

Comments of the Balancing Authority of Northern California (BANC)

CAISO Energy Imbalance Market Second Revised Straw Proposal (July 2, 2013)

For Discussion Purposes Only
July 26, 2013

BANC appreciates the opportunity to provide these Comments on the Second Revised Straw Proposal. While there has been a great deal of further refinement on important mechanical market design issues, the broad policy issues raised by BANC to date appear to be largely unaddressed.

I. Scope of Participation in EIM

In its prior comments, BANC called upon the CAISO to clarify the potential scope of an initial EIM footprint. While BANC is sensitive to the commercial needs of potential EIM Entities, neither BANC nor other market participants can accurately assess the impacts of the EIM without more information on the initial footprint. As BANC stated in its comments, a host of design issues change in scope, magnitude, or importance if the potential initial EIM footprint is extended past PacifiCorp and the CAISO. Carbon cost attribution, transmission service, cost allocation, and possible operational impacts may all be affected by the potential size of the EIM, and also the identity of its participants.

CAISO's response to this point is that BANC's request is premature. The CAISO's proposal and language belies that characterization. For example, the CAISO has used the limited transfer capability between PacifiCorp and the CAISO as a rationale for keeping its proposal not to charge for transmission service. In the Second Revised Proposal, however, the CAISO states that transfer capability "may" be limited. *Second Revised Proposal at 61*. Given the very short turn-around time to flesh out market design details on a market design change of this magnitude, it is time for the CAISO to clarify whether BAs other than PacifiCorp will be initial EIM Entities.

II. Transmission Service

As previously stated, BANC believes that it is necessary to establish some form of transmission service charge for EIM use of transmission. The CAISO "has made no changes" to its transmission service proposal in this Second Revised Straw Proposal. *Second Revised Straw Proposal at 61*. BANC reiterates its concern that to charge transmission customers that participate in CAISO markets the applicable TAC or WAC, but not to charge transactions in the EIM, is unduly discriminatory and has the potential to create market distortions.

It is reasonable to charge market transactions based on usage of the facilities on which those transactions depend. Any other policy deviates from cost causation principles. While BANC is still evaluating options on this issue, its initial view is that neither Alternative 1 nor Alternative 3 outlined in the Second Revised Straw Proposal meets this objective.

III. Flexible Capacity

The CAISO responded to BANC's concerns about ensuring sufficient flexible capacity by referencing ramping constraints that will be incorporated into EIM, and changes to how balanced schedules will be formulated. *Stakeholder Comment Matrix at 7-8*. The CAISO misapprehends BANC's concern.

Many policy makers and stakeholder seem to believe that the EIM will be a silver bullet for renewable integration. The CAISO's EIM documents exacerbate this belief by not completely discussing the entire suite of market design initiatives that will be necessary to integrate renewables while maintaining grid reliability.

Key in this broader policy discussion is the need to have forward planning for flexible capacity needs, and the CAISO has been working to resolve this issue for its Balancing Authority for quite some time. The new Joint Reliability Framework is proposed to ensure forward procurement and commitment of flexible resources, among other things. Solving for flexible capacity needs in a real time optimization is not the same as forward planning and/or must offer obligations in forward time periods, and the two should not be confused. The CAISO acknowledged this at the Joint Reliability Framework stakeholder meeting in direct response to a stakeholder question from renewable interests about the link between EIM and forward Flexible Capacity requirements. The CAISO should acknowledge it here.

While BANC is not within the CAISO Balancing Authority, several stakeholders in the CAISO BA raise legitimate concerns about whether EIM will result in EIM Entities leaning on the forward procurement requirements of California LSEs. This concern highlights that EIM is only a potential piece of the overall integration solution, a point that the CAISO should recognize in this process.