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### **Arizona Public Service Company: Comments on Conceptual Models for Governing the EIM**

Arizona Public Service Company (“APS”) is a wholly-owned subsidiary of Pinnacle West Capital Corporation and is engaged in the business of generating, transmitting, and distributing electricity in Arizona and serves more than one million retail electric customers within the state. APS offers the following comments on the California Independent System Operator’s (“CAISO”) Energy Imbalance Market (“EIM”) Transitional Committee’s Issue Paper, “Conceptual Models for Governing the EIM,” dated January 5, 2015.

1. In Section III, Part D, APS supports the concept of having an organization of state regulators serve in an advisory capacity to the EIM governing body and the CAISO Board. We feel that state regulators, who have an active role in representing their state’s customer and economic interests, are a logical choice for such an advisory body.
2. APS supports the nomination process concept to elect the EIM governing body, and proposes that EIM participants should have an approval vote over the independent candidates on the governing body. Since the EIM governing body could have EIM-related decision rights, EIM market participants need a voice in the approval process to ensure that their interests are fully represented by the governance body.
3. In Section III, Part D, APS does not support the first governance model proposal, which states the EIM governing body serves only an advisory role to the ISO Board. APS feels strongly that the EIM governing body should have a decision-making role. As stated, serving strictly in an advisory capacity does not satisfy that priority.
4. In Section III, Part D, the second proposal, a governing body with a defined delegated scope of authority, appeals the most to APS. APS would like the Committee to look and propose variations of this structure that provide different governance and decision-making benefits. APS suggests thought be given to distinctions on matters such as:
  - a. What does “primary” versus “secondary” authority mean in terms of decision making? Can one authority veto or override the other? Are there certain topics where distinctions can be made on decision-making authority?
  - b. How are decisions made on which activities fall under the purview of the EIM Body’s primary governance, versus the Board’s governance? What is the resolution process in case there is a disagreement or potential area of conflict?

5. In Section III, Part D, APS sees many complicating issues in the third proposal option, i.e., the creation of an autonomous separate entity to govern EIM market rules. APS agrees with the issues raised in Section III, Part E; specifically, the potential increase in costs to EIM participants from forming and funding an autonomous governing body. APS also agrees that the efficiencies from the market are forged with the current CAISO market rules and processes. Creating an entity that makes entirely independent decisions, potentially not fully in tune with CAISO practices, could lead to unintended inefficiencies potentially undermining the benefits of an EIM.
  
6. With EIM expanding the geographical reach of the CAISO (and with potential for more expansion), APS enquires as to whether there has been any consideration to change in the structure of the CAISO Board nomination/composition. Having one or more members of the Board selected by a nominating process similar to the EIM governing body selection should be considered going forward. APS views this consideration as constructive with the discussions on the EIM governing structure, and could be a very complementary to the joint governance model described in the 2<sup>nd</sup> proposal.