

Comments of Southern California Edison on the CAISO's Refinements to Proposal for
Interim Measures to Address Underscheduling Under MRTU

August 14, 2007

Southern California Edison (SCE) appreciates the opportunity to provide comments regarding the Refinements to Proposal for Interim Measures to Address Underscheduling Under MRTU dated August 2, 2007.

SCE's comments this time will focus exclusively on three issues: the change from "Interim Scheduling Report" to "Interim Scheduling Charge," the Bright Line Rule, and the Exemption for Small LSEs. We do not repeat any general comments on the issues of Underscheduling or scheduling requirements in the MRTU.

Change from "Interim Scheduling Report" to "Interim Scheduling Charge"

SCE supports the change proposed by the CAISO that triggers the Interim Scheduling Charge only after a SC violates the "bright line" rule. SCE believes that this is a more reasonable and realistic approach and will provide increased certainty to market participants. Further, SCE supports this as a "charge" per the tariff, rather than a "penalty" for violating the tariff.

Bright Line Rule

In its refinements, the CAISO proposes the creation of a bright line, to define "persistent" underscheduling, which must be violated before the Interim Scheduling Charge can be triggered. The CAISO considers the following two options for defining the threshold: 1) 36 hours per calendar month above 15%, or (2) 438 total hours during the interim period above 15%.

SCE supports the CAISO's proposed creation of a bright line to address "persistent" underscheduling. Between the two options, SCE thinks that the first option, with the 36 hours per calendar month exemption, is adequate to strike the balance of addressing "persistent" underscheduling. SCE also understands that the 36 hour exemption will reset every month, and SCE supports this option. On the other hand, the second option of 438 total hours of exemption during the interim period is excessive, and market participants may use all these hours in the summer period to engage in persistent underscheduling without the Interim Scheduling Charge, so, therefore, SCE does not support this option.

Exemption for Small LSEs

In its refinements, the ISO recommends that the small load exemption be increased to 500 MWs per hour per LAP from the previously proposed 250 MW per hour per LAP.

SCE objects to the 500 MW per LAP exemption on the grounds that it inappropriately discriminates among CAISO participants.

FERC does not permit the CAISO to implement rules that discriminate against market participants. However, the CAISO's proposal does discriminate in deciding that only SC's that serve more than 500MW of load per LAP will be subject to the proposed charges for insufficient scheduling while SC's below this threshold face no such charges. This rule effectively forces larger SCs to schedule in the day-ahead market while it unreasonably permits SCs below the threshold to serve their load, without restriction or special charges, in either the day-ahead or real-time market. If we are to have the scheduling rule, it should apply to everyone. Rather, the proposal as written creates two classes of market participants: those with more than 500MW of load in a LAP and those with less than 500MW of load in the LAP. The first class is "handcuffed" and must use the day-ahead market or face additional charges, while the second class is attributed special privileges by the CAISO and is free to participate in any market it wishes, without restrictions. Thus, the CAISO rules provide the second class with a discriminatory, unreasonable, and unjustified competitive advantage over the first class.

As a matter of law, principle, and FERC precedent, all market rules should apply equally to all market participants. One of the main reasons for the CAISO's existence is to ensure independence and non-discriminatory access to its markets, and this proposal repudiates that core role.

SCE notes there may be instances where there are compelling reasons to adopt non-uniform rules, but the CAISO offers no such reasons here. The CAISO attempts to defend the exemption on the basis that only large entities can impact prices, but the collective actions of many smaller entities can likewise impact prices, and the only way to ensure this outcome is avoided is by applying the scheduling rule to the smaller SC's in the first instance. SCE notes that, as proposed, 500 MW alone is a substantial amount of load, but the CAISO goes further and allows a 500 MW exemption *per LAP*. Thus an individual SC can have up to 1,500 MW of load and not be subject to the scheduling rules. The size of this exemption approaches 50% of SDG&E's load, and SCE does not understand how the CAISO can consider such an exemption immaterial to market performance. And, thus, this proposal violates the very rationale used by the CAISO to support it.

Further, SCE views the arguments made by some that the rule is not discriminatory because it "applies to everyone" as sophistry. Would anyone claim that a rule stating that "everyone who consumes more than 500MW of energy has to pay, but those who consume less than 500MW get it free" as non-discriminatory because it, too, applies to everyone?

During discussions on this topic, SCE supported an exemption for SCs that had less than 100MW of total load in the system. Here, SCE was attempting to address a "lumpiness" issue. That is, an SC might only have a handful of customers, and the unpredictable actions of these customers might make it impossible for an SC, despite its best efforts, to

schedule within a tight tolerance in the day-ahead market. However, assuming such customer variations are in fact unpredictable, as the number of such customers increases, these variations will tend to "cancel" out (i.e. the Law of Large Numbers), and the SC should be able to accurately forecast load. SCE continues to believe that a 100MW system-wide exemption is sufficiently large to address the "lumpiness" issue but would support other values if they were defended by actual observations.

In short, SCE urges the CAISO to remove the discriminatory exemption for SCs with less than 500MW per LAP. We should not start MRTU by creating a "favored class" of market participants that have special market privileges.

Thank you for the opportunity to provide these comments.