

Southern California Edison
Stakeholder Comments

CAISO Energy Imbalance Market (EIM)
Straw Proposal

Submitted by	Company	Date Submitted
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Southern California Edison’s (SCE) herein comments on the EIM Transitional Committee’s straw proposal “Long-Term Governance of the Energy Imbalance Market” issued on March 19, 2015.¹ (Proposal) SCE has supported the development of the Energy Imbalance Market (EIM) and appreciates being involved in the stakeholder process for governance of the EIM. The Transitional Committee’s Proposal is a compromise between an advisory body and an organization with tariff authority completely separate from the current governance structure. The EIM Governing board would have delegated approval authority over specific tariff changes, but it still would require confirmation of the existing CAISO governing board before any changes could be filed for FERC approval. While SCE supports the concept of the approach, more details defining the portions of the tariff that are under the EIM Board decision making authority is required. This is important because there is no energy imbalance market separate from the real-time market² operated by the CAISO. As the Transitional Committee noted, participation in the real-time market is voluntary by EIM Entities³, but not by participants in the CAISO’s balancing authority. Therefore, any changes that materially impact participants in the real-time market must be under the exclusive jurisdiction of the current CAISO governing board.

1. The CAISO By-laws needs a clear set of principles to define the items under delegation to the EIM Governing Board

The Proposal defines the delegated authority under the EIM Board as:

¹ https://www.caiso.com/Documents/StrawProposal-LongTermGovernance_EnergyImbalanceMarket.pdf (Proposal)

² The real time market is the combination of the fifteen minute market and the five minute (real time dispatch) market.

³ Proposal, page 5.

“market rules that are EIM-specific insofar as they apply uniquely to the EIM and its participants or differently to the EIM and its participants than the ISO’s generally applicable rules”⁴

Unfortunately, this statement is not clear with regard to the real-time market because it is not possible for a real-time market activity to be “unique to the EIM” because EIM does not exist as a separate market. EIM Entities, and the participants located in their balancing authority, are participants in the CAISO’s existing real-time market. The proposal needs a clear set of principles to guide the determination of items delegated to the EIM Board as discussed in the Committee’s charter. This will help prevent future disagreement over which items should be delegated. Furthermore, these principles should be included in the By-laws. SCE offers the following principles that would define items eligible to be delegated to the EIM Board:

- Must be unique to EIM Entities and EIM Participants
- Must not impact real-time or day-ahead market, pricing, settlement, neutrality accounts, grid topology, and time-line of real-time market process

In addition to guide both Board’s decision making, SCE offers an additional principle which should be added to the By-laws:

- Same rules apply to CAISO and EIM participants; unless there is a clear and justifiable reason for different treatment

Using the above principles, some of the items that the current Proposal would have delegated authority to the EIM Board, would no longer be delegated. The rate design for EIM transfers, GHG bid adder, scheduling penalties, sufficiency requirements, and intertie bidding rules are either not unique to EIM Participants or have direct impact on real-time market prices. Furthermore, as the GHG bid adder is a component of the locational marginal price this element directly impacts price formation and therefore, should not be delegated to the EIM Board.

Items that would not violate the delegation principles would be recovery of EIM operational costs, EIM participation requirements, pricing that occurs should the CAISO be unable to post EIM Entity Area market pricing results⁵, and EIM withdrawal requirements.

⁴ Proposal page 19.

⁵ In the CAISO area, should there be a failure to post real-time prices the day-ahead market price would be used for settlement. Since the EIM Entity Areas do not have a day-ahead market, they would need to decide upon replacement prices that can be used in the event of a failure to post real-time prices.

2. The Proposal needs to define how the delegation process is managed so there is clear vision

While SCE understands the Transitional Committee wants to wait until the EIM Board is established to determine the specific items delegated, there is insufficient documentation of how the delegation would be managed over time. The Proposal lacks a vision of how portions of section 29 of the CAISO tariff covering EIM are determined to be delegated to the EIM Board. For example, is there a list of sections of the tariff that is delegated to the EIM Board? What would be the process to establish this list? Is the list approved by the CAISO Board or EIM Board, or both? More importantly, should there be a need to remove a section of the tariff from the delegation what is the process and which board must give approval? The governance Proposal should address a vision of how this will function once the EIM board is established. This will help CAISO staff determine which initiatives require prior EIM Board approval.

