

**SDG&E's Comments on the
CAISO's July 2, 2013
"Energy Imbalance Market, 2nd Revised Straw Proposal"**

SDG&E is supportive of the CAISO's Energy Imbalance Market (EIM) initiative. Extending the reach of the CAISO's nodal real-time balancing market will provide greater geographic diversity in renewable resource imbalances, thereby reducing the net renewable resource imbalance that EIM will address. This is an important benefit considering the increase in wind and solar energy production that is already in the pipeline. In addition, by including more dispatchable resources in the EIM, there will be more resource options for managing imbalances. The overall cost of managing imbalances will therefore be reduced.

At the same time, SDG&E urges the CAISO to move forward on other initiatives designed to enhance the overall efficiency of electric markets. Priorities include the multi-year forward capacity market, implementation of FERC Order 764, expansion of the CAISO's Full Network Model, and contingency modeling enhancements. SDG&E expects that the latter three initiatives will be directly reflected in the EIM. Progress on these other initiatives should not be compromised by the EIM initiative.

SDG&E believes changes in the existing CAISO governance structure will be needed to give other balancing authorities participating in the CAISO EIM assurances of adequate representation. This will greatly enhance the appeal of the EIM proposal to other balancing authorities.

Successful development and implementation of the EIM requires that opportunities for gaming are minimized. Settlements based on nodal prices helps in this regard. However, because the EIM for balancing authorities outside the CAISO does not include a day-ahead market, scheduling coordinators within these balancing authorities need to submit base load and resource schedules against which imbalances can be determined and settled. The EIM proposal contemplates that these scheduling coordinators will submit "base schedules" that are used in the 15-minute real time market.

It has been recognized that these scheduling coordinators could submit infeasible schedules into the 15-minute real time market; i.e., schedules that result in grid power flows that violate transmission constraints. The CAISO initially proposed a mechanism to adjust such schedules such that the adjusted base schedules would be feasible. In the current draft of the EIM proposal, this adjustment mechanism is proposed to be dropped.

SDG&E does not take a position on the current proposal except to emphasize that the CAISO needs to be satisfied that the existence of infeasible schedules in non-CAISO balancing authorities that participate in the CAISO will not result in adverse consequences for the CAISO balancing authority. SDG&E notes that section 3.7.8.2 of the proposal states that "there is no transfer of costs between BAA because the BAA Real Time Congestion Balancing Account is based upon the constraints within each BAA."

SDG&E is not certain what this statement means for circumstances where an infeasible base schedule submitted by a scheduling coordinator within a different participating balancing authority, when resolved through running the 15-minute real time market, creates congestion within the CAISO balancing authority. Using some very simple examples, it would appear that infeasible schedules would create real-time congestion offset amounts that differ from the real-time congestion offset amount that would result if the schedules were feasible. Accordingly, the CAISO needs to allocate the real-time congestion offset in a manner that achieves that stated claim: “that there is no transfer of costs between BAA.”

With respect to transmission service (section 3.10 of the proposal), SDG&E is strong proponent of the “no-cost transmission use” option. The costs of the transmission system are sunk and should not have any effect on real-time dispatch. Mechanisms which recover portions of sunk transmission costs through charges on schedules or flows over those transmission facilities, interfere with efficient operation of the grid. There is no place for “wheeling charges” in efficient electric market operations. SDG&E opposes the other two options discussed in the paper, both of which would assign a portion of the fixed costs of the transmission grid to EIM transactions.