<u>Southern California Edison</u>
<u>Stakeholder Comments</u>

CAISO Energy Imbalance Market (EIM)
Year 1 Enhancements
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Submitted by	Company	Date Submitted
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Southern California Edison's (SCE) herein comments on the California Independent System Operator's (CAISO) Energy Imbalance Market Year 1 Enhancements presentation (Proposal) presented at the stakeholder meeting on January 8, 2015.[1] SCE has supported the development of the EIM and continues to support EIM design refinements and appreciates being involved in the stakeholder process. Many elements of the Proposal will improve the operation of EIM and create the same rules for participants in the day-of markets[2] between those located in the CAISO balancing authority area and those in the EIM Entity Areas. However, SCE has concerns and objects to the CAISO's plan to implement a method whereby EIM participants can vary the quantity they are willing have delivered into California as part of the EIM design.

1. As a temporary measure, using a flag in the master file to prevent a resource from being dispatched to serve California is preferable to allowing a varying quantity

The FERC order approving the EIM, required within a year, an implementation of a do not sell to California flag along with a cost based greenhouse gas (GHG) cost bid adder as the combination would support further expansion of the EIM.[3] In the paper dated November 10, 2014, CAISO discussed using a flag in the master file that would prevent any power dispatched in EIM from being included in the assigned EIM Transfer into California.[4] However, in the Proposal presented at the stakeholder meeting on January 8, 2015, the CAISO plans to allow

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[1] http://www.caiso.com/Documents/Agenda-Presentation_EIMYear1Enhancements_Jan8_2015.pdf
[2] Day-of markets are the Fifteen Minute Market and the five minute Real Time Dispatch market.
[3] FERC Order ER14-1386, paragraph 240.
[4] http://www.caiso.com/Documents/IssuePaper-StrawProposal_EnergyImbalanceMarketYear1Enhancements.pdf. Page 8.

EIM Participating Resources the ability to submit a megawatt amount they are willing to sell to California which can change hourly. SCE strongly objects to this element of the proposal as it goes beyond the reasons specified in the FERC order to accommodate entities that cannot comply with California's regulations on greenhouse gas (GHG) emissions. If a generator is willing to be subject to possible GHG compliance, then there is no reason to allow them to limit the amount they are willing to sell to other balancing authority areas. It also introduces possible intentional withholding or gaming opportunities which would be detrimental to the market.

At the January stakeholder meeting, two reasons for allowing bidding an amount to sell to California were verbally mentioned by the CAISO. The first reason is multiple ownership of a resource when one owner does not want to comply with California's GHG regulations. The second reason is some renewable resources may have a requirement to serve a state's native load. Neither of these cases requires an option whereby they have the ability to vary the amount of energy they are willing to sell California. It should be an all or nothing option. In the case of multiple owners, they can reach an agreement that specifies which parties are responsible for GHG compliance. In the case of renewable resources, today that power can flow to any of the states located in the PacifiCorp balancing authority as part of the EIM dispatch, yet California is being singled out for a withholding option.

For the aforementioned reasons, SCE does not support the latest proposal to allow hourly bidding of amounts of a willingness to sell to California. Instead, SCE supports, for an October 2015 implementation, the use of a flag in the master as discussed in the November 10, 2014, proposal and referenced in the FERC Order ER14-1386.

2. CAISO should consider superior options to resolve GHG compliance that does not result in a reduction of power than can flow into California in the Phase 2 of the Year 1 Enhancements

California's GHG regulations complicate the EIM design as any power that is imported into California is subject to regulations that may require the purchase of GHG emission allowances. Currently, the CAISO notifies the generation source with the amount of energy that was used in any EIM transfer into California. As a result, the generator would have the responsibility to comply with California GHG regulations as the agent that delivered the power to California. The CAISO should review other options that do not require generators located outside California to comply with California's GHG regulation.

In the EIM Enhancement Phase 2 process, the CAISO should seek input on the following straw proposal. The energy of any EIM transfer into California should be assigned to schedule coordinators (SC) in the CAISO balancing authority that are the purchasers of imbalance energy. For example, if a SC under schedules their actual load and purchases imbalance energy real-time, then they would get a portion of any net EIM transfer into California. Or should, a generator fail to deliver their scheduled amount, then they could also get an allocation EIM Transfer. Along with the energy allocation for GHG compliance, the SCs would also get a matching portion of the GHG revenues from the GHG bid adder. The GHG bid adder for units in the EIM Entity Area would be automatically established by the CAISO using the GHG component from their default energy bid. There would be no change in the optimization. Under this design, generators in the EIM Entity Areas would never have to worry about an EIM Bid adder or GHG compliance. The compliance responsibility would be on Schedule Coordinators doing business in California that already have to manage compliance with California's GHG regulations. This design would remove the complex design elements that ultimately result in a reduction of supply that could be sold into California. This would be a superior economic outcome because there is increased trade and lower prices.

