

Comments of Pacific Gas and Electric Company
EIM Governance Straw Proposal

Submitted by		Company	Date Submitted
Alex Morris	(415) 264-4958	PG&E	September 6, 2013

I. Introduction

Pacific Gas and Electric Company (PG&E) offers the following comments in the stakeholder process for the California Independent System Operator’s (CAISO) Energy Imbalance Market (EIM) Governance Proposal (“Proposal”).

In its May 30th, 2013 EIM Revised Straw Proposal, CAISO staff noted that they:

“are increasing our focus on this important [governance] topic to ensure that we provide stakeholders with a governance model that supports effective operation of the EIM and takes into account the interests of all entities considering participation. We anticipate engaging industry leaders and regulators from across the West to develop specific governance options that can be implemented on the same timeline as the new market. We will publish a proposal for stakeholder consideration in August, and intend to run a stakeholder engagement specifically dedicated to governance.”¹

Per the plan, the current proposal identifies a “Transitional Committee” (TC) leading to an “Independent Governance Committee” for the EIM, and may limit appointment to the TC from CAISO stakeholders who conduct business primarily within its balancing area.² In these comments, PG&E encourages the CAISO to adjust its plan; to:

- Establish an EIM Governance Advisory Committee (EGAC) to review all governance options in an open process
- Modify its selection criteria to provide EGAC representation commensurate with cost-exposure and risks, appointing members from California stakeholders, particularly LSEs, along with committed EIM entities

¹ “Energy Imbalance Market Revised Straw Proposal”, CAISO, May 30, 2013, p. 47

² The limitations stems from the inability of certain stakeholder sectors to secure an appointment on the Transitional Committee.

- Require open process practices by the EGAC to allow all other stakeholders to participate, including potential future EIM entities
- Provide details of alternative structures for the EGAC to consider rather than pre-ordain the outcome as a transition toward a permanent Independent Governance Structure (IGS)

II. PG&E Comments

1. The CAISO should establish an EIM Governance Advisory Committee (EGAC) with a charter modified from that of the TC

PG&E believes the role of an EGAC should be to:

- a) Review, in an open process, potential governance options and make a recommendation to the CAISO Board of Governors (“the Board”)
- b) Advise on EIM Specific Issues. PG&E agrees that an Advisory Committee tasked with providing input on rules or issues that are specific to only EIM is appropriate. The range of issues may include numerous technical and discrete subjects, such as EIM input data, EIM definitions, EIM GHG rules, EIM optimization, and others. The stakeholder process, design process and subsequent testing all may identify issues on which the Advisory Committee could provide input. Issues that are not specific only to an EIM, but to the CAISO’s broader markets, should continue to be handled within the broader CAISO stakeholder processes.

PG&E believes the presumption that the CAISO’s proposed framework would lead to an IGS is premature. The EGAC should determine the best future governance plan for the EIM, and the CAISO should not direct an outcome. With respect to an IGS, a single market with two independent governance structures is likely problematic and inefficient. CAISO run markets need clear decision authority.

The EGAC should exist for as long as needed to provide input, thus the CAISO should eliminate the plan for a two-year life for the Advisory Committee. Assumptions about a sunset date due to an establishment of an IGS are premature. The EGAC should recommend whether it needs to continue as part of its review of governance options.

2. The CAISO should modify its selection criteria to provide EGAC representation commensurate with cost-exposure and risks, appointing members from California stakeholders, particularly LSEs, along with committed EIM entities

Current CAISO participants and stakeholders, particularly LSEs, need reasonable representation commensurate with their exposure to market costs, gaming, or related inefficiencies. A serious flaw of the CAISO proposal is that CAISO LSEs have no guarantee of representation on an Advisory Committee. Since CAISO LSEs are represented by the CAISO for real-time procurement and are major buyers in the real-time market, these entities face significant risks associated with inadequate real-time market and cost-allocation rules. As drafted, CAISO LSEs might hold only a minority position or none at all on the TC.

The CAISO should guarantee CAISO LSEs meaningful representation on the EGAC or a similar Advisory Committee because such representation befits the material exposure these entities and their ratepayers face. Representation should be commensurate with risk. PG&E recommends that CAISO LSE representation on the EGAC reflect LSE size, e.g. MWhs, and also other factors, e.g. business structure. For example, the EGAC should require appointments of California IOUs from geographically different areas, e.g. one from the North and one from the South, and the same for Municipal utilities or other CAISO load business types subject to uplift risks.³ Via this logic, PG&E also supports the idea that committed EIM members warrant representation on the EGAC.

