

EIM Governance Review

Comments on Draft Charter for Governance Review Committee

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SCE appreciates the opportunity to comment on the proposed Charter for the EIM Governance Review Committee (GRC). This process will ultimately result in both the delegation of primary decision-making authority to the EIM Governing Body (the Governing Body) and contemplate the market rules the Governing Body will process. As such SCE offers the following comments:

First, in accordance with the Public Utilities Code, Section 345.5-349.5, the California Independent System Operator (CAISO) is charged with the management of the transmission grid and related energy markets consistent with the interests of the people of California, and in furtherance of the state's consumer and environmental protection laws. Thus, any decision implemented in this process must be consistent with California law.¹

Second, full participants in the CAISO, both Participating Transmission Owners (PTOs) and market participants embedded within the CAISO balancing authority (BA), are not similarly situated with EIM entities (as further described herein). As a result, SCE believes primary decision-making authority for issues directly impacting PTOs and market participants within the CAISO BA should remain under the purview of the CAISO Board of Governors (ISO Board).

As such any potential delegation of primary decision-making authority to the EIM Governing Body should abide by the following principles:

- Any issues directly impacting PTO cost recovery, cost allocation, rate setting (including PTO revenue associated with wheeling-through or wheeling-out of the CAISO BA) or revenue associated with the allocation of congestion dollars generated by the PTO transmission assets should remain under the exclusive and direct purview of the CAISO Board.

¹ Public Utilities Code, Division 1, Part 1, Chapter 2.3, Article 3, 345-352.7, Independent System Operator.
https://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=PUC&division=1.&title=&part=1.&chapter=2.3.&article=3.

- Any issues associated with Transmission Planning, interconnection, or PTO maintenance and outage procedures should remain under the exclusive and direct purview of the CAISO Board.
- Any issues directly impacting the core function of the CAISO's energy and ancillary services markets within the CAISO BA, including price formation, bidding rules, outage reporting, resource adequacy rules, market power mitigation and other market participant obligations to the CAISO should remain under the exclusive and direct purview of the CAISO Board.
- Any issues related to the implementation of California environmental laws, as they impact requirements for market participants within the CAISO BA or importing to the CAISO BA, should remain under the exclusive and direct purview of the CAISO Board.
- Any issues that directly impact EIM entities only, in relation to their participation in the EIM, the allocation of congestion revenue associated with EIM transmission, rules surrounding the use of EIM transmission as part of the CAISO market, and interactions between and among the EIM BAs and the CAISO as a BA, to the extent noted, above, should remain under the direct purview of the Governing Body.
- Even within this framework, the Governing Body and EIM entities are encouraged to participate in the CAISO stakeholder and Board processes.

EIM participants are not similarly situated with PTOs and market participants within the CAISO BA

For full members of the CAISO, market participation for all resources and all load is mandatory at all times. Such customers have no option but to participate in the CAISO's markets, including the CAISO's real-time market with which the EIM integrates. In contrast, market participation for EIM participants is voluntary on an hourly basis. Whereas the only option for participation in the CAISO markets for all supply from California entities in the CAISO BA is in the CAISO markets, EIM generation participates voluntarily on an hour by hour basis. The EIM entities can decide, what, if any load purchases from the EIM, and what, if any generation sells to the EIM. These very different requirements for market participation must be considered as the EIM governance review is conducted.

Further, PTOs in the CAISO are not comparable to EIM participants. PTO's must release all unencumbered transmission to the CAISO for control and management; the PTOs cannot place new contracts or encumbrances on the transmission; even more importantly a PTO is fully dependent on CAISO rules for cost recovery of all of its CAISO controlled transmission and cost allocation among market participants; the PTO must participate in the CAISO's Transmission Planning Process (TPP) and abide by all CAISO rules for interconnection (of generation and new transmission), outages and maintenance. This stands in stark contrast with EIM members that retain operational control of their own transmission, can continue to encumber their

transmission lines, can decide hourly the transmission available to the EIM and do not participate in the TPP, interconnection or other related CAISO processes.

Scope of the Governance Review

The initial proposal circulated in December 14, 2018 conveyed that the governance review will focus on:

- The development of proposed revisions to the existing EIM governance structure, including a broad view of the current structure that considers the scope and nature of the delegation of decisional authority process used and criteria applied within the decisional classification process
- The selection of Governing Body members; and
- The stakeholder engagement process

The draft charter for the GRC specifies that the GRC's focus is to refine the existing EIM governance structure with later reference that if the initiative to expand EIM to include the day-ahead market (EDAM) moves forward, the GRC would also consider transmission availability and cost recovery, resource sufficiency, and greenhouse gas attribution. Given recent presentations at the Western Interstate Energy Board conference, these EDAM specific considerations will likely fall within the GRC's scope. These are issues of critical importance to all market participants. Consistent with the principles stated above, SCE expects that any decisions in these areas will conform to those principles.

Governance review must allow for alternative proposals

Success of the planned EIM governance review hinges on true transparency in decision-making. Neither transparency nor independence in decision-making is apparent from the proposed voting structure. This voting structure could silence California entities given the requirement of three votes to advance a minority proposal to the Governing Body and the CAISO Board. Critical perspectives which would otherwise be in full view within the traditional CAISO stakeholder process, are unlikely to advance for consideration by the Governing Body and the Board of Governors. The "three-vote" rule for advancing a minority proposal should be either revised or eliminated.

Finally, the proposed sectors within the draft charter for the GRC do not provide appropriate balance of interests among stakeholders. For example, the sector containing all EIM entities will have a mixture of transmission owners, generators and service providers. If the idea is to host a governance review process that reflects the exclusive interests of EIM entities, then there is no need for the remaining sectors. If stakeholder engagement is encouraged within the governance review process, given the iterative public process for consensus-building during the governance

review, then the sector for EIM entities should be eliminated. The potential members of that sector should select another sector from among the remaining sectors for their membership within a sector. The selected sector should be most representative of their generic participation in the EIM and CAISO markets. Further, the sector titled Participating Transmission Owners should be renamed transmission owners to include EIM and non-EIM transmission owners. These changes have the potential to reflect balanced interests within the governance process.