

Comments of the Balancing Authority of Northern California (BANC)

CAISO Energy Imbalance Market Revised Straw Proposal May 30, 2013

I. Introduction of BANC

The Balancing Authority of Northern California (BANC) appreciates the opportunity to provide its comments to the California Independent System Operator Corporation's May 30, 2013 Energy Imbalance Market (EIM) Revised Straw Proposal.

The BANC Balancing Authority (BA) interconnects with the CAISO BA at multiple locations. The BANC footprint includes the 500 kV California-Oregon Transmission Project (COTP), the 230 kV Western Area Power Administration's Central Valley Project transmission and high voltage transmission systems of its participating members.¹ BANC is examining an EIM and other mechanisms that may bring cost savings or efficiencies to its Members' customers. As such, the rules, governance and operational practices of the EIM will affect BANC and its members. BANC is participating in this stakeholder process to further the stated goal that "EIM is offered by the ISO in a way that is attractive to all new and existing customers." *Revised Straw Proposal at 2.*

BANC appreciates the efforts of the CAISO to flesh out certain of the design attributes of the proposed EIM. BANC's comments are somewhat preliminary, given the limited time we have had to review the 64 page Revised Straw Proposal since its release on May 31 and stakeholder briefing on June 6th, just 6 business days ago. The comments we offer are necessarily high level comments and pose clarifying questions with the purpose of furthering this design process.

At the outset, BANC is cautious and watchful with respect to the numerous overlapping market design initiatives that are ongoing. These initiatives include changes pertaining to FERC Order No. 764, development of flexible capacity requirements and products, full network model enhancements, and contingency analysis changes that may affect available transmission at the interties. It is incumbent on the CAISO to address how each of these initiatives work together to avoid market disruptions that harm consumers. Other design details, including cost allocation of various charge types, are works in progress as the CAISO recognizes. For example, the Unaccounted For Energy (UFE) attribution to Utility Distribution Companies assumes infrastructure and agreements that may not be in place within the BAs of potential EIM Entities. BANC echoes the positions of other parties (for example Powerex), that the truncated timeline to address design components does not appear commensurate with the level, complexity and importance of the EIM design issues presented.

¹ BANC members include the Sacramento Municipal Utility District, the Modesto Irrigation District, City of Roseville, and the City of Redding.

II. Scope of Participation in EIM

At the Stakeholder Meeting of June 6, 2013, stakeholders inquired about any ongoing discussions between the CAISO and other possible EIM Participants. The CAISO's response (to paraphrase, "about 10 or so other entities are actively speaking with us") must be clarified and specifics made public in this stakeholder process.

A host of design issues change in scope, magnitude, or importance if the potential initial EIM footprint is extended past PacifiCorp and the CAISO. Carbon cost attribution, transmission service, cost allocation, and possible operational impacts may all be affected by the potential size of the EIM, and also the identity of its participants. Specific to BANC, if other entities that are active market participants in the Pacific Northwest become EIM Entities in the first phase, this could have significant impacts on the usage and flows of the California-Oregon Intertie (COI), which would affect BANC and its members. Moreover, the scope of EIM participation could affect BANC's own determination as to whether or not EIM participation is in the interest of its members and their consumers. Given the very short turn-around time to flesh out market design details on a market design change of this magnitude, BANC requests that the CAISO clarify whether or not participants other than PacifiCorp will be in the first phase of EIM implementation. While BANC can understand the normal desire to keep discussion bilateral until they are reasonably mature, that approach just won't work here because this is the formation of a new market, with broad effects on costs, transmission usage, and reliability beyond the EIM footprint.

III. Transmission Service

BANC believes that it is necessary to establish some form of transmission service charge for EIM use of transmission. Failure to address this mechanism up front will make it harder to address once EIM has been implemented. Based on discussions at the April Stakeholder meeting, it was suggested that this decision was predicated on the assumption that EIM transactions between the CAISO and PacifiCorp would be limited to 100 MW of available intertie transmission entitlements held by PacifiCorp. BANC is unclear about the derivation of that 100 MW number. Does the CAISO intend to have the EIM software limit transactions to some number like 100 MW until the transmission charge mechanisms can be worked out? The CAISO further noted that should additional participants sign up, it would address the transmission service issue. BANC assumes that other entities may in fact participate, and therefore this issue must be addressed on the front end.

To charge transmission customers that participate in CAISO markets the applicable TAC or WAC, but not to charge transactions in the EIM, is unduly discriminatory. Indeed, BANC members have expressed concerns that, given the sizeable TAC/WAC charges, market behavior could be altered and existing CAISO market transaction volume lowered because market participants can become EIM Entities, and bid in the EIM in lieu of bids into existing CAISO markets.

The TAC and WAC are volumetric charges. It is reasonable to charge market transactions based on usage of the facilities on which those transactions depend. Any other policy deviates from cost causation principles.

