

January 26, 2015

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING,
COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON THE CONCEPTUAL
MODELS FOR GOVERNING THE ENERGY IMBALANCE MARKET**

In response to the request of the EIM Transitional Committee (the “Committee”), the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the “Six Cities”) submit the following comments on the January 5, 2015 Issue Paper on Conceptual Models for Governing the Energy Imbalance Market (the “Issue Paper”).

The Six Cities approach the Committee’s questions regarding EIM governance from their perspective as Load Serving Entities (“LSEs”), Market Participants, and Participating Transmission Owners located within the Balancing Authority Area (“BAA”) of the California Independent System Operator Corporation (“CAISO”). The Cities support the continuation and expansion of the EIM if both of the following conditions are satisfied: (1) the overall benefits of the EIM exceed the costs of operating the EIM, and (2) the allocation of responsibility for EIM costs is consistent with the receipt of EIM benefits. Simple economic prudence requires application of the first condition. The well-established principle of cost causation, as well as fundamental fairness, compel adherence to the second condition. The Committee should seek to develop a model for EIM governance that will promote satisfaction of both conditions.

As a preliminary matter, the Issue Paper in several places makes reference to market participants in the EIM. The Six Cities presume that the Committee recognizes market participants within the CAISO BAA as EIM participants, as well as market participants within all EIM Entity BAAs. The EIM governing body, however constituted, must include in its constituency all market participants involved in or subject to EIM transactions.

At this time, and without seeking to foreclose consideration of other potential approaches, the Six Cities believe that the second model discussed in the Issue Paper - - a governing board established by CAISO bylaws with a defined delegated scope (referred to in these comments as Model 2) - - is most likely to lead to a governance structure that will maximize benefits for all EIM participants. The Cities base this conclusion to a significant degree on a process of elimination by reference to perceived flaws with the other two models discussed in the Issue Paper.

The Six Cities expect that the first model - - an advisory committee to the CAISO Board of Governors (referred to in these comments as Model 1) - - is likely to be a non-starter from the perspective of market participants located outside the CAISO BAA. It would be understandable, if not necessarily accurate, that market participants outside the CAISO BAA may perceive an EIM governing board limited to a purely advisory role to the CAISO Board as having insufficient authority to represent adequately the interests of non-CAISO market participants. Rather than waste valuable resources on further development of Model 1, the Six Cities recommend that the Committee focus on development of a model that will afford the EIM

governing board more authority with respect to EIM matters and be acceptable to a broader spectrum of EIM participants.

The third governance model discussed in the Issue Paper - - an autonomous, separate entity with authority over market rules (referred to in these comments as Model 3) - - would give rise to substantial risks of inconsistent market rules, conflicting actions by the CAISO and the EIM organization, and increased costs both for operation of the EIM and for market participants affected by the EIM. At this time, the EIM is intertwined with the CAISO's Real-Time markets. So long as the EIM continues as an extension of the CAISO's Real-Time markets, it is essential that the EIM market rules be compatible with the CAISO's Day-Ahead market rules and *vice versa*. If EIM governance resides in an autonomous, separate entity as described in Model 3, coordination of market rules for the CAISO's Day-Ahead market with the market rules for the EIM would be substantially more difficult. Unintended inconsistencies between the CAISO's market rules and the EIM rules could undermine the efficient operation not only of the EIM but of all of the affected markets. As one example, convergence bids in the CAISO's Day-Ahead market (which does not involve EIM Entities) are settled at the Fifteen-Minute Market prices (which are set as part of the EIM). Which governing authority, the CAISO Board or the EIM organization, would have authority to address impacts of EIM rules on convergence bidding outcomes? The risk of inconsistent or even dueling filings with FERC by the CAISO and the EIM organization would be significant, and if an irreconcilable tension between the CAISO's Day-Ahead rules and the EIM rules should arise, it could threaten the CAISO's continued involvement with the EIM. Although having a separate EIM organization might have the desirable result of increasing transparency for the costs of EIM implementation, it seems inevitable that overall EIM costs would be greater. In addition, market participants would face the increased burden of monitoring and participating in stakeholder processes for an additional organization. For all of the reasons summarized above, the Six Cities at this time do not support the Model 3 approach.

Of the three models discussed in the Issue Paper, therefore, Model 2 seems most likely to result in a balanced and coordinated evolution of market rules that will promote efficient operation of the EIM. The Six Cities recognize that the development of the Model 2 approach will raise challenging questions concerning the appropriate scope of the EIM board's charter. At the same time, the initial charter for the EIM board need not and should not be cast in concrete. The Model 2 approach has the advantage of allowing evolution of the EIM Board's role as the EIM matures and expands, while providing reasonable assurance that future developments in

EIM rules will be consistent with the CAISO Real-Time market platform in which the EIM operates.

Submitted by,

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