



**PACIFICORP'S COMMENTS ON THE
EIM YEAR 1 ENHANCEMENTS – PHASE 2
ISSUE PAPER & STRAW PROPOSAL
DATED JULY 22, 2015**

I. INTRODUCTION

PacifiCorp hereby submits the following comments to the California Independent System Operator Corporation (“ISO”) for Phase 2 of its Energy Imbalance Market (“EIM”) Year 1 Enhancements Stakeholder Process on the Issue Paper and Straw Proposal dated June 30, 2015 (“Straw Proposal”). PacifiCorp appreciates the opportunity to provide these comments on this initiative for the ISO’s consideration.

II. COMMENTS

PacifiCorp notes that the stakeholder process schedule seems aggressive, particularly with respect to the approval of items scheduled for ISO Board of Governors’ decision in November 2015. First, it is not clear exactly which topics will go before the Board in November. However, it is clear that the EIM-wide transmission rate proposal will not and PacifiCorp agrees that it should not. Second, PacifiCorp is concerned that the items that will go before the Board in November will not be given the appropriate attention and consideration due to NV Energy’s impending implementation activities leading up to and beyond its EIM full operations in October. The ISO has scheduled only one in person meeting and one more conference call to discuss these proposals with stakeholders. PacifiCorp recommends that the ISO provide more time to focus on the Phase 2 proposals to ensure adequate stakeholder feedback and consideration before going to the Board for approval. In addition, PacifiCorp would support a smaller number of proposals being brought before the Board in November, particularly including the EIM transfer limit congestion treatment proposal.

A. EIM-Wide Transmission Rate

In its Straw Proposal, the ISO conveyed its plan for considering an EIM-wide transmission rate. The ISO plans to perform data analysis, beginning with using the first six months of operational data, with the final market design decision being based on analysis using 12 months of operational data. PacifiCorp agrees with this approach, subject to the following additional comments.

PacifiCorp requests the ISO clarify the scope of initial stakeholder discussions on an EIM-wide transmission rate which may occur *prior to* November 1, 2015, at which point the ISO will have

a full 12 months of operational data. For example, will ISO be sharing data collected and analyzed during this period? PacifiCorp also requests that the ISO outline when it would expect to conclude final data analysis and recommendation which is currently identified as "TBD" in the proposed stakeholder schedule. It is important that ISO provide ample time for stakeholder engagement and input on data analysis and recommendations.

PacifiCorp supports the ISO's proposal to analyze scheduling data including forward scheduling in the day-ahead market, hourly block schedules in the hour-ahead scheduling process, and real-time EIM transfers using fifteen- and five-minute dispatch intervals, but encourages the ISO to immediately consider and stakeholder other data analysis suggestions, including volumes of EIM transfers, and the price differentials supporting those transfers, and the relationship of any transmission charge to the EIM benefits calculations.

PacifiCorp is carefully considering the ISO's proposed alternatives for an EIM transmission rate methodology, which are essentially identical to the alternatives previously stakeholdered by the ISO. PacifiCorp comments on the proposed alternatives as follows:

Alternative 1: Reciprocity in use of transmission made available by rights-holders in EIM entities

The ISO proposes that this mechanism, which is currently used in EIM operations during this first year of the EIM, could be a permanent structure based on reciprocity among the BAAs that comprise the EIM. As is the case today, the ISO and transmission service providers of EIM entities would maintain their current transmission access charges, except for energy dispatched within the ISO and EIM footprints. In addition, transmission service providers and operators within an EIM entity BAA could maintain their existing transmission rates for deliveries within their own BAAs and for transactions with non-EIM entity BAAs. The ISO further proposes that this mechanism could encourage formation of new EIM entities because an EIM entity would not be required to contract for transmission through another EIM entity BAA.

In general, PacifiCorp continues to support Alternative 1 ("reciprocal" transmission use) out of recognition that an EIM entity's existing transmission access charges collect its transmission revenue requirements and because the EIM's function is to *efficiently* dispatch supply resources within the combined real-time market footprint, it also recognizes there is a need to explore a longer-term solution, which would ensure that no transmission customer would pay pancaked rates, would provide access and incentives to expand the regional transmission system as well as the EIM itself, but would not undermine the benefits of the EIM.

Alternative 2: EIM transmission access charge

Under Alternative 2, the ISO states that extending the principles of its current transmission rate design for EIM transmission service would consider a transmission access charge to load and exports to BAAs that are not EIM entity BAAs, based on the amount of positive demand deviation consumed in real-time. The ISO proposes to determine this charge based on the ratio

of transmission revenue requirement that is associated with incremental real-time demand versus the total amount of demand. The ISO further proposes that the resulting percentage could be pooled into an EIM-wide revenue requirement to be recovered by instructed and uninstructed demand deviations, using a uniform real-time access charge. No charge would be incurred for incremental fifteen-minute or five-minute transfers between the ISO and EIM entity BAAs, or among EIM entity BAAs. The ISO proposes that this alternative would ensure that no transmission customer would pay pancaked rates and would provide access and incentives to expand the regional transmission system.

