

Southern California Edison
Stakeholder Comments

CAISO Energy Imbalance Market (EIM)
Governance Issue Paper

| Submitted by | Company | Date Submitted |
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| Paul Nelson – (626) 302-4814 Eric Little – (626) 302 - 6607 | Southern California Edison | January 26, 2015 |

Southern California Edison’s (SCE) herein comments on the EIM Transitional Committee’s issue paper “Conceptual Models for Governing the Energy Imbalance Market”. (Issue Paper) SCE has supported the development of the Energy Imbalance Market (EIM) and continues to support EIM design refinements and appreciates being involved in the stakeholder process of governance of the EIM.

Participants in balancing authorities outside the CAISO may view EIM as a distinct market, but in reality they are participating in the Fifteen Minute Market (FMM) and Real-Time Dispatch¹ (RTD) markets along with participants in the CAISO balancing authority. The Issue Paper seems to recognize EIM is not a separate market, but occasionally it implies EIM is separate from the existing FMM and RTD markets. SCE supported EIM because it is the least cost approach to expand the FFM and RTD to a wider market which results in the exchange of benefits in the Western States and results in a lower dispatch cost to society. SCE continues to support that goal and would object to governance changes that would ultimately reduce benefits and increase costs.

In comments to the FERC on the CAISO EIM design, several commenters asserted that the existing single state nominated governing board structure did not comply with the FERC’s independence criteria.² Some commenters also expressed concern that the CAISO’s independent Department of Market Monitoring would not act in the best interest of the markets and be naturally biased toward the interests of California. FERC determined that these commenters’ concerns were unwarranted, and stated “the EIM is a voluntary market and

¹ This is also called the five minute market.

² Powerex, Public Utility District No.1 of Chelan County, Utah Associated Municipal Power Systems (UAMPS), City of Seattle, and City of Redding submitted comments to the FERC on the CAISO EIM design in ER14-1386.

participants may seek recourse with the Commission if they believe CAISO or the Department of Market Monitoring is acting in an unduly discriminatory manner in administering the EIM.”³

The current Board has been extremely responsive to EIM concerns as shown by three filings to FERC to resolve high EIM prices with the first filing occurring within 13 days of EIM operations.⁴ SCE recommends a cautioned and thoughtful approach to any changes in governance as the current CAISO board is attentive to the concerns of constituents in the EIM Entity Area.

1. A separate autonomous governing board would ultimately lead to conflicts resulting in inefficient administration of energy markets which leads to higher costs, reduced benefits, and create seems issues

The CAISO operates various markets which are integrated with each other, which include the Day-Ahead market, Fifteen Minute Market (FMM), Real-Time Dispatch (RTD), ancillary services, and virtual bidding. All of these markets have interactions with each other. The advantage of a single governing board is ability to weigh the trade-offs should a change in the Day-Ahead market have negative impact in the FMM and RTD, or vice versa. If the FMM and RTD were subject to separate EIM governance with a separate charter, then one board can make decision that could have a detrimental impact to the other market as the board fulfils its designated objective to a single market. The Issue Paper’s statement that “the EIM board would have an obligation to maximize the value of the EIM to its market participants, while the ISO Board would have an obligation to manage and operate of the ISO”⁵ is an indication that the two boards would operate in a silo which may not be to the benefit of the entire energy market. Any conflicting rules or disagreements would have to be resolved by FERC, which is inefficient way to govern the energy markets.

Because of the interaction between the various markets, a separate autonomous EIM board could eventually necessitate a separation of the day-of Markets (FMM and RTD) between the CAISO and EIM Entities. In this outcome, the CAISO would operate two separate day-of markets, one for the CAISO balancing authority and another for the combined EIM Entity

³ ER14-1386, paragraph 109

⁴ CASIO has submitted three filing at FER: 1) to recalculate prices during the first 13 days; 2) a waiver to certain pricing parameters for constraint relaxation during the period of November 14, 2014 – February 13, 2015, which was approved by FERC; and 3) extended the wavier provision for 12 months from the date an Entity joins the EIM.

⁵ Issue Paper p10.

balancing authorities. In this case, there would no longer be co-optimization between all the balancing authorities. Instead, the EIM Entity Areas would be optimized separately from the CAISO balancing authority. As recognized in the Issue Paper, this would likely lead to additional administrative and operation costs as EIM would be operated by the CAISO under contract.⁶ With the lack of co-optimization of a wider pool of resources, the dispatch cost for the region would increase. In addition, the cost of operating separate markets would be higher than if they were combined. Moving to an outcome with higher costs and lower benefits is uneconomic and irrational.

Should this result in a separate day-of markets operated by the CAISO, then it will likely create different rules between the EIM and CAISO, which will result in seems issues that restrict or make inefficient transaction between the two markets.

It appears the driver behind an autonomous EIM governing board is a view that it needs a voice that is not elected by the governor of California. In this case, did the Committee consider modification to the existing governing board?

2. An EIM governing board under CAISO By-laws must be limited in scope to issues that do not impact pricing or settlement rules

Because of the aforementioned interaction with the various markets operated by the CAISO, any separate EIM governing board cannot have authority over sections of tariffs that impact pricing and settlement. The Issue Paper states, “The EIM board would have primary governing authority over the portions of the ISO tariff that address exclusively the EIM”.⁷ If the term “exclusively the EIM” is intended to mean the existing FMM and RTD, then this is unworkable as previously discussed. However, if “exclusively the EIM” is intended to mean the EIM Entities and participants located in those areas, then a separate EIM Board with limited scope is feasible. For example, the EIM Board would have jurisdiction over the various EIM Entity and EIM Participant agreements included in CAISO tariff. As indicated in the Issue Paper, any EIM Board should also have an advisory role to the CAISO Board on any issues outside their designated jurisdiction.

⁶ Issue Paper, p10-11.

⁷ Issue Paper, p10.

The CAISO Board may need to enact changes that are in the best interest to all of their operated markets, which may include elements entrusted to the EIM Board, including overturning a decision by the EIM Board. In these circumstances, the CAISO Board must have the authority to file at FERC change to tariff provisions that have been placed under a separate board.

3. An EIM Advisory Board would be valuable resource for current governing Board

The CAISO Governing Board has a responsibility to insure that the CAISO “ensures the efficient use and reliable operation of the electric transmission facilities”.⁸ Furthermore, the CAISO has adopted as a governing principle to operate “in compliance with the regulatory requirements applicable to the ISO as a public utility subject to the jurisdiction of the Federal Energy Regulatory Commission”.⁹ For example, the Board promptly (within two weeks) approved the filing for waivers at FERC to mitigate the high prices that occurred in PacifiCorp that were due to emerging market issues and were not reflective of actual shortages. To carry out their responsibility, the Board relies on two independent organizations, the Department of Market Monitoring and the Market Surveillance Committee. There is no reason that an EIM advisory council cannot have a meaningful voice to the Board on EIM matters.

The current EIM Transitional Committee charter would require independence of the council; however, the Transitional Committee is seeking comments if independence is necessary for an advisory body. Because the role is advisory, there could be market participants in the membership similar to the current EIM Transitional Committee. However, there is the risk that recommendations would be split between load serving and generation entities, which would prevent a majority recommendation. Even with disagreement, it would be expected that each group would state their case for informing the board the issues behind their recommendation. The Board would still have the responsibility to reach an impartial decision.

⁸ Section 1, CAISO Bylaws.

⁹ Section 3.1.5. CAISO Corporate Governance Principles, version 3.2.