

Southern California Edison
Stakeholder Comments

**EIM Transitional Committee Proposal for
Long-Term Governance of the Energy Imbalance Market**

Submitted by	Company	Date Submitted
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Southern California Edison’s (SCE) herein comments on the EIM Transitional Committee’s draft final proposal “Long-Term Governance of the Energy Imbalance Market” issued on June 22, 2015.¹ (Proposal) SCE has supported the development of the Energy Imbalance Market (EIM) and appreciates being involved in the stakeholder process for governance of the EIM. The Transitional Committee’s Proposal is a compromise between an advisory body and an organization with tariff authority completely separate from the current governance structure. The EIM governing board (EIM Board) would have delegated approval authority over specific tariff changes, but it still would require confirmation of the existing CAISO governing board (CAISO Board) before any changes could be filed for FERC approval. While SCE supports the concept of the approach, the Proposal needs to revise the principles of what is delegated to better define the scope of the EIM Board’s authority and prevent future conflicts. This is important because there is no energy imbalance market separate from the real-time market² operated by the CAISO. Participation is voluntary by EIM Entities and they can withdraw with 180 day notice³, however, participants in the CAISO’s balancing authority do not have such ease of exit. Therefore, any changes that materially impact participants in the real-time market must be under the exclusive jurisdiction of the current CAISO governing board. The prior draft lacked adequate detail to offer clear instruction of what can be delegated and the current draft continues to lack proper clarification of what issues can be delegated. In addition, some items recommended to be delegated to the EIM Board actually directly impact pricing in the CAISO balancing authority and therefore cannot be delegated away from the CAISO Board.

¹ http://www.aiso.com/Documents/Briefing_Governance_Proposal-DraftFinalProposal-June2015.pdf (Proposal)

² The real time market is the combination of the fifteen minute market and the five minute (real time dispatch) market.

³ EIM Entity Agreement, Section 3.2.2.

1. The CAISO By-laws needs a clear set of principles to define the items under delegation to the EIM Governing Board

The Proposal defines the delegated authority under the EIM Board as:

“market rules that are EIM-specific insofar as they apply uniquely to the EIM and its participants or differently to the EIM and its participants than the ISO’s generally applicable rules”⁴

Unfortunately, this statement is not clear with regard to the real-time market because it is not possible for a real-time market activity to be “unique to the EIM” because EIM does not exist as a separate market. EIM Entities, and the participants located in their balancing authority, are participants in the CAISO’s existing real-time market. The proposal needs a clear set of principles to guide the determination of items delegated to the EIM Board as discussed in the Committee’s charter. This will help prevent future disagreement over which items should be delegated. Furthermore, these principles should be included in the By-laws. SCE offers the following principles that would define items eligible to be delegated to the EIM Board:

- Must be unique to EIM Entities and EIM Participants
- Must not impact real-time or day-ahead market, pricing, settlement, neutrality accounts, grid topology, and time-line of real-time market process

In addition to guide both Board’s decision making, SCE offers an additional principle which should be added to the By-laws:

- Same rules apply to CAISO and EIM participants; unless there is a clear and justifiable reason for different treatment

Using the above principles, some of the items that the current Proposal suggest would be delegated to the EIM Board, would no longer be delegated. The rate design for EIM transfers, GHG bid adder, scheduling penalties, sufficiency requirements, and intertie bidding rules are either not unique to EIM Participants or have direct impact on real-time market prices.

Items that would not violate the delegation principles would be recovery of EIM operational costs, EIM participation requirements, pricing that occurs should the CAISO be unable to post EIM Entity Area market pricing results⁵, and EIM withdrawal requirements.

⁴ Proposal page 22.

⁵ In the CAISO area, should there be a failure to post real-time prices the day-ahead market price would be used for settlement. Since the EIM Entity Areas do not have a day-ahead market, they would need to decide upon replacement prices that can be used in the event of a failure to post real-time prices.

Furthermore, as the GHG bid adder is a component of the locational marginal price and directly impacts price formation and therefore cannot be delegated to the EIM Board. CAISO balancing authority customers pay the GHG bid adder costs, not EIM customers, it is the role of the CAISO Governing board to approve just and reasonable rates for the CAISO operated markets. Should the calculation of the GHG Bid Adder need to be changed to result in just and reasonable rates, the EIM Board could block the change by not approving a change. Under the Proposal, the CAISO Board would have no means to approve a change.

2. The Proposal can create a stalemate to prevent necessary changes to protect all market participants

While the Proposal is clear that the CAISO Board cannot prevent action by failing to act on a consent agenda item, stalemates can still occur should the EIM Board fail to approve an issue that CAISO Board would approve as necessary to achieve just and reasonable rates. While SCE understands the desire to “give the EIM governing body not only the ability to presumptively approve, but also the ability to fully block any proposed market rule changes within its “primary” area of authority by declining to approve a proposed change”⁶, it has the potential to lead to a stalemate in which the CAISO believes that changes are necessary to ensure just and reasonable rates for its entire market while the EIM Board denies the change as its own charter is proposed to “promote, protect and expand the success of the EIM as a whole by ensuring that its participants benefit, with due consideration given to the interests that all parties who participate in the EIM have in decisions about the future direction of EIM.”⁷ Without a complete understanding of the delegation of authority combined with this potential for stalemate, SCE does not see this structure as effective.