PacifiCorp requests that the ISO clarify several aspects of Alternative 2. For example, how could the ISO (or any other EIM entity BAA) apply a transmission access charge “to load and exports to BAAs that are not EIM entity BAAs” from a legal tariff perspective? PacifiCorp requests that the ISO clarify how it will distinguish and separate incremental real-time demand from the total amount of demand in terms of data collection. PacifiCorp requests the ISO include any other alternatives for applying the charge, other than the proposed alternative to apply to instructed and uninstructed demand deviations. PacifiCorp requests that the ISO clarify what is meant by the term “incremental” as used in the portion of the proposal that there be no charge incurred for incremental fifteen-minute or five-minute transfers between the ISO and EIM entity BAAs, or among EIM entity BAAs.

PacifiCorp generally supports using a uniform real-time access charge in order to ensure market consistency and uniformity across multiple EIM entity BAAs, but also needs to understand more details about how such a charge will be developed, including the above-requested clarifications.

Alternative 3: Transfer charge/minimum shadow price

The ISO proposes that this approach would incorporate a transmission charge based on the amount of transfer from one EIM entity BAA to another, whether between the ISO and an EIM entity BAA or between two EIM entity BAAs. This transmission cost would be in the form of a transmission constraint, described by the ISO as a “soft” constraint. Instead of a transmission access charge, this alternative would incorporate the transmission cost into the real-time dispatch optimization which would be reflected in the LMPs that are settled for the EIM’s incremental energy. The ISO cautions that this approach would impose a constraint on cost-based dispatch among resources in different EIM entities and disadvantage suppliers in one EIM entity’s BAA from meeting energy needs in a different EIM entity BAA, because of the added cost for moving energy between BAAs. Further, the ISO states that allocating transmission revenue requirements in this way may result in over- and under-collections of revenue requirements.

PacifiCorp does not support Alternative 3 as it is inconsistent with studies of the potential benefits of EIM implementation which remove hurdle rates on transactions between EIM entity BAAs and because it does not ensure that the same incremental transmission rate would apply in each case.

Alternative 4: Transmission access charge applicable to load and wheeling

Alternative 4 is not clear and PacifiCorp is not able to comment without a revised description. PacifiCorp requests that the ISO revise the description so that the proposal is clear and straightforward.

B. Flow Entitlements for Base Schedules/Day-Ahead Schedules

The ISO states that flow entitlements would be a settlement mechanism to allocate a portion of an EIM BAA's real-time congestion offset to other EIM BAAs if the other EIM BAA's base schedule flows exceed agreed upon flow entitlements between the EIM BAAs. The ISO cautions that flow entitlements are not easily implemented. The establishment of the flow entitlements must be determined for each selected transmission path either through historical analysis or negotiation. Therefore, the ISO would only propose flow entitlements if the benefits of more accurate calculation of real-time congestion offset exceeded the complexity and inaccuracies of enforcing constraints to implement flow entitlements when base schedules are determined. The ISO proposes a study that would first examine the impact on the ISO by PACE and PACW separately. The ISO states that with one year of operational data, the analysis can be completed for all combinations of the ISO, PACE and PACW.

While PacifiCorp generally supports the proposal to study this issue and understands why the ISO would begin with analysis of congestion impacts to the ISO, PacifiCorp does not support using any partial analysis for the establishment of changes to cost allocation pursuant to the real-time congestion offset. Any cost allocation changes resulting from such analysis must only be implemented after analysis is complete for all combinations of the ISO, PACE and PACW (and any other EIM entities) and then should only be implemented if the benefits of more accurate calculation of real-time congestion offset exceed the complexity and inaccuracies of enforcing constraints to implement flow entitlements when base schedules are determined, as proposed by the ISO.

C. EIM Transfer Limit Congestion Treatment

PacifiCorp appreciates and strongly supports the ISO's proposal to modify allocation of real-time congestion rents so that 100% will be allocated to EIM entities which provide transmission for EIM transfers to, but not across, an intertie scheduling point. As explained in the Straw Proposal, the congestion rents collected on the EIM transfer from PACW to the ISO is currently split between the two BAAs. However, the EIM transfer from PACW to the ISO must also compete with other market transactions within the intertie scheduling limit. In addition, the PacifiCorp Interchange Rights Holder is supplying all of the transfer capability to support the EIM transfer from PACW to the ISO. As a result, congestion rents can occur on both the EIM transfer constraint and the intertie scheduling constraint. Since the congestion rents on the EIM transfer are independent of the intertie scheduling limit, splitting congestion rents equally on the EIM transfer constraint is not appropriate.

D. Dynamic Competitive Assessment for Market Power Mitigation of EIM Transfer Limits

The ISO proposes that, as with all internal constraints within the ISO and within the EIM BAA, EIM transfer limits continue to be tested for competitiveness when the constraint is binding. PacifiCorp supports this proposal. The ISO should proceed with implementation of market power mitigation on the interties as the default. It should be unnecessary for the ISO to make a separate request to implement this feature for each EIM entity that joins. Most of the balancing authority areas in the west that are candidates to join the CAISO are likely to be vertically integrated utilities. Incorporating market power mitigation of the interties into the tariff will permit these entities to rely on these procedures to support their market based rate filings. As more entities join and more customers convert from non-participating to participating status the issue could be revisited.