SCE proposes that once the EIM Board is formed, a stakeholder process be established to review and comment on which sections of the CAISO tariff would be delegated to the EIM Board.

3. Regulatory agencies and public-owned utilities can already engage the CAISO, therefore an additional advisory board is unnecessary

There is no prohibition against parties from other States submitting comments or even addressing the CAISO Board, or a new EIM board. The California Public Utilities Commission, Oregon Public Utilities Commission, Public Utilities Commission of Nevada, Wyoming Public Service Commission, Chelan County Public Utility District, California Municipal Utilities Association (CMUA), Eugene Water and Electric Board, Bonneville Power Administration, Western Area Power Administration, Northwest Public Power Association, Public Power Council, Seattle City Light, Utah Associated Municipal Power Systems (UAMPS), and Six Cities⁶ all have submitted comments on CAISO's EIM design or governance proposals.⁷ It is

⁶ Six Cities represents the public-owned utilities from the cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside located in California.

⁷ See comments at:

<http://www.caiso.com/informed/Pages/StakeholderProcesses/EnergyImbalanceMarketGovernanceDevelopment.aspx> or <http://www.caiso.com/informed/Pages/StakeholderProcesses/EnergyImbalanceMarketFoundation.aspx> and for comments directly to the board for the November 2013 meeting at <http://www.caiso.com/informed/Pages/BoardCommittees/BoardGovernorsMeetings.aspx>

clear that various regulators, publicly owned utilities, and government run balancing authorities are able to inform the CAISO on issues that are important to their constituents.

Regulators and publicly owned utilities already have organizations that can speak on their behalf. Publicly owned utilities are already organized as shown by the CMUA, Six Cities, UAMPS, Northwest Public Power Association, and Public Power Association. For State regulators there already exists the Western Conference of Public Service Commissioners.⁸ There is also the PUC EIM group within the Western Interstate Energy Board that has submitted comments on the EIM proposal to the CAISO Board.⁹ It would be efficient to use these existing organizations rather than create an additional advisory body. Therefore, it does not appear that a problem currently exists which would prevent regulators or publicly owned utilities from making their concerns known to the CAISO staff and CAISO Board.

Furthermore, this element of the Proposal would appear to give an elevated and officially recognized voice to a single classification of stakeholders. This could lead to other stakeholders arguing for their officially recognized advisory board leading to excess bureaucracy. Given that all stakeholders, including regulators both in and out of state, have ample opportunity to address the board, there does not appear to be a need for this advisory board.

The Proposal suggests that the travel and meeting costs for attendance of this advisory board be reimbursed by the CAISO, which is then passed onto customers. While in the big picture the cost is likely to be insignificant, additional costs should not be created when there does not appear to be a strong need for an advisory board.

Therefore, SCE does not support the creation of an advisory board of regulators.

4. See attachment A for SCE's comments using the provided template

⁸ This is organized within the National Association of Regulatory Utility Commissioners.

⁹ See: letter to the CAISO Board in Support of the EIM Governance Proposal and Comments to FERC regarding the CAISO Tariff Amendments to implement an EIM <http://wiebver.org/ver-integration-topics/energy-imbalance-market/>

Attachment A: SCE's Responses to the provided template

<p>Structure - composition of the Nominating Committee, composition of the EIM governing body, and process for selecting members.</p>
<p>SCE offers no comments at this time.</p>
<p>Scope of authority – scope of authority, including whether it is appropriate and workable, the examples of issues that would fall within the primary and secondary authority of the EIM governing body, and process for resolving disagreements about the particular proposed rule changes or the scope of authority generally.</p>
<p>Comment: The scope of authority that can be delegated needs a clearer definition. SCE offers that a set of principles be established to determine what can be delegated. For more details, see SCE's comments above under Section 1.</p>
<p>Documentation – documentation of these arrangements in the ISO's bylaws and a charter from the ISO Board of Governors, and mission of the EIM governing body that would be identified in its charter</p>
<p>Comment: The process of the items to be delegated to the EIM Board and maintained needs refinement. For more details, please see SCE's comments above under Section 2.</p>
<p>Committee of regulators – composition, including the balance of representation between state commissions and public power, and role of the committee</p>
<p>Comment: SCE does not support a committee or advisory board of regulators as it does not appear necessary for the CAISO or EIM Boards to receive information from stakeholders. For more details see comments above under Section 3.</p>
<p>Trigger for re-evaluating EIM governance</p>
<p>Comment: SCE supports the Proposal's recommendation of leaving the EIM governance structure in place for 5 years¹⁰ as it is reasonable and allow the organization to develop a track record. Then educated adjustments can be made to improve the governance structure.</p>

¹⁰ Proposal page 26.