3. Regulatory agencies and other interest groups can already engage the CAISO, therefore an Advisory Body of State Regulators and Regional Advisory Committee create unnecessary bureaucracy

There is no prohibition against parties from other States submitting comments or even addressing the CAISO Board, or a new EIM board. The California Public Utilities Commission, Oregon Public Utilities Commission, Public Utilities Commission of Nevada, Wyoming Public Service Commission, Chelan County Public Utility District, California Municipal Utilities

⁶ Proposal at 22

⁷ Proposal at 14

Association (CMUA), Eugene Water and Electric Board, Bonneville Power Administration, Western Area Power Administration, Northwest Public Power Association, Public Power Council, Seattle City Light, Utah Associated Municipal Power Systems (UAMPS), and Six Cities⁸ all have submitted comments on CAISO's EIM design or governance proposals.⁹ It is clear that various regulators, publicly owned utilities, government run balancing authorities, and non-California based interest groups are able to inform the CAISO on issues that are important to their constituents.

Regulators and publicly owned utilities already have organizations that can speak on their behalf. Publicly owned utilities are already organized as shown by the CMUA, Six Cities, UAMPS, Northwest Public Power Association, and Public Power Association. For State regulators there already exists the Western Conference of Public Service Commissioners.¹⁰ There is also the PUC EIM group within the Western Interstate Energy Board that has submitted comments on the EIM proposal to the CAISO Board.¹¹ It would be efficient to use these existing organizations rather than create an additional advisory body. Therefore, it does not appear that a problem currently exists which would prevent regulators or publicly owned utilities from making their concerns known to the CAISO staff and CAISO Board.

Furthermore, this element of the Proposal would appear to give an elevated and officially recognized voice to a single classification of stakeholders. This could lead to other stakeholders arguing for their officially recognized advisory board leading to excess bureaucracy. Given that all stakeholders, including regulators both in and out of state, have ample opportunity to address the board, there does not appear to be a need for this advisory board.

The Proposal suggests that the travel and meeting costs for attendance of this advisory board be reimbursed by the CAISO, which is then passed onto customers. While in the big

⁸ Six Cities represents the public-owned utilities from the cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside located in California.

⁹ See comments at:

<http://www.caiso.com/informed/Pages/StakeholderProcesses/EnergyImbalanceMarketGovernanceDevelopment.aspx> or <http://www.caiso.com/informed/Pages/StakeholderProcesses/EnergyImbalanceMarketFoundation.aspx> and for comments directly to the board for the November 2013 meeting at <http://www.caiso.com/informed/Pages/BoardCommittees/BoardGovernorsMeetings.aspx>

¹⁰ This is organized within the National Association of Regulatory Utility Commissioners.

¹¹ See: letter to the CAISO Board in Support of the EIM Governance Proposal and Comments to FERC regarding the CAISO Tariff Amendments to implement an EIM <http://wiebver.org/ver-integration-topics/energy-imbalance-market/>

picture the cost is likely to be insignificant, additional costs should not be created when there does not appear to be a strong need for an advisory board.

Therefore, SCE does not support the creation of an Advisory Body of State Regulators and Regional Advisory Committee.

4. Governing boards should have the responsibility to protect all customers

The Proposal states that the EIM Board should:

“Protect the EIM, its participants, and consumers against the exercise of market- power and otherwise further the establishment of just and reasonable market outcomes”¹²

The problem with the statement is that it says only “EIM, its participants, and consumers”. Both governing boards should have an obligation to protect all market participants regardless of location. SCE recommends the language be changed to read:

Protect the CASIO operated markets ~~EIM~~, its participants, and consumers against the exercise of market- power and otherwise further the establishment of just and reasonable market outcomes.

The CAISO already has an independent Department of Market Monitoring group that reviews the performance of the market and reports to the CAISO Board. The existing CAISO Board already has the obligation for just and reasonable results for the CAISO operated markets. Granting a monitoring function to the EIM Board would result in a duplicative function and is contrary to the EIM Transitional Committee’s charter for efficient and non-duplicative decision making. Furthermore, the FERC stated “we agree that the Department of Market Monitoring is a logical choice to act as market monitor for the EIM, as it has extensive experience in monitoring an imbalance market in the West and with CAISO’s software.”¹³

¹² Proposal page 14.

¹³ FERC order approving the EIM in 147 FERC ¶ 61,231(2014). Docket ER-14-1386-000, issued June 19, 2014, paragraph 109.