

Southern California Edison Comments

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The following are Southern California Edison’s (SCE) comments on the California Independent System Operator’s (CAISO) Energy Imbalance Market (EIM) Governance White Paper.¹ SCE appreciates the opportunity to provide comments and participate in the stakeholder process.

SCE is supportive of CAISO’s proposed phased-in approach, where a Transition Committee would be formed first, and then a final governance proposal developed later through an appropriate stakeholder process. However, SCE has concerns with the proposed goals for this committee, as well as the approach to get there. The proper approach would be to: first determine which portions of the EIM are (or can be) independent of the CAISO market; then to determine which portions of the CAISO Tariff can be parsed out as to have separate sections dealing with the EIM only (i.e. what authority could the CAISO delegate); and then the final step would be to determine the proper governance structure for the identified EIM specific tariff portions.

In SCE’s understanding of the current CAISO / PacifiCorp EIM design, the EIM would be fully integrated with the CAISO’s Real-Time Market. As a result, SCE does not foresee how one could meaningfully separate the tariff as to have EIM specific provisions that do not also impact the Real-Time Market within the CAISO’s footprint. SCE strongly opposes the idea of having two independent boards with Tariff authority over the same market. Dual governance over essentially the same market would cause inefficiencies and potentially serious issues that may undo years of CAISO and stakeholder efforts to create the current CAISO Real-Time Market. One market should be governed by one board.

SCE proposes that the Transition Committee be tasked with exploring all feasible EIM governance options in a thorough stakeholder process, and then making its recommendation to the CAISO Board.

¹ CAISO EIM Governance White Paper, published Aug 13, 2013.
<http://www.caiso.com/Documents/EnergyImbalanceMarket-GovernanceProposalWhitePaper081313.pdf>

1. Do you support the roles identified for the transition committee – i.e., to provide the Board with input on EIM-related issues during start-up and early implementation and to develop a proposal for an independent governance structure? Please explain the basis for your views.

SCE's concern is that there is no distinguishable set of tariff requirements that can be solely attributed to EIM that do not also have an impact on CAISO operations or markets in general. Given that, it is inappropriate to prejudice the outcome of the EIM governance stakeholder process as requiring an "independent" governance structure. While the Transition Committee may end up recommending such a structure, this determination should be a result of a thorough stakeholder process. At this stage, it is conceivable to imagine alternative governance proposals that may not be independent of the current CAISO structure. In fact, maybe the current as-is governance structure would work well. The Transition Committee should explore all feasible governance options.

The FERC Decision on the Implementation Agreement² supports SCE's view by stating: "According to CAISO's representations, the Implementation Agreement correctly recognizes that the ultimate design of the expanded energy imbalance market will be determined through a stakeholder process, the resulting section 205 filing to the Commission, and the Commission's ruling on that filing." Governance issues are an important part of the overall market design, and they should be decided after a comprehensive stakeholder process.

It is also important that the role and the charter of the transition committee is clarified and well understood by both the CAISO Board as well as the CAISO and EIM stakeholders. For example, all Transition Committee recommendations to the CAISO Board should be transparent, and mindful of both majority as well as minority views.

If the above concerns are addressed, SCE is comfortable with the proposed Transition Committee framework, as outlined in Section 3, items a, b & c of the CAISO White Paper.³ The committee's advisory role fits well within the current CAISO governance structure, and should provide a productive avenue for engaging EIM stakeholders and voicing their thoughts and concerns.

2. Do you support the sector definitions and the nomination and ranking process for the transition committee? Please explain the basis for your views.

SCE is comfortable with the nomination and ranking process framework as proposed in the White Paper and presented at the last stakeholder meeting.⁴ While the stakeholder nominations and rankings are important and need to be considered, the CAISO Board should maintain the authority to use its best judgment in appointing the appropriate Transition Committee members.

For the sector definitions, there are multiple ways of grouping current CAISO and future EIM market participants and stakeholders. The proposed definitions seem like a reasonable

² FERC Decision in Docket ER13-1372-000 issued June 28, 2013, paragraph 35 at page 14.

³ CAISO EIM Market Governance White Paper, published Aug 13, 2013, at page 4.

⁴ At the August 20th meeting in Portland, CAISO clarified that any entity falling under multiple sector definitions, has to choose a single sector under which it wished to participate in the nomination and ranking process.

option, although more details would be appreciated. For example, six sectors are identified, while there are seven proposed committee seats. Where does the 7th seat go? Does PacifiCorp get an automatic nomination as an EIM entity?

