Comments of Pacific Gas and Electric Company
EIM Year 1 Enhancements

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Pacific Gas and Electric Company (PG&E) offers the following comments on the California Independent System Operator's (CAISO) Energy Imbalance Market (EIM) Year 1 Enhancements January 30, 2015 Stakeholder Call and technical paper addressing energy transfer scheduling in the EIM.

1. <u>The CAISO should place a limit on the proposed transmission scheduling price.</u>

   PG&E appreciates the CAISO's efforts to provide technical details regarding energy transfer scheduling in the EIM. The relevant calculations and mathematical formulations are clear to PG&E, and we understand that the CAISO has proposed that a small nominal cost be included in the optimal Energy Transfer schedules. PG&E is concerned that the CAISO's proposal does not specify a limit on this cost and thus the cost could grow to the point where it affects the dispatch and the Locational Marginal Prices (LMPs). PG&E recommends that the CAISO ensure that this cost stays negligible by imposing a limit on how large the cost can be. PG&E recommends that the limit is something on the order of $.01/MWh and suggests that the CAISO allow stakeholders to comment on what an appropriate limit should be. Further, the CAISO should conduct testing and verification after the cost is implemented to ensure that it is not impacting the dispatch and LMPs inappropriately in case a larger limit is selected.

   While PG&E understands the technical details of the proposal, we recommend that the CAISO provide additional context regarding the reason that the approach is needed. PG&E would appreciate an improved understanding of the policy context of this proposal.

2. The CAISO's proposal to reduce the number of enforced flexible ramping constraint combinations needs further study and should be looked at in Phase II of the EIM Year 1 Enhancements Initiative.

   The CAISO currently enforces the flexible ramping constraint on all combinations of BAAs. With the two PacifiCorp BAAs and the CAISO BAA this results in seven combinations. Adding the NV Energy BAA will increase this to 15 combinations. If more entities join the EIM, the number of combinations increases significantly. Thus, at the January 30, 2015 Stakeholder Call, the CAISO introduced a proposal to only enforce the flexible ramping constraint on each BAA individually and on all BAAs combined as a system wide constraint.

   Given that there has been little time for stakeholder engagement on this issue, the CAISO should address this issue either in the next set of EIM enhancements scheduled for Phase II of this initiative or in a future EIM enhancements initiative. PG&E understands that NV Energy is the only expected entrant to join the EIM in 2015, and given this timeline for EIM growth this issue does not appear to be a high priority. CAISO's proposal should provide more information as to why it originally decided that it was necessary to enforce the flexible ramping constraint on all combinations of BAAs initially but not moving forward as the number of EIM Entities grows. In particular, PG&E would like an improved understanding of the consequences to the market of not imposing the constraint on all possible combinations of BAAs. Stakeholders should be given the chance to assess whether the approach is adequate to prevent leaning in the EIM BAAs. This proposal was initially brought up at the most recent stakeholder call and there has not been sufficient time for stakeholders to review the proposed approach or consider alternate possible approaches to address growth in problem size (and solution times) as the number of EIM Entities grows.

3. PG&E does not support Bid Cost Recovery for non-participating resources.

   The CAISO has suggested that circumstances may exist where a non-participating resource in an EIM Entity (i.e. a resource that does not have an energy bid in the market and no corresponding real-time bid costs) is eligible for Bid Cost Recovery (BCR) payments. PG&E continues to see this possibility as unreasonable and does not support BCR payments to non-participating resources, no matter their geographic location. BCR ensures that resources *that provide economic bids* into the CAISO market do not incur a net overall loss in relation to their stated costs as a result of the market results. Non-participating resources do not offer the CAISO the market flexibility associated with the economic bid process, nor have they provided corresponding energy cost values for their output. To offer BCR protection to these resources would be inappropriate and would result in unjustly inflated Real-Time cost recovery uplifts to the market. The CAISO should examine any such circumstance that would provide such payments and reconcile them against existing Tariff section 11.8.4.1.5.

The CAISO has indicated that this issue is not unique to the EIM and can occur more broadly from real-time self-schedules post FERC Order 764. The CAISO thus proposes to align the calculation of expected energy across the EIM area by including additional energy categories that apply to CAISO resources who self-schedule in the RTM to EIM non-participating resources.

PG&E believes that the payment of BCR to a self-scheduled resource in CAISO markets is a result of a mistake in the implementation of the market systems. In our understanding, CAISO inserts the LMP calculated for the resource as the bid cost of a self-scheduled resource. If the LMP is not re-calculated prior to settlements, there cannot be any BCR since the LMP equals the assumed "bid cost." However, if CAISO changes the LMP as a result of a correction, the old LMP is still used as the resource's bid cost leading to the possibility of BCR. When the LMP is recalculated, CAISO should change the assumed bid cost for the self-scheduled resource to the new LMP which would result in no BCR payment. Rather than perpetuate and expand the error to the non-participating resources in the EIM, the CAISO should modify its systems to correct the error. We do not think that the CAISO's review of BCR payments over three days across the EIM footprint is sufficient to demonstrate that this is problem will have negligible impact.

The CAISO has also proposed modifying the existing EIM Tariff language to eliminate any conflicts or discrepancies with these calculated BCR settlement results. PG&E does not support any such modification and believes that the current Tariff language regarding cost recovery to Non-Participating Resources is just and reasonable.