The proposal lists various specific trigger events¹¹, such as EIM participation level, that would require a reopening of the governance. If the EIM Board is functioning well then there may not be a need to make any changes. However, should significant issues exist then EIM participants will make it known to the CAISO Board that changes are necessary before the five year mark is reached. In addition, if significant change occurs, such as entities joining the ISO as a Participating Transmission Owner, then the need to review the existing governance structure will occur naturally.

SCE offer the following comments to the specific trigger proposals:

- 1) A certain number of EIM Entities have entered the market, regardless of the size of those entities (the Committee contemplated as a possibility seven entities);
- 2) A certain number of very large utilities have entered the market as EIM Entities (a number less than any trigger proposed along the lines of number 1);
- 3) the EIM includes a certain overall load, or load from a certain number of states;

Comment:

The proposal is the creation of an independent EIM Board. In addition, there is EIM Entity representation with voting member rights to select a slate of nominations for the EIM Board. The EIM Board members are not representatives of any specific stakeholder group, EIM Entity, or State. It is unclear why the EIM governance should change with the addition or exit of EIM Entities, or based upon size and location.

- 4) the ISO adds additional functionality to the EIM, beyond a real-time market for imbalance energy;

Comment:

Any additional EIM functionality is speculative. If a change in governance is required to implement a new functionality, then the process will naturally trigger a review. Therefore, a trigger established upfront is not necessary.

- 5) One or more large entities located outside of California decides to join the ISO as a Participating Transmission Owner;

Comment:

On April 14, PacifiCorp and CAISO signed a memorandum of understanding for PacifiCorp to join the CAISO as a participating transmission owner (PTO).¹² Within the agreement there is a principle to review EIM governance including CAISO board governance.¹³ This is an example that a formal trigger is not necessary as entities that seek to join the CAISO as PTO will naturally require any necessary governance review.

¹¹ Proposal page 26.

¹² http://www.caiso.com/Documents/NewParticipatingTransmissionOwnerMemorandum_Understanding.pdf

¹³ Ibid, Exhibit A, principle 3.

6) The decision of a similar energy imbalance market elsewhere in the western interconnection to join or merge into the EIM of CAISO, PacifiCorp, NV Energy and Puget Sound.

Comment:

Any merging of other EIM operators is speculative. If a change in governance is required to implement a new expansion, the process will trigger a review.

Therefore, a trigger established upfront is not necessary.

Criteria for evaluating proposals – to revise and simplify the criteria for evaluating governance proposals, as reflected in the appendix

SCE offers no comments at this time.

Miscellaneous items – Please provide comments to other aspects of the straw proposal or governance related issues here.

The Proposal states that the EIM Board should:

“Protect the EIM, its participants, and consumers against the exercise of market-power and otherwise further the establishment of just and reasonable market outcomes”¹⁴

The CAISO already has an independent Department of Market Monitoring group that reviews the performance of the market and reports to the CAISO Board. The existing CAISO Board already has the obligation for just and reasonable results for the CAISO operated markets. Granting a monitoring function to the EIM Board would result in a duplicative function and is contrary to the charter’s direction for efficient and non-duplicative decision making.¹⁵ Furthermore, the FERC stated “we agree that the Department of Market Monitoring is a logical choice to act as market monitor for the EIM, as it has extensive experience in monitoring an imbalance market in the West and with CAISO’s software.”¹⁶

¹⁴ Proposal page 14.

¹⁵ See Proposal page 3 for a summary of the committee’s charter.

¹⁶ 147 FERC ¶ 61,231 in Docket ER-14-1386-000, issued June 19, 2014, paragraph 109.