



Comments of Pacific Gas & Electric Company *Energy Imbalance Market Governance Revised Straw Proposal*

Submitted by	Company	Date Submitted
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I. Introduction

Pacific Gas and Electric Company (PG&E) offers these comments regarding the California Independent System Operator’s (CAISO) Energy Imbalance Market (EIM) Governance Revised Straw Proposal.

PG&E requests several key changes to the proposal. These changes reflect PG&E’s principled concerns for market efficiency and fairness. While PG&E supports the promise of the EIM and the benefits of more regional involvement, the primary goal with the governance of EIM should continue to be to create a workable structure that promotes greater (intraregional) market efficiency benefits, but only at reasonable costs.

To this end, the CAISO should adopt the following changes:

- Reserve positions on the Advisory Committee¹ (AC) for CAISO Participating Transmission Owners like PG&E.
- Develop rules to replace AC members when key circumstances change, e.g. an individual on the AC moves to a new company.
- Establish “exit provisions” for EIM entities.
- Delay CAISO Board of Governors (Board) consideration of the EIM Design from the November Board meeting to the December Board meeting so that the Board can consider EIM design and governance as a total consolidated package.

PG&E elaborates on these points below.

¹ The CAISO’s proposal refers to the EIM advisory committee as a Transitional Committee (TC), but it should be more appropriately called an Advisory Committee (AC). Whether it gives way to something separately later will be an outcome of that committee and this stakeholder process.

II. PG&E Comments

1. PG&E should have a position on the AC.

PG&E and other CAISO market participants with heavy exposure to market risks and uplifts deserve seats on the AC. These parties have incentives to promote market efficiency and fairness achieved at reasonable costs. Reputable market theoreticians known for promoting market efficiency, e.g. Market Surveillance Committee (MSC) members, also qualify for AC membership. Moreover, under a structure where the majority of AC members primarily promote market efficiency and fairness, parties whose participation in the CAISO market is mandatory, e.g. existing CAISO PTO loads, are better protected against the risks of unfair cost-shifting or unreasonable exposure to market uplifts resulting from the EIM. The CAISO should stipulate and prioritize these criteria for AC membership and reserve select seats on the AC for PG&E and other correctly incentivized entities or sectors.

While other entities may want AC membership, their incentives may be less aligned with market efficiency and fairness than those of CAISO PTOs such as PG&E.² As the CAISO has included requirements for open-meetings and stakeholder processes in EIM Governance, non-AC members still have opportunities to share their views, regardless of their incentives to promote market efficiency and serve on the AC.

2. AC rules should address the treatment of AC appointees when they change companies or when their company's EIM-status changes.

Rules should anticipate that AC members may change companies and that EIM entities may depart the EIM. In these situations, AC membership may become inappropriate. Rules must address these possibilities and should be spelled-out in the "Energy Imbalance Market Transitional Committee Charter."

3. The CAISO should place more exit provisions on EIM entities.

PG&E continues to recommend that an EIM Entity be required to pay a charge upon its exit for any unfunded investments or obligations attributable to the EIM Entity and costs attributable to

² The scope of the AC in making recommendations on EIM rules and the Real-Time Tariff remains uncertain. To date, the AC seems likely to attempt to advise on major issues such as BCR cost-allocation, thus PG&E has focused its argument on how AC members should promote fairness and market efficiency. Alternatively, if the scope is narrow and more administrative in nature, other criteria can become more relevant in determining AC membership.

its exit. The CAISO's proposal for a costless and quick exit from the EIM³ could allow EIM entities to potentially avoid costs they helped to cause. Such an outcome is inappropriate as it may result in cost shifts to remaining market participants. Exit provisions should include both a plan to assess cost-obligations for exiting entities as well as reasonable timelines for advance notice of membership withdrawal.⁴ The former prevent cost-shifting, and the latter promote smoother and more certain cost allocation via longer planning cycles.

Exit provisions are a well-established practice supported by FERC. In *Duquesne Light Co.*, FERC found that companies that voluntarily join a Regional Transmission Organization (RTO) – similar in many ways to an EIM – should have the ability to withdraw “as long as the replacement rates that are established are just and reasonable, the contractual obligations under the RTO arrangement are met, and adverse effects on remaining RTO members as a result of the transmission owner's withdrawal have been considered”.⁵ Rules in the CAISO's Transmission Control Agreement (TCA)⁶ also established the reasonableness of such an approach. Analogous exit provisions should be developed for departing EIM Entities.

While PG&E recommends that exit provisions be reasonable and fair, parties could potentially remain flexible enough so that they do not endanger EIM participation. For example, if identical advance notification and exit obligation rules unduly impede EIM entry, slight adjustments could be made, e.g. rules could exempt an EIM entity from any exit provisions for its first several months in order to allow EIM entities to try the EIM. Once more experience is gained with the EIM, however, more equivalent exit-obligation and exit-notification rules should apply.

³ See page 18 of the CAISO's draft “Energy Imbalance Market Tariff Framework” which posits only 180 day notice for EIM exit and no general expectation of exit “true-up” charges.

<http://www.caiso.com/Documents/TariffFramework-EnergyImbalanceMarket.pdf>

⁴ Exit charges should be used to recover the following costs: (1) Capitalized costs for investments (hardware, software, facilities and infrastructure) that have not been fully recovered from the GMC, including the EIM administrative fee; (2) Future obligations or costs made in consideration of market participants; and (3) Costs attributable to the exit of the EIM Entity (e.g., changes to CAISO processes or systems to accommodate the departure). PG&E details these appropriate exit provisions in its comments on the EIM Design. See “PG&E Comments on the CAISO EIM Draft Final Proposal 10-15-2013”, p.2

⁵ *Duquesne Light Co.*, 112 FERC ¶ 61,039 at P 128

⁶ See section 3 of CAISO's Transmission Control Agreement

<http://www.caiso.com/Documents/TransmissionControlAgreement.pdf>. It should be noted that unlike PTOs, EIM Entities are not turning over control of their transmission facilities to the CAISO; however, the CAISO is making market design decisions, changing its market systems and processes and making investments on behalf of EIM participants.

4. The CAISO should delay consideration of the EIM Design for one month.

PG&E requests that consideration of the final EIM design by the CAISO Board of Governors be delayed from the November CAISO Board meeting to the December CAISO Board meeting. This way the CAISO Board can be presented a comprehensive EIM package, incorporating both design and governance matters. For example, rules governing an EIM Entity's exit from the EIM are a key part of both the market design and governance.

CAISO Management has informed PG&E that it opposes delay, in part because the development of the EIM tariff cannot be delayed until after the December CAISO Board meeting. However, given the progress made on EIM design, PG&E suggests that the development of the EIM design tariff language can begin immediately; there is no need for the tariff development to wait until the CAISO Board approves the EIM design.