

Comments of Southern California Edison on the CAISO's "Market Initiatives Roadmap
Process Report on Ranking of High Priority Market Initiatives"

June 17, 2008

Southern California Edison (SCE) appreciates this opportunity to provide comments on the CAISO's report, entitled "Market Initiatives Roadmap Process Report on Ranking of High Priority Market Initiatives" and subsequent comments raised at the June 11, 2008 stakeholder conference call. SCE views this effort to prioritize and plan future market enhancements as important because it will force the CAISO and stakeholders to focus resources on the initiatives with the highest overall value.

High Priority Market Enhancements

The CAISO's revised high priority market initiative roadmap has identified the following issues as having priority:

- Standard RA Capacity Product
- Long Term CRR Auction
- Sale of Allocated CRR's in the Auction
- Ancillary Service Substitution
- 30-Minute Operating Reserve
- Hourly Designation of Ancillary Service Contingency
- MPM of Start-up and Minimum Load Bids
- Modeling of Combined Cycle Units
- Multi-Settlement System for Ancillary Services

SCE remains disappointed that the Multi-Day IFM Unit Commitment enhancement continues to be identified as a lower priority even though it will have a significant impact in improving overall market efficiency. The IFM software was originally designed to include a 5 day look-ahead period specifically to address some of the concerns listed below. However, due to implementation challenges the CAISO has reduced the look-ahead period on two occasions, first to 2 days and now to only 24 hours. It is our understanding that other ISO's day-ahead market software provide for an extended look-ahead window and we question why the CAISO's IFM software can't provide the same features.

Specifically, SCE has three major concerns with not enhancing the IFM software to provide for an extended look-ahead period. First, we are concerned that without an extended look-ahead period the IFM software will decommit resources that the ISO will ultimately need for the next day to maintain grid reliability. If CAISO operations staff senses that individual resources needed for grid reliability are to be turned off at the end of the day it is unclear the method the CAISO will use to keep these units on (Exceptional Dispatch?). Incorporating an extended look-ahead period into the IFM

software should solve this problem. Second, SCE sees a high likelihood, absent an extended look ahead period in the IFM, that participants will bid their resources in as self-schedules to overcome the optimization shortfall (i.e. in order to keep the unit on for the entire day). Based on CAISO's own observations that a large amount of self schedules can cause problems with the optimization software; enhancing the IFM software with an extended look-ahead period will help to reduce the number of participants bidding self schedules. Lastly, with just a 24 hour look-ahead period the current IFM design contains a clear bias towards resources with smaller start-up costs and more flexible start-up and shut down characteristics. Without an extended look-ahead period the IFM software could bias dispatch and prices away from a more efficient outcome. For the reasons stated above SCE feels that the grid reliability score of 3 is too low and requests that the CAISO increase the score to a 7.

In addition, SCE questions the relatively low ranking of the Two-Tier Real-Time Bid Cost Recovery Allocation item. This item has been mandated by FERC and SCE believes that it has a greater impact on market efficiency than is currently reflected in attachment A of the road map document. Ranking this enhancement as high priority will help with the implementation of the virtual bidding initiative. As previously stated in our virtual bidding comments cost causation is a critical success factor and incorporating Two-Tier Real-Time Cost Recovery with virtual bidding goes a long way in satisfying that success criteria. In addition, by combining these two initiatives the Two-Tier Cost Recovery Implementation costs will be significantly reduced. SCE would like the CAISO to consider combining these two enhancements and by doing so consider raising the ISO implementation score from 3 to 7 (lower implementation cost).

Lastly, with respect to the development of a Long-Term CRR auction SCE points out that there are significant credit issues that will need to be resolved before implementing this enhancement.

Market Initiatives Roadmap Process

SCE appreciated CAISO staff reviewing with stakeholders the high level roadmap process described on page 3 of the June 11th presentation. To summarize the discussions, the on-going roadmap process has four "categories" of enhancements and/or initiatives:

- Market Enhancements in Progress
- Non-Discretionary Corporate Initiatives
- FERC Mandated Enhancements
- High Priority Discretionary Enhancements

Items within each of the four categories are then sent through the CAISO's strategic planning and implementation analysis process with the goal of producing a work plan and timetable for implementation for each of the issues. This process is repeated on a regular basis as new items are added to each of the four categories.

While this discussion was helpful it is still unclear as to the criteria the CAISO is using to determine if a particular item is discretionary (needs to go through the CAISO high priority ranking process) or non-discretionary. Specifically, SCE is concerned with items that have been identified during MRTU simulation testing (for example: permanent fix to the 50,000 Resource limit) and potential items that will be identified post MRTU deployment. It is very unclear at this point if these MRTU items will need to be placed in the catalogue and if so the going forward process stakeholders will need to follow to get these items logged. SCE would like the CAISO to provide stakeholders with additional information on the criteria that will be use to categorize MRTU related items as well as the going forward process for cataloging these items once the high priority items for MAP releases 2 and 3 are finalized.

In addition, SCE is unclear as to the role of the market initiatives roadmap in the overall planning process. It is not clear to SCE if the intent of the roadmap process is to provide the CAISO with a vision for future market enhancements or provide CAISO with an absolute list of enhancements to be worked on for a given time period. It is not clear to SCE at this point how critical MRTU market changes will be handled by the CAISO and how these changes will be incorporated in with the work plans and timeframes for the high priority market initiative roadmap items. SCE is sure that critical market changes will present themselves after MRTU go live and doesn't want these changes to be placed on a list waiting for prioritization while market inefficiencies continue to exist.

Additional Catalogue Item

SCE would like the CAISO to add to the Catalogue of Market Initiatives the integration of SIBR and SLIC. Integrating the two systems together would allow bids being entered to reflect the actual operating state of the resource. Additional bid validation messages should be introduced that would validate the bid parameters being submitted in SIBR and return error messages if the bid violates the operating parameters entered in SLIC.