Comments of Pacific Gas & Electric Company

Consolidated Energy Imbalance Market Initiatives – Straw Proposal

Submitted by	Company	Date Submitted
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Pacific Gas and Electric Company (PG&E) offers the following comments on the California Independent System Operator's (CAISO) Consolidated hillEnergy Imbalance Market (EIM) Initiatives Straw Proposal Paper.

PG&E is strongly supportive of the EIM and its continued growth and health, and encourages caution about any market design changes that might have an unintentional adverse effect on the attractiveness of EIM participation, either for existing member entities, or planned or prospective new entrants. PG&E's specific feedback on each proposal is as follows:

A. Third Party Transmission Contribution – PG&E supports the CAISO's decision to abandon this initiative, as we do not feel sufficient value added has been demonstrated to warrant this market change.

B. Management of Bilateral Schedule Changes – PG&E sees no need for the CAISO to become involved in addressing the issues raised in this initiative, as non-CAISO EIM entities already possess the capabilities to mitigate costs associated with bilateral schedule changes.

C. Net Wheeling Charge – PG&E does not currently feel sufficient value added has been demonstrated to warrant this market change. Specifically, it remains unclear to PG&E what specific problem(s) the CAISO seeks to solve via this initiative, and if CAISO's proposed solutions represent the most efficient way to address said problems. In addition, PG&E believes that the proposed market design runs counter to established cost-recovery principles for providing transmission service and undermines the reciprocity principle.

1. Apparent Problem Statement: During the August 8th workshop, CAISO staff asserted that the current lack of a mechanism for ensuring equitable sharing of wheeling benefits could dissuade a BAA from joining the EIM. In other words, this initiative is motivated by the desire to make joining the EIM more attractive for would-be member BAAs.
2. CAISO Has Not Demonstrated That A Significant Problem Exists: While the CAISO's data analysis demonstrates there is great variability in wheel-through volumes (across BAAs)[1], it does not describe how said volumes impact BAA-specific costs, or how said costs compare to the intrinsic benefits of EIM membership (e.g. efficient internal dispatch, congestion management within BAA, etc.). More transparency into BAA-specific net wheeling costs would be useful to assess if a problem exists, and its magnitude.

[1] See pages 34-37 of August 7th Stakeholder meeting agenda.

3. Excluding the lost revenues from transmission charges, which the CAISO cites explicitly as being out of scope for this initiative, it is unclear what incremental, measurable value the CAISO is claiming EIM balancing authority areas (BAAs) being wheeled through are providing. CAISO proposes using a defined rate to measure the benefit of net wheeling transactions. It is unclear how that defined rate will be calculated. Will it be based on studies prior to market run? Will it be calculated based on the shadow prices on congested transmission that connect BAAs?

4. CAISO proposes two methods to calculate the net benefits of wheeling. In one, CAISO would calculate the total wheel change ex-post based on the defined benefit rate and total wheel through transfers. It would allocate the benefits to BAAs based on the percent of wheel through transactions through the BAA. It would allocate the charges to BAAs based on the percentage of net imports/exports for the BAA. PG&E is concerned that this proposed market design will increase uplift costs allocated to EIM load in the BAAs assigned the charges. The CAISO has not specified where the necessary revenues will come from other than being charged to BAAs based on net import/export. Does CAISO anticipate the congestion revenues allocated to the BAAs being charged as being used to pay their allocated charges? If there is no congestion revenue allocated to those BAAs, will an uplift be required?

5. In the other method, CAISO proposes to use the defined benefit rate as a hurdle rate that will be charged to schedule flows on transmission rights between BAAs. PG&E is concerned that this approach will adversely affect the efficiency of the EIM dispatch.

6. PG&E does not believe that either of CAISO's proposals will consistently lead to an 'equitable' allocation of wheeling benefits, if any is to be had. For instance, CAISO's proposal calls for the use of contract pathways, and not physical rights, as a basis for calculating and allocating wheeling benefits. This approach is likely to result in a mismatch between physical power flows through the BAAs in question (as opposed to the contract path flows), and the allocation of benefits.

7. While PG&E is open to examining the allocation of wheeling benefits holistically at some point, this change would seem to create an ad-hoc form of rate pancaking not aligned with the current EIM structure and principles.

For the reasons above, PG&E feels a case must be built to support a need for additional sharing of benefits for the wheel-throughs provided by BAAs before stakeholders tackle how to formulate the charge calculation. PG&E requests that CAISO produce additional examples and rationale for pursuing this initiative.

D. New EIM Functionalities – While these proposals do not seem problematic on the surface, PG&E requests that the CAISO provide more clarity on drivers and benefits it expects to realize from these initiatives, especially in relation to the added complexity and implementation costs that would be imposed. Specifically, PG&E would like to better understand what problem(s) CAISO seeks to address via these proposals, why addressing these is critical at this time, and why CAISO believes its proposed interventions are optimal. Also, PG&E requests more detail on how the proposals will work.

It appears that these proposals are intended to accommodate the integration of Powerex into the EIM. If this is indeed the case, PG&E would like to request more transparency into the Powerex-specific operational arrangements CAISO is ready to make. For instance, it's unclear to PG&E if CAISO has the authority to adjust delivery schedules, so as to match import/export schedules, for non-participating resources operating in another BAA. Is this permitted under the CAISO/Powerex implementation agreement currently before FERC? Also, it seems that the approach is designed to allow CAISO to schedule imports into BC Hydro's BAA and exports from BC Hydro's BAA without scheduling resources and transmission flows within the BC Hydro BAA. If that is the purpose, could not the same capability be achieved by allowing parties in external BAAs to schedule imports and exports at boundary points with EIM BAAs?

In general, CAISO has not presented an opportunity for stakeholders to adequately review the proposed design changes required to accommodate entry of Powerex, as a different type of EIM entity (i.e., a power marketing subsidiary with contractual rights to the resources and transmission of a non-FERC jurisdictional Canadian parent utility), and has not clearly demonstrated whether the necessary changes can be accomplished within existing EIM agreements and tariff structures, or whether additional authority must be granted by either the CAISO Board and/or EIM Governing Body to amend the current rules of the EIM.