

Western Power Trading Forum Comments on CAISO 2nd Revised EIM Straw Proposal

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WPTF appreciates the opportunity to comment on the ISO's 2nd Revised Energy Imbalance Market (EIM) straw proposal dated July 2, 2013 and the discussion that was offered at the ISO's July 9, 2013 stakeholder meeting.

WPTF supports the continued development of the EIM and ISO's ongoing efforts to establish EIM rules that promote market efficiency. WPTF offers comments in the following areas.

Proposed Elimination of the Minimum Shift Optimization

WPTF has no significant objection to the ISO's proposal to remove the minimum shift optimization adjustment to base schedules, especially in light of the MSC and DMM comments. Although we understand the ISO's proposal for congestion management and the cost allocation associated with resolving congestion on the base schedules, we request that the ISO include in its next proposal details about how other aspects of reliability will be ensured without the ISO ensuring that the schedules are feasible.

Convergence Bidding Proposal

WPTF is concerned with the ISO's proposal to adjust payments to convergence bidders to remove the congestion impacts of any EIM constraints. Whereas the convergence bids would naturally cause DA prices to more closely match the reality of the market that will ultimately present itself in the RT, the CAISO's proposal will negate such benefits of convergence bids impacted by EIM constraints.

Further the proposal will adversely impact the relationship between convergence bidding payments, physical energy payments and CRR payments and will thereby undermine the hedge value of the convergence bidding mechanism. The proposed convergence bid treatment would also create neutrality impacts given the differences in physical and virtual settlements. For these reason WPTF encourages the ISO to reconsider this aspect of its proposal. We ask the ISO to provide more information about what constraints will be represented in the DA model under the anticipated expanded network model representation and to provide further explanation about what will not be modeled in the DA market that would cause prices to diverge in some manner for which the ISO believes convergence is not beneficial. We also ask the ISO to consider market design models from other markets where constraints of adjoining markets affect the price formulation. PJM's interconnections with the MISO and with the NYISO may provide beneficial examples worthy of comparison.

Lastly to the extent the ISO continues with this proposal it is important that the ISO design additional interfaces to provide transparency to the prices applied to the convergence bids, as adjusted by the EIM constraints.

GHG Treatment

We appreciate the clarification that all EIM resources delivering to CA will receive the marginal carbon cost. Issues to be resolved include further details around the carbon price proposal, the emissions rate to be used for EIM internal resources (for which ARB assigns an emissions rate based on average annual production), and the emissions rate to be used for EIM imports that serve CA load. We ask for further consideration regarding the pros and cons of the ISO allowing participants to submit their own carbon related bid adder; while the ISO has identified possible downsides of participants using this adder to influence the likelihood that their resources may be found efficient to serve EIM load only or CAISO load there also seems to be much benefit to a participant managing its risk of carbon by specifying a bid adder that reflects their own expectations about ultimate emissions rates and allowance costs. Further, we ask the ISO's further consideration about its proposal to use the default emissions rate for resources bidding into the EIM at the EIM's boundaries. The use of a default emissions rate will have tendency to distort market results and disadvantage clean resources bidding into the EIM.

We also ask the ISO to discuss the impacts of using an implied emissions rate for imports that may be different than an import rate later assumed by CARB, and we ask the ISO to agree to work with CARB to arrive at an outcome whereby the CARB assumed rate and the ISO emissions rate used would be the same. Absent such an arrangement those in the EIM footprint offering into the ISO will be at risk for differences in treatment between the ISO market and the ARB compliance requirements.

Lastly, WPTF also requests further information on how the ISO intends to convey each EIM participant's resulting energy imports each hour. Detailed information about the market results and inferred CAISO imports should be provided as part of the market results, and we ask the ISO to confirm such information will be provided as part of the market results.

Cost Allocation

WPTF appreciates the ISO's efforts to segregate real time congestion and neutrality costs consistent with cost-causation principles. We look forward to additional details on how these costs attribution will be accomplished.

Separate Ramping Constraint

Application of distinct ramping constraints seems reasonable, but we ask the ISO to detail in writing how it will set the requirements and where and how it will publish the constraint requirements. WPTF seeks further discussion from the ISO about the proposed remedy if the ramp is not provided by the EIM entity. The ISO's proposal to limit transfer capability provides some measure of protection from one BAA "leaning on" another, but given loop flows such a protection may not be sufficient. Perhaps more importantly, WPTF requests the ISO's further thinking about whether there may be other measures that would be more effective and market based means of addressing ramp insufficiencies.

Thank you for your ongoing consideration.