3. SCE Supports the cost based bid limit on the CA Bid Adder

The FERC in issuing the order approving the EIM design required the implementation of a CA bid adder based upon the compliance cost of California's GHG program. In the Proposal, the CAISO plans to use the same rules for calculating a resource's default energy bid.[5] EIM participants can bid a value between zero and the default energy bid. SCE supported a cost based bid adder in stakeholder process to design the EIM and continues supports this element of the Proposal.

4. The change to EIM Administrative Fee is reasonable as aligns similar treatment between all market participants

The Proposal changes current EIM Administrative fee to be similar to the Market Services Rate and System Operations rate charged to current participants in the CAISO

[5] See Proposal, slide 11.

balancing authority. SCE supports the principle of similar treatment for all market participants, so SCE supports this element of the Proposal. With the voluntary nature of the EIM design, the CAISO should establish a minimum fee to ensure sufficient revenue to recover the fixed costs of EIM operations.

At the stakeholder meeting, the CAISO also sought input if the EIM Administrative Fee should be fixed for three years. Currently, for CAISO participants the fee is updated on a quarterly basis. There does not appear a strong reason to treat EIM differently, so there does not appear a need to fix the fee over a three year period. Having the rate adjusted periodically will allow the CAISO to better match their rates with their cost of service.

5. Applying the Resource Sufficiency test to CAISO would treat all balancing authorities equally

The California Public Utilities Commission and the CAISO both have programs to insure that there are sufficient resources available to meet both peak demand and flexibility needs. Therefore, an additional resource sufficiency test is not necessary for the CAISO balancing authority. While SCE does not object to the of the sufficiency test's application to the CAISO, SCE is concerned that CAISO's resources would be better served working on other more important issues.

6. Allowing bidding on interties of EIM Entity balancing authority areas will improve supply in the energy market

Currently, PacifiCorp does not allow bidding on their intertie boundaries for their balancing authority. This is problematic if transmission available to EIM is limited, such as in PacifiCorp East (PACE) where only an East to West transmission flow is being made available to EIM. Allowing bidding and delivery at the intertie would improve supply and liquidity. SCE supports making bidding mandatory at the interties and this issue should be at the control of the market operator (CAISO) and not the balancing authority as it impacts the market and pricing.

This element of the Proposal introduces complexity to the schedule and settlement of transactions that occur between base schedules involving an export and any additional bidding quantity. This is because both the EIM Entity and CAISO will now perform settlement at the intertie and the process needs to be coordinated. SCE recommends that the CAISO, in conjunction with PacifiCorp and Nevada Energy, hold a technical workshop to review how intertie bidding will be performed and settled.

7. The use of available transfer capability (ATC) is imperfect and creates issues that need to be addressed by the CAISO

Currently, PacifiCorp is using their transmission rights to support EIM transfers between their balancing authority areas and the CAISO. Nevada Energy is planning to use ATC to support EIM transfers. Currently, the CAISO utilizes ATC to supports imports into the CAISO balancing authority. The use firm transmission rights has the advantage of certainty in determining the fifteen minute market (FMM) and real time dispatch (RTD) awards. The addition of using ATC to support EIM transfers allows for possible increased supply which is beneficial, however, it creates settlement issues related to timing of the FMM and RTD markets. This is because a transaction that does not clear at T-20 will be settled using different prices which could be profitable. If agents attempt to exploit this, then the revenue ends up in the neutrality account which then gets allocated unfairly to load. While not a problem exclusive to the EIM design as the problem exists in the current CAISO markets, but with more trade due to EIM the quantity of these transactions will increase, therefore the risk. Therefore, the CAISO should create an initiative to reduce incentives for transactions meant to exploit this design flaw in the CAISO markets. One suggestion is to use worse of pricing between the FMM and RTD prices to eliminate incentives for gaming transactions.

8. SCE supports enforcing EIM transfer limit on each intertie as opposed to a net amount

As EIM grows with multiple balancing authorizes and multiple transmission pathways, it makes sense to enforce each limit at the intertie as it is more accurate representation of the network model.

9. Bid Cost Recovery (BCR) for EIM Non-Participating Resources does not appear justified

At the stakeholder meeting, the CAISO discussed that the payment of BCR to non-participants is the result of the calculation of optimal energy under certain circumstances. The issue is not unique to EIM and BCR can be awarded to self-scheduled power in the CAISO.

While SCE supports consistent treatment, it still does not justify awarding non-participants and self-schedule power BCR payment for energy that cannot be dispatched by the CAISO. This issue should be examined and resolved by an initiative that is not exclusive to EIM.