E. Bidding Rules on External EIM Interties

The ISO notes that it allows full economic participation in the FMM on all external interfaces and claims the potential exists for different participation rules between the ISO and an EIM entity at a single node. The ISO maintains economic bidding on the interties would improve the quality of the FMM solution versus resolving any unforeseen congestion impact in the RTD and increase market liquidity in the FMM. Thus, the ISO is considering if the EIM entity should maintain discretion to allow or disallow FMM economic bidding on EIM external interties. The ISO would not propose to require intertie bidding initially, but believes after one year of operational experience that intertie bidding should be enabled by the EIM entity.

PacifiCorp does not support this proposal. As previously provided in comments of PacifiCorp on this topic, PacifiCorp agrees with the ISO that economic participation at EIM entity external interties has the potential to provide improved FMM market results and additional capacity for the EIM entity. PacifiCorp nevertheless submits that EIM entities should maintain discretion to allow or disallow FMM economic participation on their own external interties given the interaction between BAAs as well as the operational or scheduling characteristics of each EIM entity's BAA configuration. For example, BAAs which do not have contiguous transmission systems may have other BAAs or transmission service providers interspersed within or around their transmission systems (as PacifiCorp has with Bonneville Power Administration). In such cases, the evaluation of economic participation at the EIM entity's external interties must also take into account how intertie energy will flow over the interconnected transmission system and whether appropriate transmission arrangements are in place to account for these flows. Accordingly, such an evaluation is an inherently unique exercise and must take into account the specific circumstances affecting the EIM entity. As such, it would not be appropriate to require each EIM entity to facilitate economic participation at its external interties, without providing the EIM entity the opportunity to make its own evaluation of the feasibility of such a market expansion.

F. Compensation for Third Party Transmission Owner to Support Incremental EIM Transfers

The ISO believes that the EIM transfer limit approach could be expanded to allow third party transmission “owners” to make available incremental transmission to support transfers. The incremental transmission would increase the transfer capability between BAAs in the EIM footprint. The incremental transmission made available most likely would be through non-EIM BAAs, but the ISO seeks stakeholder comments on allowing this process to be used within an EIM entity. While the ISO states that this feature could not be used to avoid the current reciprocity of not charging for transmission that supports EIM transfers, the ISO then cites the example of a non-EIM BAA that would allow transfers to occur through its system if there is unused transmission in the non-EIM BAA at the non-firm transmission rate.

The ISO must be careful not to create disincentives towards full EIM participation and uniform approaches to transmission charges. Payment for use of available transmission combined with bidding at the interties could enable entities to obtain EIM benefits without opening up their own system to EIM sales. Moreover, compensation of transmission customers of EIM entities is inconsistent with the longstanding practice of unused transmission reverting to the transmission provider under an OATT.

In addition, PacifiCorp believes that this topic should be considered as a subset issue to the EIM-wide transmission rate. This initiative may have direct relevance for establishing EIM transmission charges that could also be the source of payments to third party transmission “owners” (or transmission customers) to make available incremental transmission to support transfers. PacifiCorp would also note that, to the extent a charging/payment structure is created and implemented, it would reconsider its current Open Access Transmission Tariff “PacifiCorp Interchange Rights Holder” mechanism, which does not currently compensate the transmission customer that makes available its transmission rights to support EIM transfers.

G. Outage Reporting to Peak Reliability Coordinator (RC)

The ISO proposes to allow the EIM entity to permit the ISO to submit outage information the EIM entity has entered into the ISO's outage management system (“OMS”) to Peak RC. PacifiCorp supports this position, provided that the election to do so is entirely within the EIM entity's discretion.

H. Need to Address the \$1,000 Pricing Parameter

The only item the ISO lists as “Items to be discussed in separate stakeholder initiative” is a long-term greenhouse gas design change. The ISO should identify when it will address the appropriateness of a \$1,000 pricing parameter. In the ISO Reply Comments in EL15-53 at 37, the ISO stated,

Iberdrola and NV Energy request that the CAISO further examine the \$1,000 per megawatt-hour price cap set forth in its tariff to determine whether it should reduce the price cap. The CAISO and stakeholders can examine this issue as part of the planned Stepped Transmission Constraint initiative, which is currently expected to take place in the second half of 2015. That stakeholder initiative will consider whether the performance of the transmission constraint parameter could be improved if the CAISO were to calibrate it at different levels depending on either the level of constraint relaxation, the voltage level of the constraint, or the system impact of the constraint. As part of that discussion, the CAISO and stakeholders can also consider the potential advantages and disadvantages of reducing the price cap.

The ISO needs to identify when this stakeholder process will commence. Alternatively, this issue should be included in this Phase 2 process.

III. CONCLUSION

PacifiCorp appreciates the ISO's consideration of these comments and looks forward to the ISO's responses and further discussions on these topics.