

*Energy Imbalance Market Year 1 Enhancements  
Issue Paper and Straw Proposal*

**Comments of Puget Sound Energy**

Puget Sound Energy (PSE) appreciates the opportunity to comment on CAISO's Energy Imbalance Market (EIM) Year 1 Enhancements, Phase Two Issue Paper and Straw Proposal,<sup>1</sup> issued June 30, 2015. In anticipation of participating in the EIM in October 2016, PSE has been actively evaluating CAISO's proposed changes to the EIM and its impacts. CAISO's work toward enhancements in the EIM could benefit all participants, and given the complexity and importance of these initiatives, PSE believes that the timeline for presenting these proposals to the ISO Board of Governors in November 2015 is very ambitious. PSE supports CAISO in extending the timeline as necessary.

1. EIM-Wide Transmission Rate Options<sup>2</sup>

In fulfilling its commitment to reexamine EIM-wide transmission charges based upon operational data, CAISO has proposed four alternatives. As a general principle, PSE believes that EIM transfers should rest on existing transmission arrangements as much as possible. These arrangements include firm transmission rights fully paid for by transmission customers on EIM BAA transmission systems, as well as network transmission service fully paid for by load in EIM BAAs. While EIM transfers provide substantial regional benefits, the EIM is designed to work as a supplement to existing BAAs, not as a replacement for them. Therefore, it is not clear to PSE that an EIM wide transmission charge or rate is necessary or appropriate.

Based upon this principle, PSE supports the option identified as Alternative 1 – not charging for transmission made available for the EIM by transmission customers within an EIM BAA. PSE views this alternative as effective and simple to administer, because it would not in any way disadvantage current transmission customers. The decision of one customer to use its firm rights for EIM transfers would not alter the transmission rights or priorities of other customers, and all such transmission rights are already fully paid for by the transmission customer. Thus, all interchange holder rights committed to the EIM have been fully paid for.

Likewise, PSE believes that using available transfer capacity (ATC) for EIM transmission – as approved by FERC for NV Energy's BAA – is also an appropriate mechanism. To the extent that unreserved ATC is used to deliver imbalance energy to load in an EIM BAA, this would

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<sup>1</sup> Available at [http://www.caiso.com/Documents/IssuePaper-StrawProposal\\_EnergyImbalanceMarketYear1Enhancements-Phase2.pdf](http://www.caiso.com/Documents/IssuePaper-StrawProposal_EnergyImbalanceMarketYear1Enhancements-Phase2.pdf). All references below are to the page numbers and items in the issue paper and straw proposal.

<sup>2</sup> Page 6, item 3.

appropriately be considered a use for secondary network service – a category of transmission service already paid for by the load in that BAA. To the extent that unreserved ATC supports an EIM export to another participating BAA, PSE believes that such real-time use fully supports service to load, and should also be considered a component of network service. Because EIM transfers by definition balance for load (and thus benefit load), it is wholly reasonable for an EIM BAA to make unused capacity available for EIM transfers without further charge.

While PSE appreciates the desire for continuous improvement of the EIM model, it is not clear that a change is necessary and the proposed alternatives (compensating for EIM transmission access using EIM revenue requirements, using a minimum shadow price, or applying load and wheeling charges) would add considerable administrative complexity and might reduce pricing transparency by adding new layers of analysis and/or cost recovery. Such a change can endanger the stability and certainty necessary for a successful, burgeoning EIM. Assuming a better alternative is developed, at a minimum CAISO should not seek to implement a significant change within the several months prior to or after any EIM Entity goes live. Due to the sufficiency of the current system, overly ambitious and potentially destabilizing implementation timing proposed (one month after NV Energy’s go live and prior to PSE and Arizona Public Service implementation), and the lack of detailed analysis in the alternative proposals, PSE strongly supports Alternative 1.

However, PSE would support CAISO’s continued development of an equitable proposal for transmission charges with the following conditions: (i) reasonable development, approval and implementation timing (not within the several months before or after an EIM Entity’s go live); (ii) review by stakeholders of CAISO’s thorough analysis of the impacts of the proposal, including modeling of the transmission cost impact in the EIM and details regarding the equitable application of the charge to non-EIM Entity transmission, interchange rights holders and ATC; and (iii) detailed review of impacts on individual BAA transmission revenue requirements. PSE encourages CAISO’s continued research and data analysis on a transmission charge proposal (particularly the beginnings of such a proposal in Alternative 2), and looks forward to evaluating and commenting on this detailed proposal once data analysis is complete.

