Submitted by	Company	Date Submitted
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Thank you for the opportunity to comment on the CAISO's *Stepped Constraint Parameters Issue Paper*, dated May 5, 2016 (Issue Paper). Public Power Council submits these comments pursuant to the CAISO's May 5, 2016, market notice. Public Power Council is a non-profit trade association that represents the common interests of approximately 100 consumer-owned electric utilities in the Pacific Northwest that are preference customers of the Bonneville Power Administration. Many of PPC's members are located within PacifiCorp's system, as well as the systems of other investor-owned utilities that have executed agreements to join the EIM.

PPC's comments are limited to the proposal to eliminate the requirement that incremental transfers into and out of an EIM Entity be restricted if that balancing authority area (BA) fails the resource sufficiency test. The ISO proposes to replace this means of enforcement with a penalty. The Issue Paper requests comments on the nature and level of the penalty.

PPC believes that this proposal would provide the BA with an economic choice to lean on the market rather than ensure sufficient capacity is available for reliability purposes. We are concerned that this means of enforcement of resource sufficiency requirements is both less robust than the current restriction and may lead to negative results for the consumers and loads in the EIM and the ISO's real-time market. We suggest that the request for comments on the penalty is premature; questions of whether a penalty could be effective and adequately protects consumers and loads in the EIM areas should be addressed prior to taking the proposal further into the process.

Proposal to Remove Transmission Constraint Restricting Imports into and Exports from an EIM Entity BA that Fails the Resource Sufficiency Test

The Issue Paper notes that current EIM rules require a demonstration of sufficient resources to meet the BA's balancing, ramping and peak capacity needs.[1] For each hour, the CAISO evaluates each element to determine the BA's "resource sufficiency." "If the resource sufficiency evaluation is failed, incremental EIM transfer into and out of that balancing authority area are restricted to the last FMM schedule from the previous operating hour."[2] The CAISO now proposes to remove that restriction.[3] Removal of the

[1] CAISO, *Stepped Constraint Parameters Issue Paper*, May 5, 2016, p. 9.
[2] *Id*. at p. 9.

restriction would give the EIM Entity an economic choice to carry fewer capacity reserves if it believes that it would be less expensive to purchase EIM energy and pay the penalties.

The purpose of the resource sufficiency evaluation is to ensure that each BA has sufficient capacity to meet its needs without relying (in other words "leaning) on energy purchases from the EIM. When an EIM Entity's BA leans on the EIM for required energy, it uses the capacity resources committed by and paid for by other EIM Entity or CAISO real-time market participants. Unlike the participants in the CAISO's real-time and forward markets, EIM Entities are not subject to resource adequacy requirements. The resource sufficiency test serves as the ISO's primary means to prevent insufficient capacity procurement and commitment and the associated price and reliability risks. The restriction on incremental imports into and exports from the failing EIM Entity BA is a direct and robust enforcement of resource sufficiency.

Leaning is a significant policy issue in EIM market design. Allowing one BA to make use of the capacity resources of another BA shifts costs from one BA to another with regard to use of committed resources. It also places system reliability at greater risk by allowing some BAs to under-commit resources needed to maintain system balance and prevent frequency and voltage excursions. Avoiding this type of leaning and cost shifts was, as we understand it, part of the market design previously debated and accepted by the CAISO customers and approved by FERC.

We believe that substitution of penalties for the current, more robust enforcement mechanism creates weaker signals to EIM Entity BAs to comply with resource sufficiency requirements. Giving a BA's merchant the *de facto* economic choice to either commit sufficient capacity or rely on the EIM for energy is not a clear path to reliable operations or just and reasonable rates. Compared to the cost of securing sufficient capacity, however, the cost of a penalty to the merchant may be insignificant in very many circumstances. Merchants, of course, have economic incentives to lower their costs and increase their returns. We do not believe, however, that it is appropriate to permit merchants to trade reliable service for economic savings. Moreover, these savings for the merchant do not always translate into lower costs for load-serving entities embedded in the EIM Entity's BA or for market participants in other areas.

In support of the proposed elimination of direct resource sufficiency enforcement, the CAISO provides two rationales: (1) market participants in the EIM Entity BA may have sufficient resources to meet their load and resource imbalance but are still subject to LMPs and (2) reducing inter-BA transfer capabilities reduces "EIM benefits."[4] With regard to the first rationale, recent changes to the identification of capacity resources should improve the BA's chances of passing the resource evaluation and not being

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[3] *Id*. at p. 9.
[4] Id. at p. 9.

found to be short. Also, we do not believe that the CAISO's proposal necessarily benefits those other market participants. Proposed penalties incurred by the EIM Entity BA would be sub-allocated to customers based on a determination made by the EIM Entity.[5] The proposal provides no assurance that market participants with sufficient resources will be better off than under the current system. With regard to the second rationale, the CAISO has not quantified EIM benefits that would lead us to conclude that the proposal is preferable to the status quo. Such benefits would have to be net of cost-shifts to other market participants and BAs and would have to flow to customers. We cannot agree that the CAISO has made a sufficient case at this point for relieving short EIM Entities of the import-export restriction.

In making this proposal the Issue Paper raised fundamental questions of EIM market design regarding the integrity of resource sufficiency and the protection of BA's loads and consumers from the costs of shortages brought about by an EIM Entity. As such, we believe that the question of whether a BA can make a commercial choice to be short on capacity in real-time, and rely on the market for needed energy, is a significant issue that deserves a commitment from the CAISO to provide detailed analysis of the impacts of its proposal and sufficient time to evaluate and comment on the proposal. At a minimum, we respectfully suggest that the ISO needs to provide analysis that demonstrates the impacts of the proposal and evaluates its net benefits to consumers and customers within EIM Entity BAs.

Conclusion

PPC does not believe that the CAISO proposal will leave consumers better off in an EIM Entity that has failed to commit sufficient resources to meet its capacity requirements. Whether the EIM Entity fails that test by mistake or design, the resource sufficiency test should have clear and consistent consequences that properly incent responsible behavior. The Issue Paper does not demonstrate that the proposed penalties will be, or could be, sufficient to protect consumers and non-EIM Entity loads better than the current rules. Should the CAISO wish to pursue its proposal in this process, PPC requests that the CAISO provide analysis of the impacts of the proposal and evaluate its net benefits to consumers and customers within EIM Entity BAs.

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[5] Id. at p. 10.