CAISO LSEs on the EGAC in sufficient numbers create no risk to EIM entities because CAISO LSEs will seek to create fair and efficient markets so that they can realize the promised benefits of the EIM⁴; if CAISO LSEs fail to create fair and efficient markets, they risk the EIM entity opting out of the EIM, a right the EIM entity has at any time. If that happens, the remaining CAISO participants forego the EIM's benefits. Conversely, if CAISO LSEs lack influence and are unable to avoid, for example, unreasonable cost-allocation⁵, the CAISO LSEs cannot leave or avoid the market's effects. Thus, the CAISO LSE's pursuit of market efficiency provides the correct checks and balances for the EGAC to pursue only reasonable and fair EIM rules.

³ PG&E notes that its transmission system differs significantly from the design of other systems such as those in Southern California, thus warranting representation for its customer in addition to those of entities in Southern California. PG&E's system is generally known to include more lower-voltage networked transmission lines. More information is available in the CAISO Transmission Planning Process documents

⁴ See "PacifiCorp-ISO Energy Imbalance Market Benefits", Energy + Environmental Economics, March 13, 2013

⁵ An example of such costs might be commitment costs incurred in the CAISO footprint yet prompted by forecast errors and changing conditions within an EIM entity footprint.

PG&E agrees EIM entities deserve representation on the EGAC. In addition to PacifiCorp and in line with the concept that risk exposure warrants representation, the CAISO's offer to provide some appointments to committed EIM entities, up to a reasonable limit, is logical. Since EIM entities can opt out of the EIM, they should not have an excessive position as discussed above.

However, inclusion of non-committed or non-participating stakeholders in an Advisory Committee simply to reflect WECC-wide geographic diversity is inappropriate. EGAC appointments should hinge on stakeholder risk exposure to EIM or real-time markets. These and other qualifications discussed above provide superior bases for participation in the EGAC. While the EGAC appointees should remain targeted to LSEs and EIM participants, other stakeholders interested in joining the EIM can provide input through the EGAC's open process, as discussed below.

Finally, EGAC appointees should be committed to market efficiency, not simply to "consider and promote the success of the EIM enterprise".⁶ EIM's merits stem from the possibility that its benefits outweigh its costs. The EGAC should thus pursue a design that promotes market efficiency, liquidity, diversification, and other presumed EIM benefits. The principle of cost allocation based on cost causation is key to market efficiency⁷, yet an exclusively "pro-EIM" appointee might prefer cost-shifting rather than proper cost-allocation if solely focused on enticing entrants to an EIM. This principle alone substantiates PG&E's views that the qualifications for appointees must include a commitment to non-discriminatory market efficiency and not merely for EIM support.

3. Clarify the open process recommended for the EGAC so all stakeholders, including potential future EIM entities, can inform EIM governance deliberations

An EGAC charter should require a stakeholder process to inform EGAC deliberation. With some promise of stakeholder participation in EGAC decisions, stakeholder commitment towards an EGAC model is more likely. This structure allows EGAC

⁶ "Energy Imbalance Market – Governance Proposal, White Paper", CAISO, August 13, 2013, p. 5

⁷ See "Cost Allocation Guiding Principles Draft Final Proposal", CAISO, March 15, 2012.

<http://www.caiso.com/Documents/DraftFinalProposal-CostAllocationGuidingPrinciples.pdf>

appointees to hear the voices of potential future participants. It also eliminates a need for an overly large EGAC, which could prove unwieldy.⁸

The EGAC should meet frequently, e.g. monthly, in order to provide for the development of comprehensive plans. Meeting in the same cadence as CAISO Board meetings may prove inadequate to deliver on the EGAC's goals with sufficient rigor.

4. The CAISO should provide further details of alternative structures for the EGAC to consider

The CAISO's current proposal notes that *"In developing this proposal, the ISO has reviewed the best practices of other similar organizations..."*⁹ The CAISO should provide details of this review and the options identified to stakeholders and the EGAC. Consistent with our above comments, all conclusions should be put on hold and excluded from future proposals, and PG&E encourages the CAISO to provide further details on the permanent governance options and reviews performed for the Advisory Committee, when established.

III. Conclusion

PG&E thanks the CAISO for its work on the straw proposal. Many aspects of the proposal appear reasonable to PG&E. Some aspects, however, require changes or seem inadequate. Primarily, PG&E seeks an Advisory Committee structure designed to pursue an EIM's benefits at reasonable cost. PG&E's suggestions fit this goal and should be adopted by the CAISO. PG&E looks forward to further discussion on this matter.

⁸ A past advisory efforts, the MRTU Advisory Committee, included over twenty members. Based on PG&E's informal recollections, the size of the committee made it difficult, at times, for the Committee to discuss and efficiently resolve complex issues smoothly.

⁹ "Energy Imbalance Market – Governance Proposal, White Paper", CAISO, August 13, 2013, p. 13