity Product (“SCP”) Phase I. These issues must be addressed at the earliest opportunity to avoid costly over-procurement of resources, eliminate incentive payments for resources on planned outage, and add clarity to the rules.

¹ Since the start of MRTU in April 2009, CAISO has incurred roughly \$575 million in RTIEO and RTCO uplift costs. See chart on slide 16 in the September 12, 2012 Market Performance and Planning Forum Presentation: http://www.caiso.com/Documents/Agenda_Presentation-MarketPerformance_PlanningForum09122012.pdf.

4. 13.19 Transition out of the Participating Intermittent Resource Program (PIRP)

PIRP inefficiently subsidizes the output from Variable Energy Resources (“VERs”) by shielding the resources from integrating services and other scheduling and performance rules. PIRP violates the basic CAISO principles of cost-causation based cost-allocation and resource technology impartiality. Additionally, the implementation of FERC Order 764 will aid VERs with their scheduling accuracy so PIRP can no longer be justified.

5. 2.6 Multi-Day Unit Commitment in the IFM (D)

Allowing commitment decisions to be based on a two or three day outlook rather than a 24 hour outlook will allow for more economic commitment and cycling of long-start units, thus improving market efficiency. While the 72 hour RUC initiative remedies some of the concerns regarding market efficient use of long-start units, these units must also be effectively priced into the IFM.

B. Discussion of non-discretionary and FERC mandated initiatives

1. 9.1 FERC Order 764 (I,F)

Modifying the Hour-Ahead Scheduling Process (“HASP”) through Order 764 should correct several structurally caused deficiencies that have serious implications on efficiency and reliability. CAISO should aim to have the Order 764 changes implemented—not only filed at FERC—by September 2013 if possible.

Additionally, the implementation of FERC Order 764 may allow an opportunity to fluidly address several other stakeholder initiatives that relate to the HASP and Real-Time markets, including:

- 13.3 Allocation of Dynamic Ancillary Services
- 13.4 Allocation of Intertie Capacity
- 13.14 Interchange Transactions after the Real Time Market
- 13.18 Sub-Hourly Scheduling

2. 3.3 Flexible Ramping Product (I,N)

While CAISO and stakeholders have not yet concluded the best way to implement Flexible Ramping Product (“FRP”), work on the product should continue as it will improve market efficiency and reliability. Still, it is important to note that FRP is intended to remedy growing concerns, not immediate concerns.² If it is necessary, the process to implement FRP can be delayed several quarters to allow for the implementation of more pressing concerns such as Mitigating Transient Price Spikes and FERC Order 764.

3. 11.4 Cost Allocation Overall Market Review (N)

For the sake of market efficiency as well as reliability, cost-causation based cost-allocation must be applied with uniform principles across the entire market.

4. 2.4 Multi-Stage Generator Bid Cost Recovery (N)

² The development of Flexible Ramping Product is not an immediate concern given that Flexible Ramping Constraint is currently in place to meet flexibility needs.

It is important that with the implementation of the Bid Cost Recovery ("BCR") Mitigation Measures initiative, the calculation of BCR uplifts for Multi-Stage Generator ("MSG") resources be correct. Mandatory MSG registration will take place in mid-2013 adding a considerable number of multi-stage capable resources to those affected by MSG BCR.

C. Discussion of Infrastructure and Planning initiatives

1. 10.2 Generator Interconnection Procedures 3 ("GIP 3") (D)

Reform efforts to more efficiently manage and process a very large interconnection queue must continue promptly. SCE supports CAISO's efforts to enhance and streamline the interconnection process to allow truly viable generation projects to move forward.

2. 10.3 Transmission Interconnection Process (D)

It is critical that a CAISO-specific transmission interconnection process is developed to ensure technical reviews and studies will be performed on an integrated basis. Recently, transmission interconnection requests have become more frequent making a streamlined, integrated process increasingly important.

III. Conclusion

While CAISO has asked stakeholders to evaluate discretionary and non-discretionary initiatives separately, CAISO must look at all market design initiatives holistically to determine the most pressing concerns. SCE believes that the following initiatives, listed in decreasing order of importance, should be addressed without delay:

1. 3.11 Mitigating Transient Price Spikes, RTIEO / RTCO (D)
2. 9.1 FERC Order 764 Market Changes (I, F)
3. 8.3 Multi-year Forward Reliability Capacity Pricing Mechanism (D)
4. 8.6 Standard Capacity Enhancements (D)
5. 3.3 Flexi-ramp Product (I, N)
6. 11.4 Cost Allocation Overall Market Review (N)
7. 13.19 Transition out of the Participating Intermittent Resource Program (PIRP)
8. 2.4 Multi-Stage Generator Bid Cost Recovery (BCR) (N)
9. 2.6 Multi-Day Unit Commitment in the IFM (D)

Furthermore, CAISO's Infrastructure and Planning initiatives are essential for increased efficiency in managing cumbersome interconnection processes. In addition to the most important market design initiatives, these Infrastructure and Planning initiatives should be addressed within the year.