IV. Governance and Market Monitoring

The PUCeIm leaders have asked that the CAISO consider alternative governance structures, and the CAISO has alluded to a parallel Market Rule Oversight effort in the Revised Straw Proposal. *Revised Straw Proposal at 47*. This level of generality will not suffice. The CAISO appears to be open to broader participation in the initial EIM stage (*Revised Straw Proposal at 2*), but the key issue of market governance is not yet getting started. BANC requests that the CAISO provide greater clarity on what the parameters of the CAISO options on this are early in the process, to enable market participants to make informed decisions on EIM. Along with this effort, the CAISO should consider whether or not the current market monitoring structure, with its focus on existing California markets, is adequate for a market that spans multiple states.

V. Flexible Capacity should be the Priority Issue

The CAISO has spend considerable time and effort studying, enunciated, and arguing for a flexible capacity product that will enable it to follow ramps anticipated due to the increasing penetration of intermittent renewable resources. The CAISO has argued for, then backed off of, proposals for a Flexible Resource Adequacy Capacity Must Offer Obligation for all resources identified as Resource Adequacy resources, for the 2014 Resource Adequacy compliance period. The CAISO now proposes to move forward with such a proposal for the 2015 Resource Adequacy compliance period, initial compliance dates for which will be upon us in just over one year. Based on observation of public records and filings, and participation in workshops, it appears that the CAISO as spent thousands upon thousands of hours of staff and consultant time examining and arguing for the need to address Flexible Capacity needs soon, in order to be able to maintain system reliability.

The CAISO efforts identify the need to plan for and acquire sufficient flexible capacity to meet system ramping requirements. This need for flexible capacity is the critical issue, not the marginal and debatable production cost savings of an EIM utilizing limited transmission transfer capability. No study considering EIM has yet to produce credible benefit projections that exceed 1-3% of total production costs in the West. Yet, the focus of EIM appears to be detracting from the efforts to address flexible capacity needs.

The Revised Straw Proposal begins to introduce the issue of flexible ramping requirements by applying the flexible ramping constraint in the EIM. *Revised Straw Proposal at 31-33*. EIM will pay resources if they make available capacity to solve flexible ramping needs. Thus, EIM really isn't strictly an energy market anymore, further recognition that capacity is the prime issue associated with renewable integration.

But, solving for flexible capacity needs in a real time optimization is not the same as forward planning and/or must offer obligations in forward time periods. BANC is concerned that as

California entities spend greater and greater sums of consumer dollars to ensure system reliability, the EIM design ensures that EIM Entities also be required to make showings that ensure they are not leaning on the capacity planned and paid for by California consumers.

VI. EIM Must Address Resource Sufficiency

As a corollary to the issues raised above, any EIM design must address resource sufficiency.

BANC is concerned that capacity sufficiency has not been adequately considered in this design effort focused on energy optimization. Without requirements for capacity sufficiency, EIM Entities can fully be expected to lean on the EIM to access more economic resources from an energy perspective. The EIM should not afford participants with the ability to lean on capacity commitments in the CAISO marketplace that are due to planning obligations and associated operational “must offer” obligations. Designing an EIM which permits such activity would undermine both the efficient and sufficient commitment of capacity resources in the Western Interconnection, with serious potential reliability consequences.

The installation of substantial intermittent renewable resources on the Western grid has significantly increased the need for the commitment of dispatchable resources capable of providing balancing capacity to ensure that reliable service to firm load can be maintained. This is reflected in the costs paid by transmission customers under applicable transmission provider Open Access Transmission Tariffs. These costs include the costs of necessary capacity commitments.

It is critical that the CAISO ensure that all EIM Entities be required to be balanced from a capacity perspective in a forward operational period. Failure to do so could lead to insufficient dispatchable energy resources being online and available to maintain reliable service to firm load.

VII. COI Impacts

BANC supports the Comments that have been submitted in this stakeholder process by the Transmission Agency of Northern California. Much additional discussion is needed to ascertain how intertie flows will be affected, and the impact of those modified flows on the rights of non-participants on the Intertie, Intertie operation, and grid reliability. EIM transactions across COI will certainly increase unscheduled flow on paths not under CAISO control thus decreasing the real time flexibility to optimize that transmission asset for the benefit of its owners.

VIII. GHG

The GHG examples and proposals outlined by the CAISO appear to propose an administrative adder for carbon for resource bids into the EIM. *Revised Straw Proposal at 51*. BANC appreciates the CAISO’s initial effort to tackle this problem. It appears to need considerable further discussion and development, which is not a criticism but simply a reflection of the complexity of the matter.

BANC's policy objectives on this issue include: (1) ensuring that EIM dispatch does not result in resources dispatched through EIM that increase the carbon emissions of the resources selected to serve California load in Real Time either directly or via resource shuffling, and (2) the resources of EIM Entities do not have a competitive advantage in CAISO administered markets, including EIM. How these issues will be addressed should be the subject of public workshops that include, and are possibly sponsored by, the California Air Resources Board.