

**Comments of Powerex Corp. on
EIM Governance Review Issue Paper and Straw Proposal**

| Submitted by | Company | Date Submitted |
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Powerex Corp. (“Powerex”) appreciates the opportunity to submit comments on CAISO’s December 14, 2018 EIM Governance Review Issue Paper & Straw Proposal (“Proposal”). In the Proposal, CAISO states that it is commencing a review of Energy Imbalance Market (“EIM”) governance to take into account experience with the operation and evolution of the market. As a short-term change, CAISO proposes to modify the decisional classification process to provide that initiatives proposing changes to generally applicable rules of the real-time market would fall within the “primary authority” of the EIM Governing Body if the primary driver for those changes is the EIM. CAISO also seeks stakeholder input on what other issues should be addressed as part of a longer-term review of EIM governance and the timeline for that review.

Powerex supports the decision to commence a review of the existing governance framework for the EIM. Powerex believes that governance is critical to ensuring that the multi-state EIM is designed and operated in a manner that serves the interests of all customers transacting power within the expanded footprint of the EIM (and/or settling transmission services at EIM prices).

Powerex believes that the existing governance structure – which took shape when the EIM was in its infancy – does not appropriately reflect the multi-state nature of the EIM or the diversity of priorities and interests present therein. Currently, the existing EIM footprint covers seven states outside of California, with the EIM set to further expand in the coming years with the addition of NorthWestern Energy and Public Service Company of New Mexico. Yet, the existing governance framework, including the process for the development and approval of market design changes, continues to be largely directed by California entities. For example, under the existing framework, it is the CAISO -- a body subject to the oversight of the CAISO Board of Governors and, indirectly, the State of California – that is responsible for determining the rules that should govern EIM operations as well as how these rules should be modified to improve the performance of the market. Although entities participating in the EIM have the ability to provide their views on proposed changes through participation in the CAISO stakeholder processes, it is the CAISO that has the authority to determine whether to take these views into account when it ultimately issues a final proposal for consideration by the CAISO Board of Directors and, in limited cases, the EIM Governing Body. Notably, it is only when a market rule change is “EIM-specific” that the EIM Governing Body has the ability to approve or reject the proposed change. The CAISO Board continues to retain authority to approve changes to the rules governing the operation of the real-time markets more generally, even if these rules have a significant impact on EIM market participants.

The result of this framework is that the EIM Governing Body and EIM participants often have limited input or control over rule changes that have a disparate impact on EIM participants. Take, for instance, the efforts to create a fourth default energy bid (“DEB”) option for energy-limited resources as part of the Local Market Power Mitigation Enhancements stakeholder proceeding. This initiative was commenced in response to concerns by EIM entities that the existing DEB framework was not sufficiently flexible to allow hydroelectric resources outside of California to reflect their opportunity costs in their DEBs. The manner in which these concerns are addressed will have profound implications for EIM entities that participate in the market with the capability of hydroelectric resources. Because this enhancement could theoretically apply “uniformly to hydro resources in both the CAISO and EIM,” under the existing EIM governance framework, the proposed modifications to the DEB framework fall within the EIM Governing Body’s “advisory authority” (*i.e.*, are not subject to the EIM Governing Body’s approval). The result is that the EIM Governing Body has as much influence over the outcome of this initiative, which is critical to EIM participants, as it has over other matters, such as changes to the CAISO intertie bidding framework, that only affect the CAISO Balancing Authority Area (“BAA”).

Powerex believes that CAISO’s proposal to expand the primary authority of the EIM Governing Body to encompass changes to generally applicable real-time market rules driven by changes related to the EIM represents an important step towards enacting a more balanced governance structure. Going forward, however, Powerex believes that more fundamental changes are necessary to reflect the multi-state character of the EIM. More specifically, Powerex believes that the EIM Governing Body should be delegated decision-making authority over all proposed changes to the rules governing the real-time market. Ultimately, any changes to the generally applicable rules governing the operation of the real-time market have the potential to affect EIM entities and market participants across the expanded EIM footprint. For that reason, there is no good reason for continuing to give the CAISO Board exclusive authority over approving changes to market rules that similarly affect participants outside of the CAISO BAA. Given the integrated, multi-state nature of the EIM, the presumption should be that the EIM Governing Body has primary authority over any changes to the real-time market, with any changes approved by the EIM Governing Body placed on the CAISO Board’s consent agenda.