## 2. Flow Entitlements for Base or Day-Ahead Schedules<sup>3</sup>

CAISO proposes evaluating flow entitlements through historical analysis, for the purpose of allocating congestion offsets to BAAs based upon their deviation from typical flow patterns. While PSE agrees with the CAISO proposal to continue to study the issue, any decision to modify the current practice would need to be carefully considered after analysis is complete. At this time, PSE believes that such a proposal adds unnecessary and likely inaccurate complexities

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<sup>3</sup> Page 10, item 4.

to the allocation of these costs. For this reason, PSE supports maintaining the current charges and allocation for congestion offsets.

### 3. EIM Transfer Limit Congestion Treatment<sup>4</sup>

CAISO proposes to change the settlement of congestion rents for intertie scheduling points and EIM transfer constraints between two EIM BAAs, with actual constraints of these transfers only in limited circumstances. PSE supports this proposal, which would provide clarity regarding the EIM BAA(s), which would be responsible for settling any applicable congestion rents based upon the intertie scheduling limit, EIM transfer limit, and the identity of the entity tagging the EIM transfer.

### 4. Dynamic Competitive Assessment of Market Power Mitigation at EIM Transfer Limits<sup>5</sup>

CAISO proposes continuing its present market power mitigation process, in which transfer limits are treated as internal constraints and evaluated for competitiveness when they are binding. PSE supports continuing the process of structural competitiveness assessments for new EIM Entity BAAs, and using market power mitigation in circumstances where potentially noncompetitive constraints are binding.

### 5. Bidding on External EIM Interties<sup>6</sup>

PSE is supportive of CAISO's basic principle of promoting external participation in the EIM beyond pseudo-tied resources, which are the only external resources capable of participating in accordance with PacifiCorp's OATT in the present construct. Increasing participation at interties will result in increased resource diversity and allow for a more effective market. Due to the complexities associated with expanding bidding, PSE also supports CAISO's proposal to delay implementation for up to one year after a new EIM Entity BAA begins to participate.

However, PSE also notes that the most significant issues associated with external participation are not based on EIM BAAs themselves, but instead involve non-EIM BAA transmission owners. More clarity regarding the ability of EIM participants to use transmission rights purchased under the applicable OATT in non-EIM BAAs is an essential component of expansion of bidding at external interties, and more generally in making the EIM as effective as possible. PSE believes that the ability of transmission customers on non-EIM transmission systems to use their reservations for EIM transfers should not be restricted, and will continue working with CAISO to clarify the role of non-EIM transmission systems in the EIM. Given the complexities

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<sup>4</sup> Page 11, item 5.

<sup>5</sup> Page 13, item 6.

<sup>6</sup> Page 14, item 7.

of market implications and the newness of the market, PSE supports maintaining external intertie bidding as an option that EIM Entities have the opportunity to elect.

6. Compensation for Third-Party Transmission Owners to Support Incremental EIM Transfers<sup>7</sup>

CAISO proposes evaluating compensation for third-party transmission owners, potentially either within an EIM BAA or in an external BAA, to make incremental transmission capacity available for EIM transfers. PSE strongly supports this evaluation, and believes that increasing the potentially available transmission has the potential to increase market liquidity, alleviate potential transfer constraints, and expand participation. However, PSE urges CAISO to consider not only third-party transmission owners, but also the ability of transmission customers on those systems to use transmission rights for EIM transfers. PSE believes that where possible, compensation to third-party transmission owners should be made consistent with the existing OATT rates for the underlying rights made available for EIM usage, and that customers on third-party systems – who have already paid for their transmission rights – should be able to use those rights to support EIM transfers at their election. This proposal should be considered in concert with the EIM-Wide Transmission Rate Options discussed above and at Page 6, item 3 of CAISO’s proposal.

7. Outage Reporting to Reliability Coordinator<sup>8</sup>

CAISO proposes directly submitting outage information to Peak Reliability through its own Outage Management System on behalf of smaller BAAs. PSE generally supports this proposal, and favors development of EIM outage communication which will allow for the timely and accurate outage data submittals. However, PSE notes that unless the outages submittals by CAISO to Peak Reliability can be timely confirmed by the EIM Entity, this proposal may be of limited value.

PSE appreciates the opportunity to comment upon the initial issue paper and straw proposal, and looks forward to reviewing the CAISO’s responses to PSE and other stakeholders.

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<sup>7</sup> Page 19, item 8.1.

<sup>8</sup> Page 20, item 8.2.