

**Southern California Edison**  
**Stakeholder Comments**

**CAISO Energy Imbalance Market (EIM)**  
**Year 1 Enhancements**  
**Dated November 10, 2014**

<b>Submitted by</b>	<b>Company</b>	<b>Date Submitted</b>
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Southern California Edison’s (SCE) comments on the California Independent System Operator’s (CAISO) “Energy Imbalance Market Year 1 Enhancements” dated November 10, 2014 (Proposal). SCE has supported the development of the EIM and supports refinements in the stakeholder process.

SCE comments on the following issues in the Proposal:

- Other options to resolve compliance with the California Air Resources Board’s (CARB) GHG cap and trade program need to be reviewed that does not result in reduced commerce such as the ‘do not sell to California’ flag
- The CAISO should perform a study to examine if using ATC for the EIM Transfer will benefit the pricing results in the real time market optimization
- Using different prices for settlement of the same transaction could lead to gaming or other behavior that is detrimental to the real time markets
- Intertie bidding rules need to be synchronized between CAISO and EIM Entity Areas
- The CAISO should provide additional support as to why non-participating EIM resources should receive bid cost recovery payments

Lack of comments on other issues does not necessarily constitute endorsement of the CAISO’s proposals. SCE is continuing to review the Proposal and may provide supplemental comments.

**1. Other options to resolve compliance with CARB's GHG cap and trade program need to be reviewed that does not result in withholding to California**

In the order approving the EIM, the FERC included an eventual implementation of a do not sell to California flag along with a cost based greenhouse gas (GHG) cost adder<sup>1</sup>, however, the CAISO should use the stakeholder process to consider possible options that do not result in a generating entity being forced to decide whether to sell to California or not. SCE believes that there may be other parties who by virtue of already being an CARB jurisdictional entity or because becoming an CARB jurisdictional entity may be the most cost effective solution, would be willing to be the entity designated as having imported power from outside of California. SCE notes that the do not sell to California flag option was never formally proposed in the EIM stakeholder process. The CAISO should review if other options are superior and if necessary request FERC authorization. SCE presents a proposal for discussion below.

Currently, EIM deems the EIM Transfer to generators importing into California to meet the imbalance requirement. Instead, the EIM Transfer should be deemed to California Scheduling Coordinators that purchase imbalance energy over the hour. Per the FERC order, the CAISO would determine the cost based GHG Bid adder using the cost-based data in the generator's profile for bid cost recovery. The EIM optimization and pricing would be unchanged. Instead of providing revenue to generators, the additional revenue collected for GHG compliance would be given to the Scheduling Coordinator deemed to import power.<sup>2</sup> This would solve several problems with the current approach. First, generators located outside California selling into EIM would no longer have a CARB GHG reporting or allowance obligation and therefore there is no reason regulatory driven reason to avoid sales to California. Second, legal issues regarding compliance with CARB GHG regulations would remain solely with Scheduling Coordinators doing business within California; which in most cases already have to manage compliance. Third, any power wheeled through CAISO would not have GHG compliance as it is eligible for a

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<sup>1</sup> FERC Order ER14-1386, paragraph 240.

<sup>2</sup> As the GHG revenue is based upon the marginal cost of compliance, yet the actual compliance is based upon recorded amounts, there should be sufficient revenue for all Scheduling Coordinators to cover the cost of compliance.

Qualified Export Adjustment<sup>3</sup> which resolves the problem with the current approach that assigns all imported EIM transfer as being required to comply with CARB.

**2. The CAISO should perform a study to examine if using ATC will benefit the pricing results in the real time market optimization**

Currently, EIM uses PacifiCorp's transmission rights for the amount of the EIM Transfer, which is known before the Fifteen Minute Market (FMM) optimization. The Proposal plans to use Nevada Energy's available transmission capacity (ATC) for the EIM Transfer amount, which will not be known until T-20 before the trading hour. The Proposal will result in an estimate of ATC for the first two intervals of the FMM market. Then at T-20, the actual ATC will then be known, which then will be used by the Real Time Market (RTM) establishing the prices and dispatches for the five minute intervals. If the estimated ATC is inaccurate by a large amount, then it could create high volatility in the RTM prices as it tries to resolve the change in power balance in a very short interval. Prices could be unnecessarily high as the option to commit additional units in RTD is no longer available, or they could be unnecessarily low if there were units committed in the FMM that were unnecessary.<sup>4</sup> This type of price volatility is unnecessary and is bad for the market as it sends price signals that are inconsistent and inaccurate. The CAISO should perform a study to measure the extent of this problem.

**3. Using different prices for settlement of the same transaction could lead to gaming or other behavior that is detrimental to the real time markets**

The settlement examples provided in the Proposal are complex and many use different prices from FMM and RTD markets to settle the same transaction. Using different prices to settle each side of the same transaction is inefficient and complex, which could lead to gaming opportunities. This is especially concerning when the EIM Entity does not approve the E-tag. For example, a party submits a transaction knowing with a high degree of likelihood the E-Tag transaction will be denied and therefore it will make money solely by the fact of the financial transaction result of the price bought is less than the price sold. While the CAISO's Declined

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<sup>3</sup> See the ARB's Cap-and-Trade Regulation for details on the Qualified Export Adjustment: Section 95111(b)(5), "California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms," at 81, [http://www.arb.ca.gov/cc/capandtrade/september\\_2012\\_regulation.pdf](http://www.arb.ca.gov/cc/capandtrade/september_2012_regulation.pdf)

<sup>4</sup> This result while lowering energy prices, would probably create additional cost due to bid cost recovery as the units were no longer needed as there were cheaper resources available.

Hourly Pre-Dispatch Penalty may be some deterrence, the CAISO should look at worse of pricing when E-tags are denied to settle the transaction. Otherwise, this design would result in uplift charges that are an unfair burden to other market participants. If allowing intertie bidding at the EIM intertie solves this problem and makes settlement less complex, then the CAISO needs to consider making intertie bidding a requirement for EIM participation.

**4. Intertie bidding rules need to be synchronized between CAISO and EIM Entity Areas**

Currently there is a mismatch between the bid submission and outcome deadline between the current CAISO operations and EIM operations. For example, the CAISO requires bidding on the interties at T-75 with results posted at T-50, however, EIM Base Schedules for EIM are due at T-55. This created the situation where a base schedule may not clear the market and have to be settled with imbalance. Compounding the problem could be the aforementioned difference in settlement prices between RTD and FMM prices for the same transaction. As part of the EIM enhancement the CAISO needs to evaluating timeline of bidding and result announcements between the EIM Entity Areas and the CAISO balancing authority.

**5. The CAISO should provide additional support as to why non-participating EIM resources should receive bid cost recovery payments**

The CAISO proposed changes to align the calculation of expected energy between the CAISO area and EIM Entity Areas.<sup>5</sup> While this appears reasonable, the CAISO explains that this could result in non-participating EIM resources receiving bid cost recovery (BCR) payments. Non-participants offer no bids nor operational flexibility to EIM, therefore, the CAISO should explain why they should receive any additional payments for BCR.

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<sup>5</sup> CAISO Proposal page 6.