When selecting the committee members, the CAISO needs to recognize that the majority of the load in the combined CAISO / PacifiCorp EIM footprint will be served by the three California IOUs (PG&E, SCE and SDG&E). Therefore, the CAISO should ensure that at least one seat goes to a California IOU nominee.⁵ While including a variety of stakeholder groups in the Transition Committee is important, that should not come at the expense of three major EIM stakeholders not being directly represented.

3. Do you support the number of members in the transition committee and its composition? Please explain the basis for your views.

As discussed in question # 2 above, SCE would appreciate more clarity on the disparity between the number of sectors (six) and the number of Transition Committee seats (seven). Is this seventh seat reserved for an EIM entity or maybe a specific sector?

The above point aside, the CAISO proposal strikes an appropriate balance in the number of committee members. Reducing this number could result in less broad of a representation of the wide range of views and concerns from the EIM stakeholders, while increasing this number could reduce the effectiveness of the committee.

4. Do you support the independence proposals identified in the paper for long-term independent EIM structure? Please explain the basis for your views.

At present, SCE opposes an independent EIM structure as an explicit goal for the EIM governance stakeholder initiative. CAISO has not yet demonstrated a need or justification for setting such structure as a goal.

Considering the proposed market design⁶, SCE does not envision a practical and meaningful way to separate the EIM and Real-Time portions of the CAISO Tariff. As a result, SCE is very concerned about having a market structure where two independent boards can file tariff amendments at FERC with regards to the same EIM / Real-Time market. In the best scenario, such a construct would create a confusing governance structure with overlapping responsibility and authority. In the worst scenario, it would result in incompatible and/or contradicting tariff language and potential costly litigation at FERC and other venues.

⁵ At the August 20th meeting, CAISO stated that the proposed "IOU" and "POU" sector definitions also include utilities outside of the CAISO footprint. Therefore, SCE infers that California IOU representation is not currently guaranteed.

⁶ As described in CAISO Energy Imbalance Market 3rd Revised Straw Proposal, published Aug 13. http://www.aiso.com/Documents/ThirdRevisedStrawProposal-EnergyImbalanceMarket-Aug13_2013.pdf

It is worth noting that for market participants within the CAISO footprint, there is no option to “opt-out” and not participate in the EIM. By design, any CAISO market participant will have exposure to the integrated Real-Time and Energy Imbalance markets. However, the EIM Participants can voluntarily decide on a unit-by-unit and hour-by-hour basis whether or not to participate in the EIM.

5. Are there details not covered here that you would suggest be included in the next round that will include a draft charter?

SCE believes that it’s important that the Transition Committee function and act in a transparent manner, especially since it may not have an even representation of all stakeholders. Given that there are a limited number of positions on the committee, it is inevitable that a party seeking a position may not receive one. Therefore, it is imperative that such parties have every opportunity to have their voice heard by the CAISO Board.

In order to achieve this, the committee should conduct its activities in a manner open to all stakeholders, and clearly communicate with the stakeholders prior to making any recommendations to the Board. This way, if there are any dissenting views remaining, the stakeholders would have an opportunity to prepare and share their comments.⁷ Since the CAISO Board has a publically open process, then all entities would be able to address their concerns with any Transition Committee recommendation directly with the CAISO Board.

6. Any other comments?

In the EIM Governance White Paper, CAISO states:

"To achieve the second phase of the EIM governance implementation, the charter will require the Transitional Committee to develop a proposal for an independent EIM governance structure comprised of non-stakeholders. Moving to a structure comprised of participants who are independent of individual stakeholders will make it possible to satisfy FERC requirements for the ISO Board to delegate substantial authority over EIM, and provide for a governance structure that will allow for efficient, meaningful and nimble EIM market oversight."⁸

SCE would like clarification of this paragraph:

⁷ This is analogous to the current CAISO stakeholder process, where a Draft Final Proposal is posted prior to being sent to the CAISO Board for approval. Then the stakeholders have an opportunity to voice their support or opposition at the CAISO Board meeting where the proposal is debated for approval.

⁸ CAISO EIM Market Governance White Paper, published Aug 13, 2013, at page 12.

- a) Is CAISO stating that there is a FERC requirement for the CAISO Board to delegate authority over the EIM? If so, please provide a reference to the FERC document(s) expressing this requirement.
- b) Alternatively, is CAISO stating that: while there is no FERC requirement to delegate EIM authority, if CAISO was to do so, then it would be a FERC requirement for this new “EIM Board” to be independent of Market Participants? If so, please explain.