Southern California Edison
Stakeholder Comments

CAISO Energy Imbalance Market (EIM)
Assessment of Potential Market Power
Dated June 9, 2014

Submitted by	Company	Date Submitted
Paul Nelson – (626) 302-4814 Jeff Nelson – (626) 302-4834	Southern California Edison	June 23, 2014

Southern California Edison's (SCE) comments on the California Independent System Operator's (CAISO) "Assessment of Potential Market Power in the Energy Imbalance Market" (EIM) issued on June 8, 2014 (Proposal). SCE continues to support the development and timely implementation of an EIM. SCE appreciates the efforts by the Department of Market Monitoring (DMM) to resolve the issue of structural regional market power in the EIM Entity Area as PacifiCorp owns 80-90% of the generation in their balancing authority areas (BAAs). Moreover, SCE has resources in PacifiCorp East and will be directly exposed to EIM prices.

SCE supports the DMM conclusion that EIM regional market power mitigation procures are needed from the day PacifiCorp joins the real time markets as an EIM Participant. SCE also supports the general framework for market power mitigation described in the Proposal. However, the competitive reference level price for the EIM should not include and greenhouse gas emission costs which are embedded in the California energy prices.

SCE believes the structural potential for market power is more severe than shown in the paper and presentation and as such we strongly believe mitigation is needed at the start of the EIM in October.

SCE comments on the following issues in the Proposal:

- PacifiCorp's merchant entity controls the amount of CAISO-PacifiCorp West interchange on California-Oregon intertie that is made available to EIM; therefore PacifiCorp controls the ability of CAISO generation to counter any high prices in the PacifiCorp BAAs. Thus not only will the transmission to the EIM vary hour-by-hour, it is controlled by the very entity which is the subject of market power concern.

- Even if PacifiCorp passes the single supplier test described by DMM, the CAISO should look at other tests given the high (exceeding 6,000) Herfindahl–Hirschman Index (HHI) which shows high concentration of resources owned by PacifiCorp. A single supplier test would be too low of a standard to conclude mitigation is unnecessary.
- SCE seeks more information regarding the amount imbalance energy that will be demanded by the EIM. We note the real time markets are 15 and 5 minutes, but it appears the CAISO is looking at hourly average demand data. Hourly off-setting ramps and other trends create hourly averages that mask the true demand for 15-minute power. That is, the 15-minute demand will always be greater than (or equal to) the hourly average. Thus, while hourly data may be sufficient to demonstrate mitigation is needed, hourly data would be insufficient to conclude that mitigation in **not** needed.
- Since the reference price—system marginal energy cost (SMEC)—for market power mitigation is in the CAISO, then the value of any greenhouse gas (GHG) emissions embedded in the SMEC should be removed when considering the EIM reference level; otherwise the mitigation price level for PacifiCorp will be overstated. We note the EIM design goes to great lengths to exclude GHG costs from being included in the EIM energy prices. Market power mitigation needs to recognize this design and mitigate in a manner consistent with EIM pricing.
- When doing the non-PacifiCorp supplier tests, only participating resources and dispatchable units should be included. Otherwise the accounting of resources able to compete with PacifiCorp resources will be significantly overstated.